INFOSERVE®

Infoserve Technology Corp.

(Incorporated in the Cayman Islands with Limited Liability)

First Quarterly Report 2002

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

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

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

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

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

This quarterly report, for which the directors (the "Directors") of Infoserve Technology Corp. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and believes: (1) the information contained in this quarterly 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 quarterly report misleading; and (3) all opinions expressed in this quarterly report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- **Successful listing on the GEM on 8 January 2002.**
- **Turnover for the three months ended 31 March 2002 of US$5,497,000 represents an approximately 29% decrease over the corresponding period in 2001.**
- **Loss attributable to shareholders for the three months ended 31 March 2002 of US$3,008,000 represents an approximately 51% decrease over the corresponding period in 2001.**
- **Basic loss per share for the three months ended 31 March 2002 was US$0.6 cents, represents an approximately 54% decrease over the corresponding period in 2001.**
- **The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002.**

UNAUDITED CONSOLIDATED RESULTS

The board (the "Board") of directors of Infoserve Technology Corp. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2002 together with the unaudited comparative figures for the corresponding period in 2001 are as follow:

	Note	**For the three months ended 31 March** **2002** *US$'000*	**2001** *US$'000*
Turnover	2	5,497	7,698
Network operation and telecommunication costs		(3,523)	(6,204)
Advertising and promotion expenses		(4)	(134)
Staff costs		(2,096)	(3,945)
Operating leases rental for machinery and equipment		(954)	(916)
Occupancy expenses		(678)	(1,217)
Depreciation of fixed assets		(633)	(739)
Other operating expenses		(461)	(816)
Loss from operations		(2,852)	(6,273)
Interest income		7	328
Interest expense		(153)	(172)
Exchange loss, net		(10)	(47)
Loss before taxation		(3,008)	(6,164)
Taxation	3	–	–
Loss attributable to shareholders		(3,008)	(6,164)
		US$ cents	*US$ cents*
Loss per share	4	(0.6)	(1.3)

Notes:

1. Basis of presentation

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. Its shares were listed on GEM on 8 January 2002, details of which are set out in the prospectus of the Company dated 28 December 2001 (the "Prospectus"), issued in respect of the Company's shares listed on GEM.

The unaudited financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards published by the International Accounting Standards Board.

2. Turnover and revenue

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

	For the three months ended 31 March	
	2002	**2001**
	US$'000	*US$'000*
Communications services	2,585	3,743
Internet services	2,112	3,945
Virtual private network ("VPN") and solution services	800	10
Total turnover	5,497	7,698
Interest income	7	328
Total revenue	5,504	8,026

3. Taxation

No income tax was provided for the Company and its subsidiaries during the period ended 31 March 2002 and 2001 as they were either not subject to taxation in their respective jurisdiction of operations or were in a tax loss position as at 31 March 2002 and 2001.

4. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2002 is based on the loss attributable to shareholders of US$3,008,000 (2001: US$6,164,000) and on the weighted average number of approximately 531,310,000 (2001: 472,103,000) shares.

For the calculation of basic loss per share for the three months ended 31 March 2001, the weighted average number of approximately 472,103,000 shares was adjusted in accordance with the conversion of share currency approved by shareholders of the Company on 10 September 2001, details of such share currency conversion are set out in Appendix V of the Prospectus under the section headed "FURTHER INFORMATION ABOUT THE COMPANY".

Diluted loss per share is not presented because the effect of the assumed conversion of all potential dilutive securities during the periods ended 31 March 2002 and 2001 would be anti-dilutive.

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

6. Movements in reserves

Movements in reserves of the Group for the period ended 31 March 2002 and 2001 are as follows:

	Share premium	**Cumulative translation adjustments**	**Accumulated deficit**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Balance as at 1 January 2001	48,319	(292)	(19,034)	28,993
Loss for the period	–	–	(6,164)	(6,164)
Translation adjustments	–	(192)	–	(192)
Balance as at 31 March 2001	48,319	(484)	(25,198)	22,637
Balance as at 1 January 2002	48,304	(292)	(46,560)	1,452
Issue of new shares	6,437	–	–	6,437
Share issue expenses	(2,242)	–	–	(2,242)
Loss for the period	–	–	(3,008)	(3,008)
Translation adjustments	–	72	–	72
Balance as at 31 March 2002	52,499	(220)	(49,568)	2,711

FINANCIAL REVIEW

The Group's turnover and loss attributable to shareholders for the three months ended 31 March 2002 were US$5,497,000 and US$3,008,000, respectively. Compared to the corresponding period in 2001, turnover decreased by approximately 29% and loss attributable to shareholders reduced by approximately 51%.

1. Turnover

Turnover of the Group comprises (i) communications service fees, (ii) Internet access and related services fees, and (iii) VPN and solution services fees. The decrease in turnover for the first quarter of 2002 was mainly due to the decrease in revenues from communications services and Internet access and related services by approximately 31% and 46%, respectively. However, following the official launch of VPN and solution services (including IP-based and MPLS-based VPN services), the Group recorded a significant growth in revenue of VPN business for the period under review.

2. Network operation and telecommunication costs

Total network operation and telecommunication costs for the first quarter in 2002 were reduced by approximately 43% to US$3,523,000. The saving was mainly due to the subscription of international bandwidth on an indefeasible right to use basis to replace most of the international circuits on short-term lease basis between Taiwan and Hong Kong and between Taiwan and the United States by late 2001.

3. Staff costs

During the year 2001, the Group adopted a sales and marketing strategy of focusing on its direct sales efforts on promoting VPN and solution services. As such, the Group reallocated a substantial number of its direct sales personnel from communications services and Internet access and related services to promote its VPN and other solutions offerings, and reduced the number of direct sales personnel. Sales of communications services and Internet access and related services were generated through resellers and channel sales arrangements. The number of employees of the Group decreased as a result of the restructuring of the sales team, which resulted in the reduction of staff costs for the first quarter of 2002 by approximately 47% to US$2,096,000 compared to the corresponding period in 2001.

4. Occupancy expenses

To adhere to strict cost control policy and implement the Group's sales and marketing strategy, the Group has terminated certain under-utilized offices in various locations and closed certain remote (offsite) sales offices across Taiwan. In June 2001, the Group acquired office premises for its new data center in Taiwan in replacement of former leased premises. As a result, the occupancy expenses for the period ended 31 March 2002 reduced by approximately 44% to US$678,000.

BUSINESS REVIEW

For the three months ended 31 March 2002, the Group recorded a turnover of approximately US$5,497,000, representing a decrease of approximately 29% from US$7,698,000 for the corresponding period in 2001. The decrease in turnover during the period under review reflects the decline in revenues from both communications services and Internet access and related services. The consistent market trend of fierce competition in voice and facsimile services in the communications industry was the major factor that caused dramatic reduction in market prices of these services. The acute reduction in market demands for 56k modem dial-up services by residential customers and T1/T3 high speed leased line services by corporate customers were the primary reasons for revenue decrease in Internet access and related services, an apparent declining market trend since the corresponding period in 2001. However, such decrease in revenue was partly compensated by the increasing number of broadband services customers during the period under review.

In spite of the generally weak economic environment coupled with dynamic market competition in the telecommunications and IT industry, the Group managed to record significant growth in VPN revenues for the first quarter of 2002. During this period, total VPN-based services generated approximately US$800,000, representing a significant increase by approximately 79 times when compared to US$10,000 for the same period in 2001. Solution services also started to generate revenues of approximately US$19,000 for the current reporting period compared to the same period in 2001 during which these services were not yet launched.

During the first quarter of 2001, the Group mainly focused on direct sales of communications and Internet access and related services. Towards the end of March 2001, the Group had launched the VPN business. Since then, sales of communications and Internet access and related services are conducted mainly through channel agents and resellers unlike direct selling in the past. Sales of VPN business are mainly conducted by direct selling coupled with reseller arrangement.

Consequent to the change to more streamline sales and marketing strategy, the Group (i) terminated most sales staff mainly engaged in direct sales of communications services and Internet access and related services, and hired additional staff for VPN sales and (ii) downsized under-utilised office spaces and closed remote (offsite) sales offices across Taiwan. The Group realized significant cost-savings as a result of the abovementioned actions. The Group continues to adopt and implement more effective cost control measures with the goal to further reduce operating expenses where practicable.

BUSINESS PROSPECTS

The upside revenue trend and viable prospect in the VPN business is expected to continue right through 2002. Since the accession of the PRC joining the World Trade Organization, the Group anticipates rising demands for communications, Internet, and in particular, VPN-related businesses in the PRC market. As one of the pioneers in the Greater China market with accumulated significant advantages and being well positioned to benefit directly from this growing business, the Group is confident to foresee revenue expansion opportunities in the area of IP-based and MPLS-based VPN and solution services. The VPN business is indeed the Group's most technologically advanced IT service offering that will eventually evolve into the nerve center for revenue prospect. The comprehensive integrated services are targeted to meet the growing data communication needs of today's small and medium-sized global corporations dependent on internal and international communications. The Group aspires to be one of the leaders in providing cost-effective and efficient VPN business solutions to manage and integrate data, voice, and video communications flow to meet dynamic business needs.

The expansion into the PRC market will continue to be the strategic focal point for the Group to aggressively promote VPN-related business development efforts this year and in subsequent years that follow. With a consistent business model in place, the Group is confident that the VPN business will prosper to generate a stable revenue stream to help increase operating resources. The Group has managed to establish and implement a charging method that will ideally commit VPN-based customers to an irrevocable one-year contract term. The one-year VPN customer contract charges the individual user both a one-time installation fee and a fixed monthly fee plus other charges based on actual usage.

The gradual decline in loss attributable to shareholders during the first three months of 2002 is evident to improved operating performance of the Group. Taking this into perspective, the Group will continue to allocate additional resources to further support the VPN business in the Greater China region with the aim to increase the VPN-related customer base in this region. In addition, the Group will continue its commitment to implement more effective cost control measures to ensure efficient use of financial resources.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March 2002, the interest of the Directors and their associates in the ordinary shares of the Company (the "Shares") and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance or as required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are 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 spouse of Mr. Tsai Jenp Luh, an executive director of the Company.

2. These Shares are held by Ms. Lin Huei-Lin, the spouse of Mr. Chang Hsiao Hui, an executive director of the Company.

Save as disclosed above, as at 31 March 2002, none of the Directors or their associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

As at 31 March 2002, the Company had two share option schemes, namely the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the Prospectus).

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

(1) Pre-IPO Share Option Scheme

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

Name of Directors	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share *HK$*	Balance as at 1 January 2002	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31 March 2002
Executive Directors:									
Mr. Tsai Jenp Luh	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	1,144,000	–	–	–	1,144,000
Mr. Chang Hsiao Hui	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	1,609,000 *(Note 1)*	–	–	–	1,609,000
Mr. Liu Yuan Chang	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	520,000	–	–	–	520,000

Note:

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

(2) Share Option Scheme

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

Name of Directors	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share *HK$*	Balance as at 1 January 2002	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31 March 2002
Executive Directors:									
Mr. Tsai Jenp Luh	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	–	1,500,000	–	–	1,500,000
Mr. Chang Hsiao Hui	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	–	1,580,000 *(Note 1)*	–	–	1,580,000
Mr. Liu Yuan Chang	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	–	1,400,000	–	–	1,400,000

Note:

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

Save as disclosed above, neither the Company nor its subsidiaries was a party to any arrangement to enable the Directors of the Company, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

As at 31 March 2002, holders of over 10% of the Company's shares are as follows:

Name	Number of shares	Approximate percentage of shareholding
KA Land Pte Ltd. *(Note 1)*	143,802,864	26.81%
Mr. Tsai Jenp Luh *(Note 2)*	99,523,688	18.56%
Mr. Chang Hsiao Hui *(Note 3)*	103,140,752	19.23%

Notes:

1. KA Land Pte Ltd. is a wholly-owned subsidiary of Singapore Telecommunications Limited.

2. 99,305,288 Shares are held by Mr. Tsai Jenp Luh personally and 218,400 Shares are held by his spouse, Ms. Tu Wen-Yueh, Mr. Tsai is deemed to be interested in his spouse's Shares under the SDI Ordinance.

3. 99,628,984 Shares are held by Mr. Chang Hsiao Hui personally and 3,511,768 Shares are held by his spouse, Ms. Lin Huei-Lin, Mr. Chang is deemed to be interested in his spouse's Shares under the SDI Ordinance.

Save as disclosed above, the Company is not aware of any other interests required to be disclosed by the Company pursuant to section 16(1) of the SDI Ordinance as at 31 March 2002.

SPONSOR'S INTERESTS

Anglo Chinese Corporate Finance, Limited (the "Sponsor"), the Sponsor of the Company, its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interests in the share capital of the Company or any rights to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries as at 31 March 2002.

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 were listed, to 31 December 2004.

Save as disclosed above, the Sponsor had no other interest in the Company as at 31 March 2002.

COMPETING INTERESTS

Singapore Telecommunications Limited is an initial management shareholder of the Company and through its wholly owned subsidiary, KA Land Pte Ltd., interested in approximately 26.81% of the issued share capital of the Company. The table below sets out the subsidiaries of Singapore Telecommunications Limited which are engaged in businesses which compete or are likely to compete with the business of the Group.

Name of subsidiary	Shareholding interest	Nature of business	Place of operation
GB21 (Hong Kong) Limited	100%	Provision of telecommunication services and products	Hong Kong

Name of subsidiary	Shareholding interest	Nature of business	Place of operation
INS Holdings Pte Ltd.	100%	Investment holding and provision of telecommunication services	Singapore
Singapore Telecom Hong Kong Limited	100%	Investment holding and provision of telecommunication services	Hong Kong
Singapore Telecom Japan Co Ltd	100%	Investment holding and provision of telecommunication services	Japan
Singapore Telecom Taiwan Limited	100%	Provision of customer services for telecommunication related activities	Taiwan
Singapore Telecom USA, Inc.	100%	Provision of administrative, technical and advisory services	the United States
SingTel Japan Co., Ltd.	100%	Engaged in telecommunication services business and all other related businesses	Japan
SingNet Pte Ltd	100%	Provision of value-added services and Internet-related services	Singapore

The following table sets out the interests of directors in a business which competes or is likely to compete with the business of the Group.

Name of director	Nature of director's interests	Name of entity	Nature of business of entity
Mr. Buay Kee Chuan	Directorship	Failsafe Corporation (Singapore) Pte Ltd	Data centre and data centre-related services as well as disaster recovery services in Singapore
Mr. Tay Chek Khoon	Directorship	Lanka Communication Services (Private) Limited	Data telecommunication service provider of internet services, international leased circuits, switched services, frame relay, international fax messaging, VSAT and facility management

Name of director	Nature of director's interests	Name of entity	Nature of business of entity
Mr. Tay Chek Khoon	Directorship	APT Satellite Telecommunications Limited	Provision of telecommunication network services including wholesale telecom services, VSAT services and Internet Pop Gateway and facility management for telecommunication equipment

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

AUDIT COMMITTEE

The Company established an audit committee on 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. Buay Kee Chuan, a non-executive director, and Mr. Chan Kok Chung and Mr. Chou Wen Pin, both are independent non-executive directors. Mr. Buay Kee Chuan has been appointed to the audit committee with effect from 28 March 2002. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has reviewed with the management of the Company this unaudited quarterly report for the three months ended 31 March 2002 and is of the opinion that the financial statements contained in such report comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 31 March 2002.

By order of the Board
Infoserve Technology Corp.
Tsai Jenp Luh
Chairman

Hong Kong, 10 May 2002