INFOSERVE®

Infoserve Technology Corp.

(Incorporated in the Cayman Islands with Limited Liability)

Annual Report 2001

Characteristics of The Growth Enterprise Market ("Gem") of Hong Kong Exchanges and Clearing Limited (The "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 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.

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

This annual report, for which the directors of Infoserve Technology Corp. 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 Infoserve Technology Corp.. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and believes: (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. TSAI Jenp Luh (Chairman and Chief Executive Officer)
Mr. CHANG Hsiao Hui
Mr. LIU Yuan Chang

NON-EXECUTIVE DIRECTOR

Mr. BUAY Kee Chuan
Mr. YEO Eng Choon
Mr. TAY Chek Khoon (alternate to Mr. BUAY Kee Chuan and Mr. YEO Eng Choon)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Kok Chung
Mr. CHOU Wen Pin

QUALIFIED ACCOUNTANT

Mr. CHUNG Kwok Mo, AHKSA, CPA (Aust.)

COMPANY SECRETARY

Mr. CHUNG Kwok Mo, AHKSA, CPA (Aust.)

COMPLIANCE OFFICER

Mr. LIU Yuan Chang

AUTHORIZED REPRESENTATIVES

Mr. TSAI Jenp Luh
Mr. CHANG Hsiao Hui

Corporate Information (Cont'd)

AUDIT COMMITTEE

Mr. CHAN Kok Chung
Mr. CHOU Wen Pin
Mr. BUAY Kee Chuan

SPONSOR

Anglo Chinese Corporate Finance, Limited
40th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

AUDITORS

Arthur Andersen & Co
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Hong Kong:
Koo and Partners
22nd Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Cayman Islands:
Maples and Calder Asia
1504 One International Finance Center
1 Harbor View Street
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
UBS AG

SHARE REGISTRARS

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

REGISTERED OFFICE

2nd Floor
Cayside, Harbour Drive
P.O. Box 30592
SMB
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 2401-4
24/F., Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

PLACE OF BUSINESS IN HONG KONG AND CONTACT INFORMATION

Address:	Suites 2401-4 24/F., Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong
Telephone:	(852) 3195-5000
Fax:	(852) 2802-7477
Website:	www.infoserve-group.com

PLACE OF LISTING, NAME AND CODE OF ITS STOCKS

The Growth Enterprise Market of the Hong Kong Exchanges and Clearing Limited
Stock Name: INFOSERVE TECHNOLOGY CORP.
Stock Code: 8077

ANNOUNCEMENTS AND PUBLICATIONS

All the Company's announcements and publications are published on the Internet website designated by the Hong Kong Exchanges and Clearing Limited: http://www.hkgem.com.

A. PROFILE

A Taiwan-based company founded in 1992, Infoserve Technology Corp. ("Infoserve" or the "Company" and together with its subsidiaries, the "Group") is a specialized service provider of communications, Internet access and other solutions services including IP-based and MPLS-based VPN services, networks and facilities managed services and e-commerce application services targeting at small to medium-sized enterprises in Taiwan, Hong Kong, the PRC, Japan, Singapore, and the United States. Through its privately managed network, the Group is offering services to over 5,000 corporate clients and over 320,000 individual customers worldwide.

Since 8 January 2002, the Company's shares have been listed on the Growth Enterprises Market of The Hong Kong Exchanges and Clearing Limited.

B. TURNOVER & PROFIT

For the year ended 31 December 2001, the Group's turnover declined by 11%, to approximately US$26.4 million, whilst loss attributable to shareholders increased by 35%, to approximately US$27.5 million. The decline in turnover was due to severe competition in Internet access prices that led to a price war in the Taiwan market, and general deterioration of the global economy following the terrorist attack in New York on 11 September 2001. With a view to reduce the impact of these factors on the performance of Infoserve, the Group has targeted channel sales and the provisioning of IP-VPN and MPLS-VPN services at the beginning of 2001. Due to the general long implementation period for VPN offerings and limited network resources in certain parts in the PRC, the Group recorded an unsatisfactory result for the full year, with sales of IP-VPN and MPLS-VPN services accounting for 4% of the Group's total turnover.

The Group will continue to adopt a prudent allocation of net proceeds raised by way of placing of the Company's shares in January 2002 for the purpose of the Group's future expansion, via, amongst other things, business cooperation or strategic alliance with reputable partners in the telecommunication industry.

C. GROWTH POTENTIAL OF THE CROSS-THE-STRAITS MARKET

As with other service industry, the success of IP-based solutions relies heavily on market demand. With the emerging business opportunities across the Taiwan Straits following Taiwan's liberalization of its PRC policy and PRC's entry to WTO, IP-based solutions for value-added network communications present a significant growth opportunity for Infoserve. We believe that as economic growth continues in the PRC and Internet penetration rises, IP-VPN and MPLS-VPN will become a more popular platform for voice, video and data transport, and integration.

D. MARKETING & RECRUITMENT

In light of the slow growth of VPN revenue and insufficient capture of CPE-based customers in 2001, the Group has decided to revamp its direct sales strategy by focusing on its core competence in the provision of solution services in the last mile to customers, while outsourcing its commodity services, such as Internet access and voice, to channels through resources and profit sharing. On the one hand, it will seek to expand its customer base through channels of system integration (SI) and information technology (IT). On the other hand, it will actively seek to provide new value-added solutions with high profit growth potential, such as Managed Services, including anti-virus, fire-wall, Security Command Center (SCC), etc.

The Group is making every effort to create brand awareness through an aggressive marketing strategy in advertising, event, public relations, channel promotion, and strategic alliance. To ensure success of this new transition, the Group is also recruiting high caliber, SI-experienced personnel to enhance our SI competence and retaining the right skills and expertise among the employees.

E. PROSPECTS

The year 2002 heralds a new era for the Group. It represents the transformation from an enterprise operating primarily in Taiwan to a publicly listed Group in Hong Kong and steadily venturing into the PRC. Over the last decade, Infoserve has enjoyed waves of growth in the marketplace with a long history of careful risk-taking and innovation. Despite the unsatisfactory financial performance in the year 2001, I believe that as the economy recovers and demand rises, the Group, with its strong technology advancement and commitment to quality services, will soon achieve a satisfactory return and play a leading role in VPN and IP-based solutions. I would like to express my sincere gratitude to the members of the Board for their leadership and all the employees, customers, and partners for their dedication. In particular, I would like to thank our shareholders for their continuous support to the Group, especially during the economy downturn. We are confident that we will continue to add value to our shareholders.

TSAI Jenp Luh
Chairman

28 March 2002

CORPORATE PROFILE

Infoserve Technology Corp. (the "Company") and its subsidiaries (together the "Group") are a communications and Internet access and related services provider targeted at small and medium-sized enterprises principally in five Asian markets comprising Taiwan, Hong Kong, the PRC, Japan, and Singapore, and in the United States. The Group also offers VPN and solution services through its own network to customers in Taiwan, Hong Kong, Japan, Singapore and the United States. Presently, the Group provides its services mainly in the Taiwan market.

The Group offers a broad range of integrated services which are categorized as follows:

– Communication services, including facsimile, voice and other basic communications services;

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

– VPN and solution services, including IP-based and MPLS-based VPN services, network and facilities management outsourcing services, and e-commerce application services.

The Group's network is interconnected with two domestic telecommunication network operators in the PRC. The Group also provides technical support and consultancy services to assist its ISP partners in the PRC to provide VPN and solution services in the PRC. These arrangements enable the Group's corporate customers, which have cross-border operations in the Greater China region, to extend their communications networks into the PRC.

As at 31 December 2001, the Group has a total of 388 employees.

The Company commenced listing on The Growth Enterprise Market of the Hong Kong Exchanges and Clearing Limited on 8 January 2002.

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2001 amounted to US$26.4 million, representing a decrease of 11% over the turnover of US$29.6 million for the year ended 31 December 2000. The decrease was mainly due to the substantial decline in revenue from communications services and from the moderate decline in revenue from Internet access and related services.

Communications services

Revenue from communications services amounted to US$12.3 million for the year ended 31 December 2001, representing an overall decrease by approximately US$3.9 million and a fall of 24% over the corresponding revenue of US$16.2 million for the year ended 31 December 2000. Due to keen competition in this industry sector, which was faced by the Group in 2001, the average revenue per minute for voice and facsimile services decreased by more than 40%, although total minutes traffic for voice and fax recorded a moderate growth when compared with that for the year ended 31 December 2000.

Internet access and related services

Revenue from Internet access and related services experienced a slight decrease of 2% between the two years. The decrease was mainly due to (i) a drop of over 85% in 56k dial-up services; and (ii) a drop of over 35% in corporate customer number using the T1/T3 high speed leased line services between the two years. Such decrease in revenue was partly compensated by the increasing number of broadband services customers. As at 31 December 2001, there were approximately 2,170 corporate customers using the broadband ADSL/DSL services, which represented a significant increase of 111% when compared with the previous year.

In addition, following the expansion of its network-operating center and the launching of its data center in Taiwan, revenue from data center and data center-related services also increased. For the year ended 31 December 2001, the Group recorded a turnover of approximately US$ 0.8million for its co-location and web-hosting services, which represented an increase of approximately 12% from the previous year. Prior to the launch of the Group's data center, the Group provided these services via its POP facilities.

VPN and solution services

Following the official launch of VPN and solution services in early 2001, the Group recorded a new stream of VPN revenue of approximately US$ 0.9million and other solution services of approximately US$ 0.1million for the year ended 31 December 2001. The VPN business in 2002 will be a viable prospect for the Group. Significant revenue growth is expected in 2002.

Network operation and telecommunication cost

For the year ended 31 December 2001, network operation and telecommunication costs amounted to US$22.1 million, representing an increase of 4% as compared to US$21.3 million for the year ended 31 December 2000.

Network operation and telecommunication costs are detailed as follows:

	Year ended 31 December,	
	2001	**2000**
	US$'000	*US$'000*
Access	7,069	6,931
Bandwidth	8,836	7,598
Termination	6,186	6,819
	22,091	21,348

For the year ended 31 December 2001, access cost slightly increased by 2% over that of the previous years, in-line with overall increase in Internet customers and VPN customers.

Increase in bandwidth costs was associated with addition and upgrade of bandwidth in late 2000. Following the subscription of international bandwidth on an IRU basis to replace most of the international circuits on short-term lease basis between Taiwan and US and between Taiwan and Hong Kong by late 2001, the Group's bandwidth cost will reduce significantly in 2002.

Termination cost was recorded at US$6.2 million for the year ended 31 December 2001, representing a decrease of 9% when compared to US$6.8 million for the year ended 31 December 2000, mainly due to reduction in unit termination cost for voice communication services.

Advertising and promotion expenses

For the year ended 31 December 2001, advertising and promotion expenses amounted to US$0.5 million, representing a decrease of 76% when compared to US$2.1 million for the year ended 31 December 2000. The Group recorded lower advertising and promotion expenses as a result of changes in its sales and marketing strategy to focus on reselling and channel sales arrangements from early 2001.

Staff costs

For the year ended 31 December 2001, staff cost was US$12.2 million, representing an increase of 17% when compared to US$10.4 million for the year ended 31 December 2000. During 2001, the Group laid off staffs who were engaged in communications services and Internet access and related services, and one-time severance payment totaling approximately US$1.0 million had been paid. The increase in staff costs was also due to the recruitment of more competent sales personnel in conjunction with the Group's sales and marketing strategy to focus its sales efforts on promoting VPN and solution services.

As at 31 December 2001, the Group had 388 employees (2000: 601 employees). Employees are remunerated according to their performance and work experience. Staff benefits include participation in pension schemes and medical insurance.

Operating lease rental for machinery and equipment

For the year ended 31 December 2001, operating lease rental for machinery and equipment amounted to US$3.9 million, representing an increase of 44% when compared to US$2.7 million for the year ended 31 December 2000. The increase was due to the leasing of additional machinery and equipment for the expansion of the Group's network operation.

Occupancy expenses

For the year ended 31 December 2001, occupancy expenses totaled to US$3.4 million, representing an increase of 54% when compared to US$2.2 million for the year ended 31 December 2000. The increase was resulted from the expansion of office space to cope with the expansion of business.

Depreciation of fixed assets

For the year ended 31 December 2001, depreciation of fixed assets amounted to US$3 million, representing an increase of 37% when compared to US$2.2 million for the year ended 31 December 2000. The increase was due to the increase in capital investment in (i) network equipment for the Group's network operation; and (ii) the establishment of new offices.

Provision for early termination of lease agreements

During the year 2001, provision for early termination of lease agreements amounted to US$2.3 million, representing one-time non-recurring losses such as penalty for early termination of contracts and impairment loss on the relevant assets like leasehold improvement and the relevant equipment.

Other operating expenses

Other operating expenses consisted of legal and professional, repair and maintenance, traveling and entertainment, postage and stationery, bad debt expenses, insurance, sundry expenses, etc. For the year ended 31 December 2001, other operating expenses amounted to US$6.3 million, representing an increase of 17% over that of the previous year. The increase was mainly due to the significant increase in professional fees incurred in relation to the placing of the Company's shares and also the significant increase in bad debt expenses.

Interest income

For the year ended 31 December 2001, interest income was US$0.5 million, representing a decrease of 39% when compared to that for the year ended 31 December 2000. The decrease referred to the decline in cash balance and interest rates during 2001.

Interest expense

Interest expense decreased by 10% from US$738,000 for the year ended 31 December 2000 to US$665,000 for the year ended 31 December 2001. It was resulted from the worldwide declining interest rates during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finance its operations with internally generated cash flows and bank loans. As at 31 December 2001, the Group had a cash and bank deposit balance of US$413,000 (2000 - US$25,987,000). Approximately US$54,000 (2000 - US$4,231,000), US$6,000 (2000 - US$879,000), US$9,000 (2000 - US$434,000), US$63,000 (2000 - nil), and US$10,000 (2000 - nil) of the Group's cash and bank deposits were denominated in New Taiwan dollars, Hong Kong dollars, Japanese Yen, Renminbi and Singapore dollars, respectively. The remaining cash and bank deposits of approximately US$271,000 (2000 - US$20,443,000) were denominated in United States dollars.

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk. As at 31 December 2001, the Group had available banking facilities of approximately US$7,220,000 (2000 - US$8,445,000) for overdraft and loan financing. The unused banking facilities as at the same date amounted to approximately US$300,000 (2000 - US$726,000). As at 31 December 2001, the Group had short-term and long-term bank loan amounted to US$3,143,000 (2000 - US$6,042,000) and US$3,801,000 (2000 - US$1,677,000) respectively. All loans were denominated in New Taiwan dollars and bore interest rates ranging from 5.00% to 8.12% (2000 - 5.85% to 8.20%). As at 31 December 2001, the gearing ratio of the Group, represented by a ratio between total long-term borrowings and shareholders' equity, was 1.33 (2000 - 0.05). The significant increase of the gearing ratio between the two years was mainly due to a rise in loss attributable to shareholders as a result of a US$27.5 million loss in 2001. Towards the end of 2001, the Group scaled down its operations and implemented certain cost control measures in order to reduce its cash outflow from operations. In addition, in early January 2002, the Company issued 64,200,000 ordinary shares of HK$0.01 each to the public at HK$0.79 each through placing of shares, resulting in net cash proceeds of approximately US$5.1 million, and its shares were listed on The Growth Enterprise Market of the Hong Kong Exchanges and Clearing Limited ("the GEM") on 8 January 2002. The Group believes the proceeds from such placing can provide it with additional working capital for the future operations of the Group. Further, the Group has carried out certain financing activities, including arrangement of new banking facility, in the first quarter of 2002 with an aim to improve its liquidity. The Directors are confident that the Group will be able to rollover the majority of its short-term bank borrowings upon maturity in 2002.

CHARGES ON GROUP ASSETS

Certain of the Group's assets are pledged to banks as security for overdraft and bank loan facilities granted to the Group. As at 31 December 2001, approximately US$870,000 (2000 - US$1,376,000) of bank deposits, US$986,000 (2000 - US$1,347,000) of accounts receivables and US$3,660,000 (2000 - nil) of fixed assets were pledged to banks as security for bank facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk. As at 31 December 2000 and 2001, the Group had no outstanding hedging instruments.

INVESTMENTS

The Group had no significant investment during the years ended 31 December 2000 and 2001. No material acquisition or disposal of subsidiary or affiliated company was made during the years ended 31 December 2000 and 2001.

CONTINGENT LIABILITIES

As at 31 December 2001, the Group had no contingent liabilities (2000 - nil).

REVIEW OF BUSINESS OBJECTIVES AND STRATEGY

The Directors have confirmed that the Group's actual business activities for the period from 20 December 2001 to 31 December 2001 were substantially the same as set out in the prospectus dated 28 December 2001 (the "Prospectus") and were as follows:

Strategic Development	Product and Services Development	Network and Facilities Development	Sales and Marketing Strategy
• Continue to identify business partners in the regions in which the Group has established offices, including the PRC, Japan, Singapore and the United States to develop the market for its VPN and other solutions services.	• Continue to develop VPN and other solutions services	• Continue to expand managed IP connections with VPN service	• Continue marketing efforts to promote brand awareness of the Group's products and services in Taiwan and other parts of Asia
• Continue to seek partners/ resellers in Asia to roll-out MPLS-based VPN services			• Continue marketing of ISR service in Taiwan

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group will continue to focus on developing the VPN business in the Greater China market in the coming year. In accordance with business objectives stated in the Prospectus, the Group will identify strategic investment opportunities in the PRC if the regulatory environment allows. Funding of such opportunities is expected to be made through arrangement of new banking facilities and internally generated fund.

EXECUTIVE DIRECTORS

MR. TSAI Jenp Luh (also known as Phil J. L. TSAI), aged 40, Chairman and Chief Executive Officer, is responsible for strategic planning and setting the operational directions for the Group. Mr. Tsai founded the Group in 1992. From 1990 to 1991, he was a sales manager at ABB Taiwan, where he was responsible for its distribution and control system. In 1988, he served as an engineer at Hewlett Packet Taiwan. Mr. Tsai has more than nine years of experience in the telecommunications industry in Taiwan. Mr. Tsai holds a Master of Computer Engineering degree from the University of Massachusetts at Dartmouth, the United States, Department of Computer and System (previously Southeastern Massachusetts University).

Mr. CHANG Hsiao Hui (also known as Michael H. H. CHANG), aged 35, President, is responsible for the administration planning and business strategy implementation for the Group. Prior to joining the Group in 1993, Mr. Chang was a sales manager at Chuei-huei Real Estate Inc., where he was responsible for marketing research and marketing planning, and sales management. Mr. Chang graduated from Shih Hsin College, Department of Radio, Television & Film in Taiwan in 1990.

Mr. LIU Yuan Chang (also know as Johnny LIU), aged 38, Chief Operating Officer and Compliance Officer, joined the Group in 1996. Form 1988 to 1996, Mr. Liu was a leader of the avionics system integration team of a Chief Engineer Office, IDF Fighter Program at the Aeronautical Industry Development Centre in Taiwan, and worked for the Chung-Shan Institute of Science and Technology, a leading research and development center of the Ministry of Defense of Taiwan. Mr. Liu was a senior telecommunication engineer qualified and licensed by the Directorate of General Telecommunication of Taiwan in 1997. Mr. Liu received a Master of Electronic Engineering degree from the Chung-Cheng Institute of Technology and Theory in Taiwan in 1988 and a Bachelor of Electronic Engineering degree from Chung-Yuan Christian University in Taiwan in 1986.

NON-EXECUTIVE DIRECTORS

Mr. BUAY Kee Chuan, aged 36, was nominated by SingTel and he joined the Group in July 2000. He is the Chief Executive Officer of SingTel's Multimedia Group and the Vice President for consumer marketing. He serves as a director on the boards of various joint ventures of SingTel such as Failsafe Corporation (Singapore) Pte, Ltd. and Point Asia Dot Com (Thailand) Limited. Prior to assuming the current position in August 2000, he was the director of Corporate Development responsible for strategic planning and was involved in various Internet and e-commerce strategic initiatives for SingTel and also headed SingTel Ventures, SingTel's corporate venture capital fund. Prior to establishing SingTel's venture capital business in 1997, Mr. Buay was concurrently the director of Marketing (Business Products) and the director of Corporate Account Management at SingTel. Mr. Buay holds a Bachelor of Arts degree from the National University of Singapore and a Master of Science degree in management from Stanford University, the United States.

Mr. YEO Eng Choon, aged 47, was nominated by SingTel and he joined the Group in February 2001. He is the Vice President of the Corporate Business Marketing, Corporate Business Group of SingTel and serves as a director on the boards of various joint ventures of SingTel such as World Partners Company and Point Asia Dot Com (Thailand) Limited. Prior to assuming the current position in May 2000, Mr. Yeo was the Chief Executive Officer of SingTel Yellow Pages. Mr. Yeo holds a Bachelor of Commerce degree from Nanyang University, Singapore.

Mr. TAY Chek Khoon*, aged 51, was nominated by SingTel and he joined the Group in July 2000. He is an alternate director to Mr. BUAY Kee Chuan and Mr. YEO Eng Choon. He is the Vice President for Satellite Business and Global Management at SingTel. He is responsible for all the satellite business and infrastructure of SingTel, including the international gateways and global voice network. Mr. Tay also serves as a director on the boards of various joint ventures of SingTel such as APT Satellite Telecommunications Limited and Lanka Communication Services (Private) Limited. Mr. Tay holds a bachelor degree in engineering from the University of Liverpool, the United Kingdom.

* alternate to Mr. BUAY Kee Chuan and Mr. YEO Eng Choon

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Kok Chung (also known as Johnny CHAN), aged 42, is a director, co-founder and Chief Executive Officer of Techpacific.com Limited, the shares of which are listed on GEM. Mr. Chan is an independent non-executive director of Softbank Investment International (Strategic) Limited, a company listed on the main board of the Stock Exchange. Mr. Chan is also a director of Softech Investment Management Company Limited, a joint venture between Techpacific.com Limited and Softbank China Ventures Investments Limited, which acts as a manager of the Hong Kong government's Applied Research Fund. Mr. Chan is an assessor in the Hong Kong Government's Small Entrepreneur Research Assistance Programme under the Innovation and Technology

Fund. Prior to joining Techpacific.com Limited in August 1999, Mr. Chan was a managing director of Bear Stearns Asia Limited in Hong Kong responsible for the equity capital markets division in Asia. Mr. Chan holds a post graduate diploma from the Securities Institute of Australia and a Master of Business Administration degree from City University Business School, London.

Mr. CHOU Wen Pin (also known as Vincent CHOU), aged 32, is the chairman of DeliriumCyberTouch Corporation, an e-business solutions provider formed as a result of the merger of Delirium Corporation and CyberTouch (Asia) Pte. Limited. In 1998, Mr. Chou founded Delirium Corporation which currently employs around 250 staff in five countries in the Pan-Asia region. Prior to 1998, Mr. Chou worked for a number of years as an architectural designer at an international architectural firm. Mr. Chou holds a bachelor degree in architecture from California Polytechnic University, a master degree in architecture from Cornell University and a master degree in design in real estate development from Harvard University Design School, the United States.

SENIOR MANAGEMENT

Mr. WANG Kun Hung (also known as Steven WANG), aged 35, Chief Technology Officer, joined the Group in 1993. From 1988 to 1993, Mr. Wang was an assistant manager in charge of system integration projects at Unitech Electronic Co., Ltd. Mr. Wang has more than 12 years of experience in the telecommunications industry. Mr. Wang graduated from the Oriental Institute of Technology, Department of Electronic Engineering, Taiwan.

Mr. CHUNG Kwok Mo (also known as John CHUNG), aged 33, is the Chief Financial Officer, Qualified Accountant and Company Secretary. He joined the Group in October 2000. Mr. Chung has over ten-year experience in public accounting, taxation and financial management in Hong Kong, Australia and the PRC. He started his professional career with Arthur Andersen & Co., a major international accounting firm in 1992. Prior to joining the Group, he was the financial controller of the PRC operations of Jones Lang LaSalle, one of the global providers of comprehensive real estates and investment management services. Mr. Chung holds a Bachelor of Economics degree in finance and accounting from Macquarie University, Australia. He is an associate of the Hong Kong Society of Accountants and a member of CPA Australia.

Mr. GUO Yuh Shih (also known as Michael GUO), aged 38, is Vice President of Marketing Communications. He joined the Group in August 2000. Mr. Guo is responsible for marketing communications including, advertising, public relations and events, etc. From

1997 to 2000, Mr. Guo worked at Bates Taiwan Co. Ltd. For the past eleven years, Mr. Guo has served in both multinational and Japanese advertising and marketing agencies, namely, Wunderman Cato Johnson Taiwan Co. Ltd., Dentsu Advertising Taiwan Co. Ltd. and United Asatsu Advertising Taiwan Co. Ltd., focusing on client services, marketing communications planning and database marketing. Mr. Guo received a master degree in education from the International Christian University, Tokyo, Japan in 1990 and a Bachelor of Arts degree from the National Cheng Kung University, Taiwan in 1986.

Mr. CHIEN Yuan Yu (also known as Bill JEAN), aged 34, is a Vice President of Product Businesses Division. He joined the Group in 1998. He is responsible for product innovation, development, product portfolio management, strategic cooperation and business alliance. From 1997 to 1998, he was a Support Engineer at Cable & Wireless HK Limited, Taiwan Branch. From 1996 to 1997, he worked for AsiaOnline Co. Ltd. From 1990 to 1996, he was a section manager with Taiwan Telecommunications Network Services Co., Ltd. Mr. Chien has more than Ten-year experience in the Internet-related field. He is a specialist in network management and network architecture design, in particular, corporate integrated network planning and deployment. Mr. Chien graduated from the Lien-Ho Junior College of Technology Electronic Engineering in Taiwan in 1988.

Mr. LEE Cheng Hsiung (also known as Richard LEE), aged 39, is Vice President of System and Network Division. He joined the Group in 1999. Mr. Lee is in charge of the system project division and the network operation center division. He is responsible for network projects, corporate projects, new solution evaluation and network operation. From 1991 to 1999, Mr. Lee worked for Hitron Technology Inc. and served as a sales manager of its International Business Division. Mr. Lee received a bachelor degree majoring in electronics engineering from National Taiwan University of Science and Technology in Taiwan in 1988.

Ms. HU Nai Shin (also known as Fabiola HU), aged 40, is a director of the Customer Satisfaction Division. She joined the Group in 1998. Ms. Hu graduated from Catholic Fu-Jen University in Taiwan and received a Bachelor of Arts degree in 1983. Prior to joining the Group, Ms. Hu worked in the foundry department of United Microelectronics Corp. in Taiwan, and was in charge of the Japanese market development of foundry. She also worked for Japan Asia Airways for 14 years and was the first foreign chief purser managing its multinational (including Japanese) crew in Japan airlines.

Report of the Directors

The Directors have pleasure in presenting their first annual report following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of the Hong Kong Exchanges and Clearing Limited (the "Exchange") together with the audited financial statements of Infoserve Technology Corp. (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 19 May 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares have been listed on GEM since 8 January 2002.

Detail of the Group's reorganisation are set out in note 1 to the financial statements on page 41.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in communications, Internet access and related services, and virtual private network and solution services.

SEGMENTAL INFORMATION

The Group's turnover and loss from operations for the year ended 31 December 2001 are analysed as follows:

a. By Business Segment

	Communication Services	Internet Services	Virtual private network and solution services	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Turnover from external customers	12,261	13,175	1,009	26,445
Segment results	(3,665)	(3,858)	(295)	(7,818)
Unallocated operating expenses				(19,568)
Loss from operations				(27,386)

b. By geographical locations*

	Turnover from external customers *US$'000*	Loss from operations *US$'000*
Taiwan	22,744	(17,634)
USA	2,809	(3,739)
Others	892	(6,013)
	26,445	(27,386)

* Turnover by geographical locations is determined on the basis of the destination of services rendered.

Details of the Group's segmental information are set out in Note 33 to the financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the five largest customers of the Group, including resellers, accounted for approximately 9% of the Group's total turnover and the five largest suppliers accounted for approximately 65% of the Group's total purchase. The five largest customers of the Group, excluding resellers, accounted for approximately 9% of the Group's total turnover. In addition, the largest customer accounted for approximately 5% of the Group's turnover and the largest supplier accounted for approximately 40% of the Group's purchase.

Save as disclosed above, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATION

Details of the Group's results for the year ended 31 December 2001 are set out in the consolidated income statement on page 36 of this annual report.

No final dividend was recommended by the Board of Directors for the year ended 31 December 2001.

RESERVES AND DISTRIBUTABLE RESERVE

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 39 of this annual report.

As at 31 December 2001, the Company's reserves of approximately US$1,467,000 (subject to provisions under the Companies Law (Revised) of the Cayman Islands) were available for distribution to the Company's shareholders.

SHARE CAPITAL

Details of the movements in the authorized and issued share capital of the Company during the year ended 31 December 2001 are set out in Note 26 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's shares were listed on the GEM on 8 January 2002 by way of placing of shares. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2001.

PRE-EMPTIVE RIGHTS

There is no provision for the exercise of any pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 16 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year ended 31 December 2001 are set out in Note 14 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31 December 2001 are set out in Note 19 and 20 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 31 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events are set out in Note 36 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions of the Company constitute non-exempt, continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. The Directors consider strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules to be impractical and not to benefit to the Company's shareholders. As such, the Company has obtained from the GEM Listing Division a waiver from the announcement requirements under Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules in respect of such connected transactions for the period up to 31 December 2003.

Singpore Telecommunications Limited ("SingTel"), through its wholly owned subsidiary, KA Land Pte Ltd. ("KA Land"), was interested in approximately 30.5% of the issued share capital of the Company as of 31 December 2001. Upon the completion of the placing of shares of the Company on 8 January 2002, SingTel was interested in approximately 26.81% of the enlarged issued share capital of the Company. The transactions between the Group and each of SingTel and its associates will constitute continuing connected transactions for the Company after the listing of the Company's share on GEM on 8 January 2002.

Details of the Group's continuing connected transactions with SingTel, and its associates for the year ended 31 December 2001 are set out below:

	Location	Amount
		US$'000
1 Subscription Arrangement		
(a) Co-location Services	Singapore	60
	Hong Kong	77
	Tokyo	42
(b) International ATM Circuit Service	Singapore & Hong Kong	315
(c) Internet Transit Service	Singapore	53
(d) Local Leased Line Service	Singapore	10
(e) ISDN Services	Singapore	26
	Sub-total	583
2 Reselling Arrangement		
(a) Local Leased Circuit & Internet Access Reselling	Singapore	11
(b) Wholesales Voice Service	Hong Kong	298
	Singapore	2
	Sub-total	311
3 Secondment Arrangement		
(a) Secondment of SingTel's Employee	Taiwan	59
	Sub-total	59
	TOTAL	953

DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Rules Governing the Listing of Securities on GEM are set out in Note 6 to the financial statements on pages 55 and 56.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors
Mr. Tsai Jenp Luh (Chairman and Chief Executive Officer)
Mr. Chang Hsiao Hui
Mr. Liu Yuan Chang

Non-executive directors
Mr. Buay Kee Chuan
Mr. Yeo Eng Choon
Mr. Tay Chek Khoon*

* alternate to Mr. BUAY Kee Chuan and Mr. YEO Eng Choon

Independent non-executive directors

Mr. Chan Kok Chung	(Appointed on 21 December 2001)
Mr. Chou Wen Pin	(Appointed on 21 December 2001)

In accordance with Article 116 of the Company's Articles of Association, one third of the existing directors will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The non-executive directors are appointed for a term of 2 years from 21 December 2001 and are subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Each of the three executive directors namely, Mr. Tsai Jenp Luh, Mr. Chang Hsiao Hui and Mr. Liu Yuan Chang have entered into a service agreement with the Company for an initial term of three years commencing on 21 December 2001. The service agreement shall continue thereafter unless and until, after the expiry of the first year of service, terminated by either party by serving not less than three months' prior written notice or by payment of three months' salary in lieu of such notice. In addition to entitlement to an annual salary, each of the executive directors shall, for each completed year of service, be entitled to a management bonus of an amount equivalent to two-month of his then monthly salary and a discretionary bonus of such amount as may be determined by the Board.

Save as disclosed herein, none of the directors has entered into any service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, the Company had no notice of any interest to be recorded under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as the Company was not listed on GEM on the date.

The ordinary shares of the Company (the "Shares") were listed on GEM on 8 January 2002. Following the listing of the Shares, the interest of the Directors of the Company in the equity securities of the Company as at 8 January 2002 are recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total
Mr. Tsai Jenp Luh	99,305,288	218,400 *(Note 1)*	–	–	99,523,688
Mr. Chang Hsiao Hui	99,628,984	3,511,768 *(Note 2)*	–	–	103,140,752
Mr. Liu Yuan Chang	1,134,528	–	–	–	1,134,528

Notes:

1. These Shares are held by Ms. Tu Wen-Yueh, the wife of Mr. Tsai Jenp Luh.

2. These Shares are held by Ms. Lin Huei-Lin, the wife of Mr. Chang Hsiao Hui.

Save as disclosed above, as at 8 January 2002, none of the Directors or their associates had any interests in the issued share capital of the Company or any of its associates (within the meaning of the SDI Ordinance).

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2001 the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company was not listed on GEM on that date.

The Shares were listed on GEM on 8 January 2002. Following the listing of the Shares, the interests of substantial shareholder, other than Directors of the Company, in the Shares as at 8 January 2002 as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name	Number of shares	Approximate percentage of shareholding
KA Land *(Note 1)*	143,802,864	26.81%

Notes:

1. These Shares are held by KA Land, a wholly-owned subsidiary of SingTel.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company at 8 January 2002.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31 December 2001 or at any time during 2001.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Except for the share option schemes, neither the Company nor its subsidiaries was a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the directors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

SHARE OPTION SCHEMES

As at 31 December 2001, two share option schemes of the Company were approved by the Company, namely Pre-IPO Share Option Scheme and Share Option Scheme (both terms as defined in the Prospectus). The summary of the Pre-IPO Scheme Option Scheme and the Share Option Scheme is set out in Appendix V of the Prospectus of the Company dated 28 December 2001 fo placing of shares under the section headed "Share Options".

(1) Pre-IPO Share Option Scheme

The Company has granted a total of 13,684,000 options under the Pre-IPO Share Option Scheme to the Directors of the Company and the employees of the Group.

The details of share options granted by the Company under the Pre-IPO Share Option Scheme to acquire shares were as follows:

Name of Directors	Date of Grant	Vesting period	Exercise period	Exercise price per share HK$	Balance as at 1 January 2001	Granted during the year	Lapsed during the year	Balance as at 31 December 2001
Three Executive Directors:								
Mr. Tsai Jenp Luh	27 December 2001	27 December 2001 to 7 July 2002	8 July 2002 to 7 January 2012	0.70	–	1,144,000	–	1,144,000
Mr. Chang Hsiao Hui	27 December 2001	27 December 2001 to 7 July 2002	8 July 2002 to 7 January 2012	0.70	–	1,609,000 Note (1)	–	1,609,000
Mr. Liu Yuan Chang	27 December 2001	27 December 2001 to 7 July 2002	8 July 2002 to 7 January 2012	0.70	–	520,000	–	520,000
155 other employees	27 December 2001	27 December 2001 to 7 July 2002	8 July 2002 to 7 January 2012	0.70	–	10,411,000	–	10,411,000
Total: 158 employees					–	13,684,000	–	13,684,000

Note:

(1) 1,136,000 share options are held by Mr. Chang Hsiao Hui personally and 473,000 shares options are held by his wife's, Ms. Lin Huei Lin (also an employee of the Group). Mr. Chang is deemed to be interested in his wifes share options under the SDI Ordinance.

As at 31 December 2001, the number of shares in respect of which options had been granted under the Pre-IPO Share Option Scheme was 13,684,000, representing 2.55% of the total issued share capital of the Company immediately after completion of the placing. The exercise period for all the options granted under the Pre-IPO Share Option Scheme shall commence on the date falling 6 months after the Listing Date 8 January 2002 and end on 7 January 2012 (both date inclusive).

(2) Share Option Scheme

As at 31 December 2001, no option has been granted pursuant to the Share Option Scheme. Subsequent to 31 December 2001, the Board of Directors approved the offer of 26,815,000 share options to employees of the Company on 21 February 2002. These options may be exercised in different tranches within the option period from 1 January 2003 to 31 December 2005.

Name of Directors	Date of Grant	Vesting period	Exercise period	Exercise price per share HK$	Number of share option granted
Three Executive Directors:					
Mr. Tsai Jenp Luh	21 February 2002	21 February 2002 to 31 December 2002	1 January 2003 to 31 December 2005	1.212	1,500,000
Mr. Chang Hsiao Hui	21 February 2002	21 February 2002 to 31 December 2002	1 January 2003 to 31 December 2005	1.212	1,580,000 *Note (1)*
Mr. Liu Yuan Chang	21 February 2002	21 February 2002 to 31 December 2002	1 January 2003 to 31 December 2005	1.212	1,400,000
262 other employees	21 February 2002	21 February 2002 to 31 December 2002	1 January 2003 to 31 December 2005	1.212	22,335,000
Total: 265 employees					26,815,000

Note:

(1) 1,500,000 share options are held by Mr. Chang Hsiao Hui personally and 80,000 shares options are held by his wife, Ms. Lin Huei Lin (also an employee of the Group). Mr. Chang is deemed to be interested in his wife's share options under the SDI Ordinance.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the company granted to any director or their respective spouse or children under 18 years of age, or where any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

In year 2001, the Company has elected to adopt the transition arrangement under Rule23. 10 of the GEM Listing Rules. Therefore, no valuation is calculated in respect of share options granted to participants.

COMPETING INTERESTS

Pursuant to Rule 11.04 of the GEM Listing Rules, as at 31 December 2001, the interest of each director, management shareholder (as defined in the GEM Listing Rules) and their respective associates (as defined in the GEM Listing Rules) that competes or may compete with the business of the Group are the same as those set out in the section headed "Relationship with SingTel" in the Prospectus.

SPONSOR'S INTERESTS

Neither Anglo Chinese Corporate Finance, Limited (the "Sponsor") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2001.

Pursuant to the agreement dated 8 January 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 8 January 2002, the date on which the shares of the Company are listed, to 31 December 2004.

Save for the above, the Sponsor had no other interest in the Company as at 31 December 2001.

MATERIAL LITIGATION

Neither the Company nor its subsidiary was involved in any material litigation or arbitration in 2001.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existing during the year.

AUDIT COMMITTEE

The Company established an audit committee on 21 December 2001 with terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises Mr. CHAN Kok Chung and Mr. CHOU Wen Pin. 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 not held any meeting during the year ended 31 December 2001.

Pursuant to a Board meeting on 28 March 2002, Mr. BUAY Kee Chuan has been appointed to the audit committee. After his appointment, the audit committee comprises three members.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM listing Rules since the listing of the Company's shares on the GEM on 8 January 2002.

AUDITORS

The financial statements were audited by Arthur Andersen & Co. A resolution for the re-appointment of Arthur Andersen & Co as the auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tsai Jenp Luh
Chairman
28 March 2002

ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors' Report to the Shareholders of
INFOSERVE TECHNOLOGY CORP.
(Incorporated in the Cayman Islands with limited liability)

We have audited the accompanying balance sheet of Infoserve Technology Corp. (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (the "Group") as at 31st December, 2001 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements set out on pages 36 to 82 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31st December, 2001 and of the results of the Group's operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
28th March, 2002

Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in United States dollars)

	Note	2001 $'000	2000 $'000
Turnover	4	26,445	29,588
Network operation and telecommunication costs	3	(22,091)	(21,348)
Advertising and promotion expenses		(549)	(2,120)
Staff costs		(12,172)	(10,407)
Operating leases rental for machinery and equipment		(3,912)	(2,723)
Occupancy expenses		(3,406)	(2,214)
Depreciation of fixed assets		(3,026)	(2,213)
Amortisation of goodwill		–	(391)
Provision for impairment in value of goodwill		–	(3,512)
Provision for early termination of lease agreements		(2,333)	–
Other operating expenses	3	(6,342)	(5,418)
Loss from operations		(27,386)	(20,758)
Interest income	4	534	878
Interest expense		(665)	(738)
Exchange gain, net		4	241
Loss before taxation	5	(27,513)	(20,377)
Taxation	7	(13)	(68)
Loss attributable to shareholders	8	(27,526)	(20,445)
(Accumulated deficit) Retained earnings, beginning of year		(19,034)	1,411
Accumulated deficit, end of year		(46,560)	(19,034)
Loss per share – basic	9	$ (5.83) cents	$ (6.62) cents

(Expressed in United States dollars)

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000	Company 2001 $'000	Company 2000 $'000
ASSETS					
Current Assets					
Investments in available-for-sale securities		–	574	–	–
Inventories	10	763	494	–	–
Accounts receivable	11	4,302	6,503	–	–
Prepayments, deposits and other current assets		994	502	–	–
Cash and bank deposits	12	413	25,987	1	15,355
		6,472	34,060	1	15,355
Non-current Assets					
Pledged bank deposits	13	870	1,376	–	–
Fixed assets	14	9,872	8,408	–	–
Intangible asset	15	1,642	–	–	–
Investment in subsidiaries	16	–	–	1,459	25,674
Refundable deposits	17	1,076	1,848	–	–
Deferred share issuance expenditures		2,194	–	2,194	–
Other non-current assets		76	169	–	–
		15,730	11,801	3,653	25,674
Total Assets		22,202	45,861	3,654	41,029
LIABILITIES AND EQUITY					
LIABILITIES					
Current Liabilities					
Short-term bank loans	19	3,143	6,042	–	–
Long-term bank loans, current portion	20	1,039	181	–	–
Finance lease obligations, current portion	21	1,447	600	–	–
Accounts payable	3, 22	4,726	2,264	–	–
Accruals and other payables	3, 23	3,921	2,504	1,582	–
Provision for early termination of lease agreements	24	1,024	–	–	–
Deferred revenue	25	964	2,532	–	–
Due to directors	3	544	–	–	–
		16,808	14,123	1,582	–

Balance Sheets *(Cont'd)*

AS AT 31ST DECEMBER, 2001

(Expressed in United States dollars)

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000	Company 2001 $'000	Company 2000 $'000
Non-current Liabilities					
Long-term bank loans	20	2,762	1,496	–	–
Finance lease obligations	21	69	276	–	–
Other non-current liabilities		491	383	–	–
		3,322	2,155	–	–
Total Liabilities		20,130	16,278	1,582	–
CAPITAL AND RESERVES					
Share capital	26	605	590	605	590
Reserves	28	48,027	48,027	48,304	48,319
Accumulated deficit		(46,560)	(19,034)	(46,837)	(7,880)
		2,072	29,583	2,072	41,029
Total Liabilities and Equity		22,202	45,861	3,654	41,029

Approved by the Board of Directors on 28th March, 2002

TSAI JENP LUH
Director

CHANG HSIAO HUI
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in United States dollars)

	Share capital	Share premium	Cumulative translation adjustments	Retained earnings (Accumulated deficit)	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance as at 1st January, 2000	6,396	–	(19)	1,411	7,788
Effect of the Share Exchange *(Note 1)*	(6,197)	6,197	–	–	–
Issuance of shares to China Development and Industrial Bank	6	–	–	–	6
Issuance of shares for acquisition of subsidiaries pursuant to the Share Exchange *(Note 1)*	125	2,996	–	–	3,121
Issuance of bonus shares to the then shareholders of Infoserve-U.S., Infoserve-HK and Infoserve-Japan	98	–	–	–	98
Issuance of shares for cash through placement to a strategic investor	156	38,934	–	–	39,090
Issuance of shares to an employee	6	192	–	–	198
Loss for the year	–	–	–	(20,445)	(20,445)
Translation adjustments	–	–	(273)	–	(273)
Balance as at 31st December, 2000	590	48,319	(292)	(19,034)	29,583
Issuance of shares denominated in HK dollars	605	(15)	–	–	590
Cancellation of shares denominated in US dollars	(590)	–	–	–	(590)
Loss for the year	–	–	–	(27,526)	(27,526)
Translation adjustments	–	–	15	–	15
Balance as at 31st December, 2001	605	48,304	(277)	(46,560)	2,072

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in United States dollars)

	Note	2001 $'000	2000 $'000
OPERATING ACTIVITIES			
Net cash outflow from operations	29.a	(17,753)	(11,049)
Interest paid		(665)	(738)
Income tax paid		(13)	(282)
Net cash outflow from operating activities		(18,431)	(12,069)
INVESTING ACTIVITIES			
Additions of fixed assets	29.d	(5,795)	(5,237)
Interest received		534	878
Net cash inflow from acquisition of subsidiaries	29.b	–	227
Decrease (Increase) in pledged bank deposits		506	(816)
Decrease in due from a related company		–	1,071
Net cash outflow from investing activities		(4,755)	(3,877)
FINANCING ACTIVITIES	29.c		
Proceeds from issuance of shares		–	39,288
Share issuance expenditures		(2,194)	–
New short-term bank loans		4,141	11,607
Repayment of short-term bank loans		(6,805)	(7,739)
New long-term bank loans		2,929	1,920
Repayment of long-term bank loans		(641)	(186)
Repayment of capital element of finance lease obligations		(1,123)	(1,100)
Decrease in due to a related company		–	(1,509)
Increase in due to directors		544	–
Increase in other non-current liabilities		108	205
Net cash (outflow) inflow from financing activities		(3,041)	42,486
(Decrease) Increase in cash and cash equivalents		(26,227)	26,540
Cash and cash equivalents, beginning of year		26,561	382
Effect of foreign exchange rate changes		79	(361)
Cash and cash equivalents, end of year	29.e	413	26,561

(Amounts expressed in United States dollars ("US$") unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

Infoserve Technology Corp. ("the Company") was incorporated in the Cayman Islands on 19th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company has not carried on any business since its incorporation, except that in July 2000, through a series of share exchanges ("the Share Exchange"), the Company acquired 100% equity interests in Infoserve Technology Corporation ("Infoserve-Taiwan"), Infoserve Telecom Corp. ("Infoserve-US"), Infoserve Technology Hong Kong Limited ("Infoserve-HK"), Infoserve Technology K.K. ("Infoserve-Japan") ("the Share Exchange"). Thereafter, the Company became the holding company of these companies (hereinafter collectively referred to as "the Group"). In November and December 2000, two other companies, namely Infoserve Technology Pte Ltd ("Infoserve-Singapore") and Infoserve Technology Beijing Ltd ("Infoserve-PRC") were incorporated as wholly owned subsidiaries of the Company.

Infoserve-Taiwan was considered as the principal company within the Group as a result of the share exchanges executed in July 2000 as described above, as it accounted for a substantial portion of the net assets, revenue and results of operations of the companies which were involved in the share exchanges. The acquisition of Infoserve-Taiwan by the Company is accounted for as a reverse acquisition under which the Company is deemed to have been acquired by Infoserve-Taiwan and Infoserve-Taiwan is deemed to be the acquirer and the purchase method of accounting was applied to account for the assets and liabilities of the Company. Consequently, the consolidated income statement includes the results of Infoserve-Taiwan throughout the two years covered by the accompanying financial statements rather than from the date when the share exchanges became effective.

The acquisitions of Infoserve-US, Infoserve-HK and Infoserve-Japan have been accounted for under the purchase method of accounting. Accordingly, the consolidated income statements include the results of Infoserve-US, Infoserve-HK and Infoserve-Japan since their respective dates of acquisition by the Company.

Significant transactions and balances between the companies comprising the Group have been eliminated upon consolidation.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION (Cont'd)

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of (i) communication services including voice, facsimile and other basic communications services, (ii) Internet services including Internet access, data centre and data centre-related services; and (iii) virtual private network and solution services.

As at 31st December, 2001, the Group had 388 employees in Taiwan, Hong Kong, Japan, the United States of America, Singapore and the People's Republic of China ("the PRC"). The Group's head office is Suite 2401-04, 24th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements, which conform to International Financial Reporting Standards published by the International Accounting Standards Board, are as follows:

a. Basis of presentation

The financial statements as at and for the year ended 31st December, 2001 have been prepared on the going concern basis which assumes that the Group will be able to meet its financial obligations when they fall due.

For the year ended 31st December, 2001, the Group had a net cash outflow from operating activities of approximately $18,431,000 and a loss attributable to shareholders of approximately $27,526,000. Accordingly, the Group's ability to continue as a going concern depends on the success of its future operations and additional fundings being available either from renewal or replacement of its bank borrowings, or other means of financing. The Group is currently repositioning its business focus to virtual private network and solution services with an aim to improving its financial performance.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

a. Basis of presentation (Cont'd)

The Company's Directors are confident that the Group's future operations will be successful. Towards the end of 2001, the Group scaled down its operations and implemented certain cost control measures in order to reduce its monthly cash outflow from operations. In addition, in early January 2002, the Company issued 64,200,000 ordinary shares of HK$0.01 each to the public at HK$0.79 each through placement, resulting in net cash proceeds of approximately $5.1 million, and its shares were listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM") on 8th January, 2002. The Company's Directors believe the proceeds from such placing can provide it with additional working capital for the future operations of the Group. Further, the Directors have explored different means of additional financing in the first quarter of 2002 (see Note 36), and are confident that the Group will be able to rollover the majority of its short-term bank borrowings upon maturity in 2002. Accordingly, the financial statements have not included any adjustments that would result should the Group not be able to continue as a going concern.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by the fair valuation of available-for-sale investments as described in Note 2.n..

c. Subsidiaries

A subsidiary is a company which is controlled by the Company. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or is able to govern the financial and operating policies of the company so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

d. Goodwill

Goodwill arising on acquisition of interests in subsidiaries represents the excess of cost of acquisition over the Group's share of the fair value of separable net assets of the subsidiaries acquired. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over the estimated economic useful life of five years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

e. Intangible asset

Intangible asset represents international bandwidth capacity on an indefeasible right of use basis ("IRU"). IRU is carried at cost less accumulated amortisation and accumulated impairment losses. IRU is amortised on a straight-line basis over the estimated economic life of fifteen years.

f. Turnover and revenue recognition

Turnover comprises (i) communication service fees, (ii) Internet service fees, (iii) virtual private network solution service fees, and (iv) the net invoiced value on the sale of cable modems or routers for the internet service.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Fees from communication services and virtual private network and solution services are recognised when the underlying services are rendered. Fees from Internet services are recognised on a time apportionment basis. Fees from the sale of cable modems and routers are recognised when the merchandise are delivered and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

g. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recorded in the period in which the temporary differences arise. Deferred tax assets are recorded to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilized.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Borrowing costs

Borrowing costs directly attributable to the acquisition of land, machinery and construction of buildings that require a substantial period of time to bring to their intended use are capitalised as cost of fixed assets at rates based on the actual cost of the specific borrowings. All other borrowing costs are charged to the income statement in the year in which they are incurred. For the year ended 31st December, 2001, no borrowing costs are capitalised as cost of fixed assets.

i. Employee retirement benefits

Costs of employee retirement benefits are charged to the income statement in the relevant period in which they are incurred.

j. Advertising expenses

Advertising expenses are charged to the income statement as incurred.

k. Research and development costs

Expenditures for research and development are charged to the income statement in the period incurred except for project development costs which comply strictly with the following criteria:

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the project are available.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

k. Research and development costs (Cont'd)

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years. During the year ended 31st December, 2001, no development costs are capitalised.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

l. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis over the estimated useful life of the respective assets. The annual rates of depreciation are as follows:

Land and building	2% to 33%
Leasehold improvements	20% to 33% (over the term of the lease)
Office equipment	20% to 33%
Machinery and equipment	10% to 33%
Motor vehicles	20%

Gains or losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in the income statement.

Fixed assets under finance leases are recorded and depreciated on the same basis as described above.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

m. Impairment of assets

Fixed assets, goodwill and investment in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit.

Reversal of impairment losses of an asset recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

As an exception, an impairment loss recognised for goodwill is not reversed in a subsequent period unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occured that reverse the effect of that event.

n. Investment in securities

At 1st January, 2001, the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" to account for its investments in equity securities. Investments in equity securities other than trading securities and held-to-maturity securities are classified as available-for-sale investments and are stated at fair value. Holding gains and losses on available-for-sale investments are recognised directly in the asset revaluation reserve. When the investment is sold or transferred, or when the carrying amount of the investment is impaired, the cumulative gain or loss recognised in the asset revaluation reserve is transferred to the income statement. The purchases and sales of financial assets are accounted for at trade date.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

n. Investment in securities (Cont'd)

The fair value of listed available-for-sale investments is their quoted bid price at the balance sheet date. The fair value of unlisted investments is considered to be their cost less accumulated impairment losses because it does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value cannot be made without excessive costs.

Prior to the adoption of IAS 39 the Group recorded its investments in equity securities at cost less any impairment in value. The adoption of IAS 39 has no material impact on the Group's financial statements.

o. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method of costing and includes costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less further costs expected to be incurred for disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

p. Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts during the period. Bad debts are written off when identified.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

q. Cash and cash equivalents

Cash includes cash on hand and cash at banks. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, bank deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

r. Leases

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities. Interest expense, which represents the difference between the minimum payments determined over the lease terms at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

s. Provisions

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

t. Share options

The employees and management of the Group were granted options in 2001 to purchase shares of the Company. Employee compensation expense is measured on the date of the grant and represents the excess of the quoted market price of the shares over the exercise price of the share options.

u. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("measurement currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective measurement currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective measurement currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

The Company's measurement currency is United States Dollars ("US dollars"). The Directors consider that the adoption of US dollars as the measurement currency reflects the economic substance of the underlying events and circumstances relevant to the Company as the majority of the Company's transactions and business activities are carried out in US dollars.

The Group prepares consolidated financial statements in US dollars ("the reporting currency"). On consolidation, all of the assets and liabilities of the companies of the Group with the reporting currency other than US dollars are translated into US dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of the companies of the Group with the reporting currency other than US dollars are translated at the applicable average exchange rates during the year. Exchange differences arising from such translations are dealt with as movement of cumulative translation adjustments.

The rates of exchange in effect on 31st December, 2001 were US1/NTD34.95, US1/HKD 7.78, US1/JPY130, US1/S$1.847, US1/RMB 8.3 respectively, and the average exchange rates during the year ended 31st December, 2001 were US1/NTD33.80, US1/HKD 7.80, US1/JPY 121, US1/S$1.79, US1/RMB 8.3, respectively.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

v. Segments

For management purposes the Group is organised on a world-wide basis into three business segments and three geographical regions. The Group reports its segment information based on the operating activities of group companies. Financial information on business and geographical segments is presented in Note 33.

w. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

x. Subsequent events

Post-year-end events that provide additional information about the Group's financial position at the balance sheet date (i.e. adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

y. Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

3. RELATED PARTY TRANSACTIONS (Cont'd)

a. Particulars of significant transactions between the Group and related parties are summarised below:

	2001 *$'000*	2000 *$'000*
Management fee paid to Infoserve-HK* during the period from 1st January, 2000 to 30th June, 2000	–	120
Network operation, telecommunication cost and other fees paid to Singapore Telecommunications Limited and its subsidiaries ("SingTel Group")**	953	32

b. Significant balances with related parties are as follows:

	2001 *$'000*	2000 *$'000*
Payables to SingTel Group	401	–
Due to directors		
Mr. Tsai Jenp Luh	258	–
Mr. Chang Hsiao Hui	286	–

The balances with SingTel Group and the directors are unsecured, non-interest bearing and without pre-determined repayment terms.

* Infoserve-HK was directly owned by Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, directors and shareholders of the Company prior to its being acquired by the Group. The management fee paid to Infoserve-HK by the Group represented actual expenses incurred by Infoserve-HK during that period.

** Singapore Telecommunications Limited is the ultimate holding company of KA Land Pte Ltd, a shareholder of the Company.

3. RELATED PARTY TRANSACTIONS (Cont'd)

In the opinion of the Directors, the above transactions were conducted in accordance with the terms of the relevant agreements or arrangements and in the normal course of business.

The Group's banking facilities are secured by personal guarantees provided by Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, directors of the Company.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue by principal activities is as follows:

	2001	**2000**
	$'000	*$'000*
Communication services	12,261	16,175
Internet services	13,175	13,413
Virtual private network and solution services	1,009	–
Total turnover	26,445	29,588
Interest income	534	878
Total revenue	26,979	30,466

5. LOSS BEFORE TAXATION

Loss before taxation is stated after charging and crediting the following:

	2001 $'000	2000 $'000
After charging:		
Staff costs		
Salaries and wages	11,088	8,459
Bonus	789	1,725
Contribution to defined contribution pension plan	33	15
Contribution to defined benefit pension plan	262	208
Cost of inventories sold	394	558
Operating lease rental for		
Office premises	3,406	2,214
Machinery and equipment	3,912	2,723
Internet connectivity leased lines	8,315	7,623
Research and development costs	92	87
Provision for early termination of lease agreement		
Compensation to landlord/lessors	1,758	–
Provision for impairment loss on relevant fixed assets	286	–
Loss on disposal of relevant fixed assets	217	–
Others	72	–
Net loss on disposal of fixed assets	649	4
Depreciation of fixed assets		
Owned assets	2,639	1,653
Assets held under finance leases	387	560
Amortisation of intangible assets	28	–
Write-off of bad debt	579	26
Provision for doubtful debt	351	691
Write-off of inventories to net realisable value	164	140
Auditors' remuneration	107	47
Interest expense on		
Short-term bank loans	443	312
Long-term bank loans repayable within five years	52	303
Long-tem bank loans repayable after five years	96	–
Finance leases obligations	74	123
After crediting:		
Interest income from bank deposits	534	878

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid to directors of the Company are:

	2001 *$'000*	2000 *$'000*
Executive Directors		
Fees	–	–
Other emoluments		
– Basic salaries and allowances	272	388
– Bonuses	15	223
	287	611

	2001 *$'000*	2000 *$'000*
Executive	3	3
Non-executive	4	2
Number of directors	7	5

The three executive directors received individual emoluments of approximately $115,000 (2000 – $271,000), $101,000 (2000– $250,000) and $71,000 (2000 – $90,000) for the year ended 31st December, 2001. The four non-executive directors did not receive any emoluments for the year ended 31st December, 2001 (2000 – nil).

No directors waived any emolument during the year ended 31st December, 2001.

The number of directors whose remuneration fell within the following bands are as follows:

	2001 *$'000*	2000 *$'000*
Nil to HK$1,000,000	7	3
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	1
	7	5

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	2001 *$'000*	2000 *$'000*
Basic salaries and allowances	879	1,008

	2001 *$'000*	2000 *$'000*
Number of directors	2	3
Number of employees	3	2
	5	5

During the year ended 31st December, 2001, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2000 – Nil).

The number of five highest paid individuals (including director and other employees) whose remuneration fell within the following bands are as follows:

	2001 *$'000*	2000 *$'000*
Nil to HK$1,000,000	4	2
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	1
	5	5

7. TAXATION

Taxation for the year represented under-provision of Taiwan corporate income tax in prior years. During the years ended 31st December, 2001 and 2000, Infoserve-Taiwan, Infoserve-HK, Infoserve-US, Infoserve-Japan, Infoserve-Singapore and Infoserve-PRC were subject to corporate income tax rates of 25%, 16%, 34%, 42%, 26% and 33%, respectively. No other income tax was provided by the Company and its subsidiaries during the years ended 31st December, 2001 and 2000 as they were either not subject to taxation in their respective jurisdiction of operations or were in a tax loss position as at 31st December, 2001 and 2000.

A reconciliation of the statutory tax rates to the effective tax rate is as follows:

	2001	2000
Statutory tax rate of Cayman Islands	0%	0%
Impact of different tax rates in other countries	(25.1%)	(19.8%)
Non-deductible items	0.2%	0.2%
Tax loss (Deferred tax assets) not recognised	24.9%	19.6%
Others	–	(0.3%)
Effective tax rate	–	(0.3%)

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders include a loss of approximately $38,957,000 (2000 – $9,291,000) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2001 is based on the loss attributable to shareholders during the year ended 31st December, 2001 and on the weighted average number of approximately 472,103,000 (2000 – 308,626,000) shares which have been adjusted for the re-denomination of ordinary shares, details of which are set out in Note 26.

Diluted loss per share is not presented because the effect of the assumed conversion of all potential dilutive securities during the years ended 31st December, 2001 and 2000 would be anti-dilutive.

10. INVENTORIES

Inventories, comprising modems and routers, consist of:

	2001 *$'000*	2000 *$'000*
Merchandise on hand	763	494
Less: Provision for obsolete and slow-moving inventories	–	–
	763	494

The amount of inventories (included above) carried at net realisable value was approximately $763,000 (2000 – $494,000) as at 31st December, 2001.

11. ACCOUNTS RECEIVABLE

The Group grants credit periods ranging from 30 days to 60 days. Aging analysis of accounts receivable is as follows:

	2001 *$'000*	2000 *$'000*
0 to 30 days	2,331	3,205
31 to 60 days	1,100	1,777
61 to 90 days	393	598
91 to 180 days	504	874
181 to 365 days	346	487
1 to 2 years	767	350
	5,441	7,291
Less: Provision for doubtful debts	(1,139)	(788)
	4,302	6,503

As at 31 st December, 2001, the Group's accounts receivable of approximately $986,000 (2000 – $1,347,000) were pledged as collateral for the Group's banking facilities (Note 32).

12. CASH AND BANK DEPOSITS

As at 31st December, 2001, approximately $54,000 (2000 – $4,231,000), $6,000 (2000 – $879,000), $9,000 (2000 - $434,000), $63,000 (2000 – nil), and $10,000 (2000 – nil) of the Group's cash and bank deposits were denominated in New Taiwan dollars, Hong Kong dollars, Japanese Yen, Chinese Renminbi and Singapore dollars, respectively. The remaining cash and bank deposits of approximately $271,000 (2000 – $20,443,000) were denominated in United States dollars.

13. PLEDGED BANK DEPOSITS

As at 31st December, 2001, the Group's bank deposits of approximately $870,000 (2000 – $1,376,000) were pledged as collateral for the Group's banking facilities (see Note 32).

14. FIXED ASSETS

	2001						2000
	Land and buildings $'000	Leasehold improvements $'000	Machinery and equipment $'000	Office equipment $'000	Motor vehicles $'000	Total $'000	Total $'000
Cost							
Beginning of year	–	1,404	5,770	4,909	76	12,159	7,037
Attributable to acquisition of subsidiaries	–	–	–	–	–	–	296
Additions	3,896	388	331	1,279	–	5,894	5,538
Reclassification	–	–	(974)	974	–	–	–
Disposal	–	(227)	(387)	(104)	–	(718)	(116)
Translation adjustments	(128)	(56)	(298)	(298)	(5)	(785)	(596)
End of year	3,768	1,509	4,442	6,760	71	16,550	12,159
Accumulated depreciation							
Beginning of year	–	324	2,001	1,396	30	3,751	1,843
Provision for the year	12	366	1,435	1,200	13	3,026	2,213
Reclassification	–	–	(296)	296	–	–	–
Disposal	–	(9)	–	(60)	–	(69)	(112)
Provision for impairment in value	–	179	–	107	–	286	–
Translation adjustments	–	(23)	(184)	(106)	(3)	(316)	(193)
End of year	12	837	2,956	2,833	40	6,678	3,751
Net book value							
End of year	3,756	672	1,486	3,927	31	9,872	8,408
Beginning of year	–	1,080	3,769	3,513	46	8,408	5,194

14. FIXED ASSETS (Cont'd)

As at 31st December, 2001, machinery and equipment with an aggregate net book value of approximately $210,000 (2000 – $1,349,000) were held under finance leases.

As at 31 st December, 2001, certain of the Group's land and buildings with net book value of approximately $3,660,000 (2000 – nil) were pledged as collateral for the Group's banking facilities (see Note 32).

15. INTANGIBLE ASSET

Intangible asset represents international bandwidth capacity on an indefeasible right of use basis. Movements of intangible asset are as follows:

	2001 *$'000*	2000 *$'000*
Beginning of year	–	–
Additions	1,727	–
Amortisation for the year	(28)	–
Translation adjustments	(57)	–
End of year	1,642	–

16. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprises:

	2001 *$'000*	2000 *$'000*
Unlisted shares, at cost	43,189	32,990
Due from subsidiaries	4,658	525
Less: Provision for impairment in value	(46,388)	(7,841)
	1,459	25,674

16. INVESTMENT IN SUBSIDIARIES (Cont'd)

Balances with subsidiaries are unsecured, non-interest bearing and not due for repayment on or before 1st January, 2003.

The Directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value as at 31st December, 2001.

Details of the subsidiaries as at 31st December, 2001 are as follows:

Subsidiaries	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Infoserve Technology Corporation ("Infoserve-Taiwan") (Note b)	Taiwan 24th January, 1992	NTD990,000,000	100%	Provision of communication, internet, VPN and solution services
Infoserve Telecom Corp. ("Infoserve-US") (Note c)	United States of America 9th February, 1996	$7,107,280	100%	Provision of communication, internet, VPN and solution services
Infoserve Technology Hong Kong Limited ("Infoserve-HK") (Note c)	Hong Kong 29th October, 1996	HK$8,810,000	100%	Provision of communication, internet, VPN and solution services
Infoserve Technology K.K. ("Infoserve-Japan") (Note d)	Japan 8th February, 2000	YEN100,000,000	100%	Provision of communication, internet, VPN and solution services
Infoserve Technology Pte Ltd ("Infoserve-Singapore") (Note f)	Singapore 2nd November, 2000	S$1,720,000	100%	Provision of communication, internet, VPN and solution services
Infoserve Technology Beijing Ltd ("Infoserve-PRC") (Note e and f)	Mainland China 18th December, 2000	Registered captial-$550,000	100%	Provision of technical consulting services

Notes -

a. All subsidiaries are directly held by the Company.

b. Infoserve-Taiwan was incorporated in Taiwan on 24th January, 1992. Prior to the Share Exchange, it was owned jointly by Mr. Tsai Jenp Luh (12.36%), Mr. Chang Hsiao Hui (12.31%), both being directors of the Company, China Development and Industrial Bank ("CDIB") (15%), and certain individual shareholders (60.33%). On 26th and 27th July, 2000, the Company acquired the entire interest in Infoserve-Taiwan through a one-to-one share exchange and consequently became the holding company of Infoserve-Taiwan.

16. INVESTMENT IN SUBSIDIARIES (Cont'd)

c. Prior to the Share Exchange, Infoserve-US and Infoserve-HK were jointly owned by Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, directors of the Company. On 11th July, 2000, the Company acquired the entire interests in these two companies and consequently become the holding company of these two companies.

d. Prior to the Share Exchange, Infoserve-Japan was owned jointly by Mr. Tsai Jenp Luh (49%), Mr. Chang Hsiao Hui (49%) and one other individual shareholder (2%). On 11th July, 2000, the Company acquired the entire interest in Infoserve-Japan and consequently became the holding company of Infoserve-Japan.

e. Infoserve-PRC is a wholly foreign owned enterprise established in the PRC to be operated for 30 years up to 2030.

f. The financial statements of Infoserve-Singapore and Infoserve-PRC were audited by certified public accountants other than Arthur Andersen & Co.

17. REFUNDABLE DEPOSITS

	2001 *$'000*	2000 *$'000*
Rental	732	1,415
Internet connectivity leased lines	332	400
Others	12	33
	1,076	1,848

18. DEFERRED TAX ASSETS

Deferred tax assets represent the taxation effects of the following items:

	2001 *$'000*	2000 *$'000*
Accumulated tax losses carried forward	11,262	4,823
Other temporary differences	73	102
Less: Provision and allowance for unrecognised amount	(11,335)	(4,925)
	–	–

The accumulated tax losses carried forward of approximately $29,311,000 (2000 – $11,824,000), $7,985,000 (2000 – $4,274,000) and $4,529,000 (2000 – $829,000) as at 31st December, 2001, subject to agreement by the respective tax authorities, can be carried forward over 5 years, 20 years and indefinitely, respectively to offset future taxable income.

19. SHORT-TERM BANK LOANS

Short-term bank loans bore interest at rates ranging from 5.00% to 8.12% (2000 – 5.85% to 8.12%) for the year ended 31st December, 2001. The bank loans were secured by, among others, the Group's bank deposits amounting to approximately $870,000 (2000 – $1,376,000) and accounts receivable amounting to approximately $986,000 (2000 – $1,347,000) as at 31st December, 2001.

Refer to Note 32 for details of the Group's banking facilities and the securities thereof.

20. LONG-TERM BANK LOANS

Analysis of long-term bank loans is as follows:

	2001	2000
	$'000	*$'000*
Loans repayable		
– within one year	1,039	181
– within one to two years	230	1,088
– within two to five years	390	408
– more than five years	2,142	–
	3,801	1,677
Less: Amount repayable within one year, classified under current liabilities	(1,039)	(181)
	2,762	1,496

Long-term bank loans bore interest ranging from 7.38% to 7.91% (2000 – 7.40% to 7.95%) for the year ended 31st December, 2001.

Refer to Note 32 for details of the Group's banking facilities and securities thereof.

21. FINANCE LEASE OBLIGATIONS

Analysis of finance lease obligations is as follows:

	2001	2000
	$'000	*$'000*
Total minimum lease payments under finance lease obligations repayable		
– within one year	1,505	698
– within two to five years	82	338
	1,587	1,036
Less: Interest expenses	(71)	(160)
	1,516	876
Less: Amount repayable within one year, classified under current liabilities	(1,447)	(600)
	69	276

22. ACCOUNTS PAYABLE

Aging analysis of accounts payable is as follows:

	2001	2000
	$'000	*$'000*
0 to 30 days	2,647	1,926
31 to 60 days	1,223	19
61 to 90 days	361	291
91 to 180 days	463	–
181 to 365 days	32	28
	4,726	2,264

23. ACCRUALS AND OTHER PAYABLES

	Consolidated		Company	
	2001	2000	2001	2000
	$'000	*$'000*	*$'000*	*$'000*
Staff cost payable	978	1,875	–	–
Accruals for share issuance expenditures	1,334	–	1,334	–
Accruals for other legal and professional fee	459	38	248	–
Insurance premium payable	146	99	–	–
Receipt in advance	82	92	–	–
Business tax payable	75	8	–	–
Others	847	392	–	–
	3,921	2,504	1,582	–

24. PROVISION FOR EARLY TERMINATION OF LEASE AGREEMENTS

Movements of provision are as follows:

	2001	2000
	$'000	*$'000*
Beginning of year	–	–
Provision for early termination of lease agreements (a)	1,830	–
Payment during the year	(783)	–
Translation adjustments	(23)	–
End of year	1,024	–

24. PROVISION FOR EARLY TERMINATION OF LEASE AGREEMENTS (Cont'd)

Note -

a. This represents provision made for early termination of operating lease agreements in relation to the Group's office premises and equipment in Taiwan, United States and Hong Kong, as well as certain network lease lines. In relation to the early termination of the lease agreements, the Group also recorded provision for impairment loss of fixed assets (mainly leasehold improvement and office equipment) amounting to $286,000 (2000 – Nil) and loss on disposal of relevant fixed assets amounting to $217,000 (2000 – Nil).

25. DEFERRED REVENUE

Deferred revenue consists primarily of unearned monthly or annual subscription and Internet service fees received in advance.

26. SHARE CAPITAL

Movements in share capital are as follows:

	Number of ordinary shares *'000*	Amount *$'000*
Authorised		
As at 1st January, 2000	50	50
Increase in authorised share capital	750	750
Subdivision of authorised share capital	79,200	–
As at 31st December, 2000	80,000	800
New authorised share capital denominated in HK dollars (f)	800,000	1,026
Repurchase and cancellation of share capital denominated in US dollars (f)	(80,000)	(800)
As at 31st December, 2001	800,000	1,026

26. SHARE CAPITAL (Cont'd)

	Number of ordinary shares '000	Amount $'000
Issued and fully paid		
As at 1st January, 2000	19,900	6,396
Effect of the Share Exchange (a)	–	(6,197)
Issuance of shares to China Development and Industrial Bank	597	6
Issuance of shares for acquisition of subsidiaries pursuant to the Share Exchange (b)	12,514	125
Issuance of bonus shares to the then shareholders of Infoserve-US, Infoserve-HK and Infoserve-Japan (c)	9,787	98
Issuance of shares for cash through placement to a strategic investor (d)	15,615	156
Issuance of shares to an employee (e)	600	6
As at 31st December, 2000	59,013	590
Issuance of shares denominated in HK dollars (f)	472,103	605
Cancellation of shares denominated in US dollars (f)	(59,013)	(590)
As at 31st December, 2001	472,103	605

Notes -

a. On 26th and 27th July, 2000, the Company issued approximately 19,900,000 shares of par value $0.01 each to acquire 100% equity interest in Infoserve-Taiwan through share exchange. As described more fully in Note 1, the acquisition of Infoserve-Taiwan by the Company was regarded as reverse acquisition under the purchase method of accounting, with Infoserve-Taiwan as the acquirer and the Company as the acquiree.

b. On 11th July, 2000, the Company issued approximately 12,514,000 shares to the then shareholders of Infoserve-US, Infoserve-HK and Infoserve-Japan in exchange for the entire equity interests of the three companies.

26. SHARE CAPITAL (Cont'd)

c. On 11th July, 2000, the Company issued approximately 9,787,000 bonus shares at par value of $0.01 each to Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, the then shareholders of Infoserve-US, Infoserve-HK and Infoserve-Japan for their past contribution to Infoserve-US, Infoserve-HK and Infoserve-Japan.

d. On 17th July, 2000, the Company issued approximately 15,615,000 shares of $0.01 each to KA Land Pte. Ltd, a subsidiary of Singapore Telecommunications Limited and a company incorporated in the Republic of Singapore, at total consideration of $39,090,000.

e On 25th July, 2000, approximately 600,000 shares of $0.01 each were issued to an employee at total consideration of approximately $198,000.

f. By a shareholders' resolution on 10th September, 2001, the Company's authorised share capital was increased from $800,000 to the aggregate of $800,000 and HK$8,000,000 by the creation of an additional 800,000,000 shares of HK$0.01 each of which 472,103,456 shares were allotted and issued at HK$0.7887 per share to the then existing shareholders in proportion to their respective shareholding interests in the Company. In addition, the Company repurchased the then issued 59,012,932 US$ shares from the existing shareholders at consideration of HK$6.3096 per US$ share, which were cancelled immediately upon such repurchase. All of the remaining unissued US$ shares were cancelled.

27. SHARE OPTION SCHEMES

a. Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 10th September, 2001, the Company granted options to employees (including directors of the Company) of the Group to subscribe for 13,684,000 shares of the Company of HK$0.01 each at HK$0.70 per share. Movements of the Pre-IPO Share Option Scheme for the year ended 31st December, 2001 are as follows:

	Number of shares under the Scheme
Granted	13,684,000
Exercised	–
Outstanding as at 31st December, 2001	13,684,000

27. SHARE OPTION SCHEMES (Cont'd)

b. Share Option Scheme

Pursuant to the Share Option Scheme adopted by the Company on 21st December, 2001, the Company may grant options to, inter alia, employees of the Group (including directors of the Company) to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of the issued share capital after the completion of the placing. The subscription price will be determined by the Board of Directors of the Company, and will not be less than the higher of (i) the nominal value of the shares, (ii) the average of the closing prices of the shares quoted on the GEM on the five trading days immediately preceding the date of offer of the option, and (iii) the closing price of shares quoted on the GEM on the date of grant. No options under the Share Option Scheme were granted during the year ended 31st December, 2001.

28. DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, a Company's reserves are distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution. As at 31st December, 2001, such reserves amounted to approximately $1,467,000.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash outflow from operations:

	2001 *$'000*	**2000** *$'000*
Loss before taxation	(27,513)	(20,377)
Interest income	(534)	(878)
Interest expense	665	738
Depreciation of fixed assets	3,026	2,213
Amortisation of intangible assets	28	–
Amortisation of goodwill	–	391
Consultancy fee paid to China Development and Industrial Bank (see Note 29.d.(ii))	–	6
Bonus paid to the directors (see Note 29.d.(ii))	–	98
Provision for impairment in value of goodwill	–	3,512
Provision for early termination of lease agreements	1,024	–
Net loss on disposal of fixed assets	649	4
Provision for impairment loss on fixed assets	286	–
Decrease in refundable deposits	772	669
Decrease in non-current assets	93	193
Increase in inventories	(269)	(338)
Decrease in accounts receivable	2,201	84
Increase in prepayments, deposits and other current assets	(492)	(259)
Decrease in due from directors	–	126
Increase in accounts payables	2,462	354
Increase in accruals and other payables	1,417	800
(Decrease) Increase in deferred revenue	(1,568)	1,615
Net cash outflow from operations	(17,753)	(11,049)

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

b. Details of assets acquired and liabilities assumed upon acquisitions of Infoserve-HK, Infoserve-Japan and Infoserve-US during the year ended 31st December, 2000 are as follows:

	$'000
Fixed assets	296
Other non-current assets	55
Due from directors	126
Accounts receivable	279
Prepayments and other current assets	113
Cash and bank deposits	227
Finance lease obligations	(96)
Accounts payable	(215)
Accruals and other payables	(58)
Due to a related company	(1,509)
Net liabilities assumed at the date of acquisition	(782)
Goodwill	3,903
Consideration paid through issuance of shares	3,121
Net cash inflow in respect of acquisition of subsidiaries:	
Cash and bank deposits acquired	227

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

c. Analysis of changes in financing:

	Share capital and share premium	Short-term bank loans	Long-term bank loans	Finance lease obligations	Due to a related company/ directors	Total
	$'000	$'000	$'000	$'000	$'000	$'000
1st January, 2000	6,396	2,511	42	1,613	–	10,562
Issuance of shares arising from the Share Exchange	3,225	–	–	–	–	3,225
Issuance of shares	39,288	–	–	–	–	39,288
New short-term bank loans	–	11,607	–	–	–	11,607
Repayment of short-term bank loans	–	(7,739)	–	–	–	(7,739)
New long-term bank loans	–	–	1,920	–	–	1,920
Repayment of long-term bank loans	–	–	(186)	–	–	(186)
New finance lease obligations	–	–	–	301	–	301
Repayment of capital element of finance lease obligations	–	–	–	(1,100)	–	(1,100)
Attributable to acquisitions of subsidiaries	–	–	–	96	1,509	1,605
Repayment of due to a related company	–	–	–	–	(1,509)	(1,509)
Translation adjustments	–	(337)	(99)	(34)	–	(470)
31st December, 2000	48,909	6,042	1,677	876	–	57,504
New short-term bank loans	–	4,141	–	–	–	4,141
Repayment of short-term bank loans	–	(6,805)	–	–	–	(6,805)
New long-term bank loans	–	–	2,929	–	–	2,929
Repayment of long-term bank loans	–	–	(641)	–	–	(641)
New finance lease obligations	–	–	–	1,826	–	1,826
Repayment of capital element of finance lease obligations	–	–	–	(1,123)	–	(1,123)
Advance from directors	–	–	–	–	544	544
Translation adjustments	–	(235)	(164)	(63)	–	(462)
31st December, 2001	48,909	3,143	3,801	1,516	544	57,913

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

d. Major non-cash transactions:

(i) During the year ended 31st December, 2001, the Group acquired fixed assets and intangible asset of approximately $1,826,000 (2000 – $301,000) under finance lease arrangements.

(ii) During the year ended 31st December, 2000, the Company issued 597,000 shares to CDIB at par value of $0.01 for consultancy services provided by CDIB. In addition, the Company issued 9,787,382 shares to Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, the then shareholders of Infoserve-US, Infoserve-HK and Infoserve-Japan at par value of $0.01 for their past contribution to Infoserve-US, Infoserve-HK and Infoserve-Japan.

e. Analysis of cash and cash equivalents:

	2001	**2000**
	$'000	*$'000*
Cash and bank deposits	413	25,987
Investment in available-for-sale securities	–	574
	413	26,561

30. OPERATING LEASE COMMITMENTS

As at 31st December, 2001, the Group had commitments in respect of office premises, machinery and equipment and Internet connectivity lease lines under various non-cancelable operating lease agreements extending to 2006, amounting to approximately $14,957,000 (2000 – $21,916,000). The total amount of commitments is analysed as follows:

	2001	2000
	$'000	*$'000*
Amounts payable		
– within one year	7,226	9,795
– more than one year but not exceeding two years	3,728	7,225
– more than two years but not exceeding five years	4,003	4,873
– more than five years	–	23
	14,957	21,916

The amount of commitments payable within the next twelve months is analysed as follows:

	2001	2000
	$'000	*$'000*
Lease expiring within a period		
– not exceeding one year	1,206	2,054
– more than one year but not exceeding two years	4,624	2,166
– more than two years but not exceeding five years	1,396	5,297
– more than five years	–	278
	7,226	9,795

The above operating lease commitments include a lease of an office premise in Hong Kong which has been terminated on 7th February, 2002. The total operating lease commitments in respect of this office premise was approximately $810,000 as at 31st December, 2001 (see Note 36).

31. EMPLOYEE RETIREMENT BENEFITS

With the introduction of the mandatory provident fund scheme by the Government of Hong Kong SAR on 1st December, 2000, the Group's Hong Kong employees joined the mandatory provident fund, which is managed by an independent trustee. Each of the Group and its Hong Kong employees contributes to the scheme at 5% of the employees' basic salary, with the maximum amount of contribution by each of the Group and the employees limited to HK$1,000 per month. During the year ended 31st December, 2001, the Group contributed approximately $33,000 (2000 – $1,000) to the mandatory provident fund scheme.

With the introduction of the Centralised Provident Fund scheme by the Government of Singapore, the Group's Singapore employees joined the scheme, which is managed by an independent trustee. Each of the Group and its Singapore employees contributes to the scheme at 16% of the employees' basic salary with the maximum amount of contribution by each of the Group and the employees limited to S$6,000 per month. During the year ended 31st December, 2001, the Group contributed approximately S$37,000 to the Centralised Provident Fund scheme.

Infoserve-US established a defined contribution pension plan that is qualified under Section 401(k) of the US Internal Revenue Code and is available to substantially all employees. During the year ended 31st December, 2001, the Group did not make any contribution to this defined contribution pension plan.

Infoserve-Taiwan provides defined benefit pension plan for all employees. The fund is valued every year by Eureka Consulting Corporation Ltd., professionally qualified independent actuaries in Taiwan. Benefits are dependent on years of services and the average basic pay of respective employees. Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Actuarial gains or losses are amortised based on the expected average remaining working lives of the employees. The following table reconciles the funded status of the defined benefit plan to the amounts recognised in the balance sheet:

31. EMPLOYEE RETIREMENT BENEFITS (Cont'd)

	2001	2000
	$'000	*$'000*
Present value of funded defined benefit obligations	474	447
Fair value of plan assets	(121)	–
	353	447
Unrecognised transitional obligation	(68)	(108)
Unrecognised actuarial gains and losses	177	24
Net liability in the balance sheet, included as other non-current liabilities	462	363

Pension expense comprises the following:

	2001	2000
	$'000	*$'000*
Service cost	177	149
Interest cost	29	21
Amortisation of transitional obligation	35	38
Total pension expense	241	208

The movements in the liability recognised in the balance sheet are as follows:

	2001	2000
	$'000	*$'000*
Net liability, beginning of year	363	174
Net expense recognised in the income statement	241	208
Contribution during the year	(118)	–
Exchange differences	(24)	(19)
Net liability, end of year	462	363

31. EMPLOYEE RETIREMENT BENEFITS (Cont'd)

Principal actuarial assumptions used to determine pension obligations as at 31st December 2000 and 2001 are as follows:

	2001	2000
Discount rate used in determining present values	5.0%	6.5%
Future salary increase rate	5.5%	7.5%
Expected rate of return on plan assets	5.0%	6.5%

32. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2001, the Group had available banking facilities of approximately $7,220,000 (2000 – $8,445,000) respectively for overdraft and loan financing. The unused banking facilities as at the same date amounted to approximately $300,000 (2000 – $726,000). These banking facilities are secured by:

a. the Group's bank deposits of approximately $870,000 (2000 – $ 1,376,000) as at 31st December, 2001;

b. the Group's accounts receivable of approximately $986,000 (2000 – $1,347,000) as at 31st December, 2001;

c. the Group's fixed assets of approximately $3,660,000 (2000 – nil) as at 31st December, 2001;

d. guarantees provided by a fund established by Taiwan government of approximately $995,000 (2000 – $385,000) as at 31st December, 2001; and

e. personal guarantees provided by Mr. Tsai Jenp Luh and Mr. Chang Hsiao Hui, directors and shareholders of the Company.

33. SEGMENT INFORMATION

A. Business segments

The Group classified its services into three core business segments, namely communication services, Internet services, and virtual private network and solution services. Communication services include voice, facsimile and other basic communications services. Internet services include Internet access, data centre and data centre-related services. The Group's other business segment represents virtual private network and solution services.

	Communication		Internet		Virtual private network and solution		Total	
	2001	*2000*	*2001*	*2000*	*2001*	*2000*	*2001*	*2000*
Revenue								
Revenue from external customers	12,261	16,175	13,175	13,413	1,009	–	26,445	29,588
Results								
Segment results	(3,665)	(487)	(3,858)	(1,680)	(295)	–	(7,818)	(2,167)
Unallocated operating expenses							(19,568)	(18,591)
Loss from operations							(27,386)	(20,758)
Interest income							534	878
Interest expense							(665)	(738)
Exchange gain, net							4	241
Loss before taxation							(27,513)	(20,377)
Taxation							(13)	(68)
Loss attributable to shareholders							(27,526)	(20,445)
OTHER INFORMATION								
Segment assets	6,483	8,151	7,134	6,760	558	–	14,175	14,911
Unallocated corporate							8,027	30,950
Total assets							22,202	45,861
Segment liabilities	5,813	5,457	4,689	4,526	507	–	11,009	9,983
Unallocated corporate							9,121	6,295
Total liabilities							20,130	16,278
Capital expenditure	2,709	3,027	2,910	2,511	275	–	5,894	5,538
Depreciation and amortisation	1,453	1,210	1,560	1,003	13	–	3,026	2,213

33. SEGMENT INFORMATION (Cont'd)

B. Geographical segments

The Group's activities are conducted predominantly in Taiwan, USA and other countries.

	Taiwan		USA		Others		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
Revenue from external customers	22,744	28,263	2,809	1,015	892	310	26,445	29,588
Segment assets	17,326	22,183	1,025	4,902	3,851	18,776	22,202	45,861
Capital expenditure	5,216	4,760	141	322	537	456	5,894	5,538
Contribution to net loss	(18,225)	(13,320)	(3,711)	(2,159)	(5,590)	(4,966)	(27,526)	(20,445)

34. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, short-term bank deposits, accounts receivable, prepayments, deposits and other current assets, short-term bank loans, and accounts payable approximate their fair values because of the short maturity of these instruments. As at 31st December, 2001, the fair value of long-term bank loans and finance lease obligations were approximately $3,801,000 and $1,516,000 respectively (2000 – $1,677,000 and $876,000 respectively) determined based on current market effective interest rates for comparable instruments. As at the same date, the book values of these liabilities were approximately $3,801,000 and $1,516,000 respectively (2000 – $1,677,000 and 876,000 respectively).

There is no quoted market price for the Company's investment in unlisted subsidiaries. Accordingly, a reasonable estimate of fair value cannot be made without incurring excessive costs.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES

a. Credit risk

The carrying amounts of cash and cash equivalents, net accounts receivable, prepayments, deposits and other current assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's accounts receivable relate to the provision of communication services, Internet services and virtual private network and solution services to third party customers. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No other financial assets carry a significant exposure to credit risk.

b. Economic risk

The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for the past years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered.

c. Currency risk

A portion of the Group's expenses are incurred in Renminbi and New Taiwan dollars, which are not freely convertible into foreign currencies. On 1st January, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies.

d. Business risk

A significant portion of the Group's operations are conducted in Taiwan and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of Hong Kong companies. These include risks associated with, among others, the political, economic and legal environment.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

e. Interest rate risk

The interest rates and terms of repayment of short-term and long-term bank loans of the Group are disclosed in Notes 19 and 20.

f. Going concern risk

Details of going concern risk are disclosed in Note 2.a.

36. SUBSEQUENT EVENTS

Subsequent to 31st December, 2001, the following transactions took place:

a. On 4th January, 2002, the Company issued 64,200,000 shares of HK$0.01 each to public investors by placing at HK$0.79 each resulting in net proceeds of approximately $5.1 million, which will be used as working capital of the Group. Since 8th January, 2002, the Company's shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

b. On 7th February, 2002, Infoserve-HK entered into an operating lease agreement (to be expired in February 2005) in respect of an office premise. The total operating lease commitment under such lease amounted to approximately $457,000, of which approximately $127,000 was repayable within the next twelve months from 7th February, 2002.

c. On 15th March, 2002, Infoserve-Taiwan signed a letter of intent with an independent third party to transfer its dial-up customers and the relevant technical support at consideration of NT$36,000,000 (equivalent to approximately $1,030,000). On the same date, the Group signed a term sheet with an independent third party to sub-lease certain of its excess bandwidth capacity on an IRU basis for a duration of fifteen years at consideration of $850,000. The above arrangements are conditional and subject to a definitive agreement.

d. On 21st March, 2002, Infoserve-Taiwan incepted a long-term loan of $1,000,000 from an independent third party, which is unsecured, bears interest at 4% per annum, and is repayable in 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended 31 December,				
	2001	2000	1999	1998	1997
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Turnover	26,445	29,588	23,848	16,378	9,796
Direct expenses	(34,263)	(31,750)	(17,162)	(11,261)	(6,290)
Interest Income	534	878	18	10	3
Other operating expenses	(20,229)	(19,088)	(5,362)	(4,775)	(3,429)
(Loss) Profit before taxation	(27,513)	(20,377)	1,342	352	80
Taxation	(13)	(68)	(284)	(34)	(19)
(Loss) Profit attributable to shareholders	(27,526)	(20,445)	1,058	318	61

CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2001	2000	1999	1998	1997
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Total assets	22,202	45,861	16,672	8,936	4,306
Total liabilities	(20,130)	(16,278)	(8,884)	(6,855)	(3,714)
Shareholders' equity	2,072	29,583	7,788	2,081	592

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Infoserve Technology Corp. (the "Company") will be held at Novotel Century Hong Kong, Plaza V, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 29 April 2002 at 3:00 pm for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and the Reports of the Directors and of the Auditors for the year ended 31 December 2001;

2. To re-elect the retiring Directors and to authorize the Board of Directors to fix the Directors' remuneration;

3. To re-appoint the Auditors and to authorize the Board of Directors to fix their remuneration;

4. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

   "**THAT**

   (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with additional securities of the Company including shares of HK$0.01 each in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion (including warrants to subscribe for shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall be in addition to any other authorization given to the Directors of the Company and shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion (including warrants to subscribe for shares) which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) below); or (ii) any issue of shares of the Company upon exercise of right of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the grant of options under the share option scheme of the Company or the exercise of any of the subscription rights attaching to any options that have been or may be granted thereunder; or (iv) any scrip dividend scheme or similar arrangement providing for allotment of shares in lieu of the whole or part of any dividend in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:–

"Relevant Period" means the period from the date of passing of this resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and

(iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

"Rights Issue" means an offer of shares or an offer or issue of warrants or options or similar instruments to subscribe for shares open for a period fixed by the Directors to holders of shares whose names appear on the Company's register of members on a fixed record date in proportion to their then holdings of shares in the Company (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognized regulatory body or any stock exchange in, or in any territory applicable to the Company)."

By Order of the Board
Chung Kwok Mo
Company Secretary

Hong Kong, 28 March 2002

Principal Place of Business:
Suites 2401-4
24th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be member of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited of 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be).

3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or at any adjourned meeting.