INFOSERVE®

Infoserve Technology Corp.

(Incorporated in the Cayman Islands with Limited Liability)

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 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 (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 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.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
TSAI Jenp Luh, Phil
(Chairman and Chief Executive Officer)
CHANG Hsiao Hui, Michael
LIU Yuan Chang, Johnny

Non-Executive Directors:
BUAY Kee Chuan, Andrew
YEO Eng Choon
TAY Chek Khoon
(alternate to Mr. BUAY Kee Chuan, Andrew and Mr. YEO Eng Choon)

Independent Non-Executive Directors:
CHOU Wen Pin
LEUNG Man Kit
(appointed on 17th July, 2002)
CHAN Kok Chung, Johnny
(resigned on 17th July, 2002)

QUALIFIED ACCOUNTANT

LIU Chun Kin, *AHKSA, ACCA*

COMPANY SECRETARY

LIU Chun Kin, *AHKSA, ACCA*

COMPLIANCE OFFICER

LIU Yuan Chang

AUTHORIZED REPRESENTATIVES

TSAI Jenp Luh, Phil
CHANG Hsiao Hui, Michael

AUDIT COMMITTEE

BUAY Kee Chuan, Andrew
CHOU Wen Pin
LEUNG Man Kit

SPONSOR

Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26/F., Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Hong Kong:
Richards Butler
20/F., Alexandra House
16–20 Charter Road
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

Principal Share Registrar:
Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar:
Hong Kong Registrars Limited
Rooms 1901-5
19/F., Hopewell Centre
183 Queen's Road East
Hong Kong

Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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 Stock Exchange of Hong Kong 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 Stock Exchange of Hong Kong Limited: *http://www.hkgem.com*.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Infoserve Technology Corp. (the "Company") will be held at Basement Functon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wan Chai, Hong Kong on Monday, 28th April, 2003 at 3:00p.m. 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 31st December, 2002;

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
Liu Chun Kin
Company Secretary

Hong Kong, 25th March, 2003

Notice of Annual General Meeting

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 Room 1901-5, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong, 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.

Chairman's Statement

I am pleased to present to the shareholders the second annual report for the year ended 31st December, 2002 since the Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8th January, 2002.

BUSINESS REVIEW

Year 2002 was definitely one to remember for the worst slowdown in many years as a result of the woe of global economic crunch following corporate scandals, bankruptcies in the United States and the US-led war against terrorism, which has been especially pronounced in the technology sector. Yet beyond the negative headlines, Year 2002 was one significant transition for the Group.

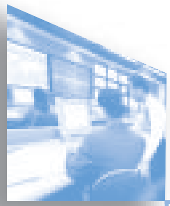
On 8th January, 2002, the Company was successfully listed on GEM. In its IPO, the Company recorded a 2.15-times subscription, raising approximately HK$50.7 million by way of placing of 64,200,000 shares at HK$0.79 per share, representing approximately 11.97% of the enlarged issued share capital of the Company.

During the year, the Group continued to adopt the business model which focuses on a range of service offerings with different levels of sophistication. Levels 1 and 2 offer services which are more basic, and levels 3 and above offer services which are solution-based and require more sophisticated technologies to implement. The following diagram illustrates the six levels and the types of services provided under each level and the status of development by end of 2002.

Category	**Level**	**Type of services**	**Status**
VPN and other solutions services	6	Application and System Integration services	Developing
	5	Managed services	Developing
	4	MPLS network-based IP VPN	Growing strongly
	3	CPE-based IP VPN	Growing strongly
Internet access and related services	2	– Internet access	Maintaining
		– Data centre and related services	Maintaining
Communication services	1	– Facsimile	Maintaining
		– Voice/IDD	Maintaining

Persistent intense competition in the business segment of communication services and Internet access services during 2002 pushed up service promotion cost and cut price and profitability.

The Group's strategy to focus on the development of IP VPN and other solution services during 2002 proved to be fundamental to the generation of a new source of core revenue apart from communication services and Internet access services. The Group's major milestone in IP VPN business has marked the achievement in accumulating approximately 270 IP VPN customers or approximately 1,200 IP VPN connections, representing approximately 4% of the total Greater China (China/Hong Kong/Taiwan) market by end of 2002.



Chairman's Statement

BUSINESS PROSPECT

The Group's objective is to become one of the leading IP VPN and IT solutions service providers in the Greater China region. The market for IP VPN services in Greater China is gaining momentum, with increasing enterprises in the region migrating mission-critical applications and services to an IP VPN platform; and more service providers are launching IP VPN service offerings. However, the market potential has been dampened somewhat by the impact of the global economic slowdown on economies in the region, particularly in Taiwan and Hong Kong. In addition, as more service providers rush to enter the market, IP VPN pricing will be competitive.

Research house IDC forecasts that Greater China (i.e. China, Hong Kong and Taiwan) IP VPN revenue, which was worth US$73 million in 2001, will soar to US$683 million in 2006, representing a CAGR (compound annual growth rate) of 56%. In terms of connections, the IP VPN market in Greater China is expected to rise from 10,824 IP VPN connections in 2001 to 202,979 IP VPN connections in 2006, representing a CAGR of 80% over the forecast period.

The turbulent telecom market characterized by over-supply and devaluation of bandwidth and Internet access led the Group to even more focus on bundling more value-added services and developing sound migration strategy for mission-critical applications and IT/SI solution services based on an IP VPN platform.

The Group's strategy to continually upgrade service capability by embarking on new service extension initiatives, such as the launch of Managed Firewall Service in May 2002, and Management Services (including network performance and security management) in December 2002 was based on the belief that over 90% of the mainstream MPLS-based IP VPN customers are medium to large corporations in the stage of rapid growth with stronger demands on video conference, ERP and other applications. These value-added services will become essential tools for the Group in improving relationships with customers and a platform for up-selling or cross-selling services to generate further revenues.

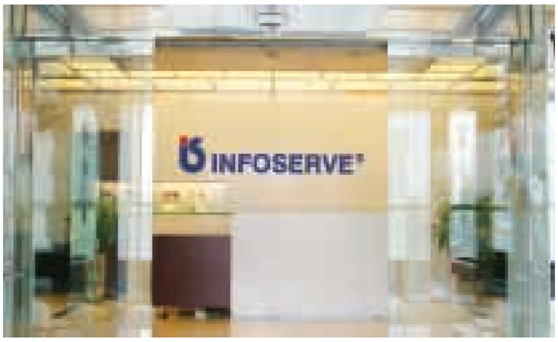
In the wake of the war between the United States and Iraq, the 2003 outlook for the economic recovery is not much more promising with predictably mixed views. Based on the existing time-proven business model, the Group is optimistic in continuing to achieve reasonable organic revenue growth.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all management teams and our staff members for their dedication and significant contribution in the past year. I would also like to extend our sincere thanks and express appreciation to our shareholders, customers and business partners for their continuous support and confidence in the Group.

Tsai Jenp Luh, Phil
Chairman
25th March, 2003

Management Discussion and Analysis



CORPORATE PROFILE

Infoserve Technology Corp. (the "Company") and its subsidiaries (the "Group") is an IT service provider targeting regional enterprises principally in five Asian markets (comprising Taiwan, Hong Kong, the PRC, Singapore, and Japan) and in the United States. Presently, the Group provides its services mainly in the Greater China market comprising China, Hong Kong and Taiwan.

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

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

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

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

As at 31st December, 2002, the Group has a total of 255 employees (2001: 388 employees).

FINANCIAL REVIEW

Turnover

For the year ended 31st December, 2002, total turnover amounted to US$24,310,000, representing a decrease of 8% as compared to US$26,445,000 for 2001.

Total turnover of the Group are detailed as follows:

	Year ended 31st December,		
	2002	**2001**	**Change**
	US$'000	*US$'000*	*%*
Communication services	9,452	12,261	-23%
Internet access and related services	8,919	13,175	-32%
Virtual private network ("VPN") and solution services	5,939	1,009	+489%
	24,310	26,445	-8%

Revenue from communication services experienced a decrease of 23% to US$9,452,000 in 2002. The decline in revenue was mainly due to intensive pricing competition in Taiwan communication market and diminishing of total traffic minutes. Revenue from Internet access and related services was also recorded a drop of 32% from US$13,175,000 to US$8,919,000 in 2002. The drop of revenue from this business segment was mainly due to the decrease in revenue from T1/T3 high-speed leased line services from US$7,898,000 in 2001 to US$4,459,000 in 2002 and the decrease in revenue from 56K modem dial-up services from US$2,446,000 in 2001 to US$1,151,000 in 2002. Such decrease in revenue was partly compensated by the increase in revenue from ADSL broadband services from US$1,878,000 in 2001 to US$2,754,000 in 2002. For VPN and solution services, as identified by the Group as high growth market, the Group continued to record a steady revenue growth throughout the year, from US$800,000 in the first quarter of 2002 to US$2,203,000 in the fourth quarter of 2002. Revenue from VPN and other solution services increased by 5 folds from US$1,009,000 in 2001 to US$5,939,000 in 2002. Total number of IP VPN connections increased to approximately 1,200 by end of 2002.

Management Discussion and Analysis

Network Operation and Telecommunication Cost

For the year ended 31st December, 2002, network operation and telecommunication costs amounted to US$12,672,000, representing a decrease of 43% as compared to US$22,091,000 for 2001.

Network operation and telecommunication costs are detailed as follows:

	Year ended 31st December,		
	2002	2001	Change
	US$'000	*US$'000*	*%*
Access	3,403	6,300	-46%
Bandwidth	2,848	8,836	-68%
Termination	5,495	6,186	-11%
Others	926	769	+20%
	12,672	22,091	-43%

Access cost decreased by 46% from US$6,300,000 to US$3,403,000 in 2002. The reduction in access cost was mainly attributable to the termination of low usage fixed access circuits and reduction in suppliers' purchase price of Internet access services during the year. The Group recorded a significant savings in bandwidth cost, which decreased by 68% to US$2,848,000 in 2002. The savings in bandwidth cost was mainly due to (i) the replacement of the Group's major international circuits previously on short-term lease basis by a more cost-effective international bandwidth on long-term (15 years) lease basis since late 2001 and (ii) the general drop in global bandwidth price during the year. Termination cost also recorded a decrease of 11% to US$5,495,000 in 2002. The decrease was due to the decline in total traffic minutes as a result of the downscale of the Group's business operation in the United States and in Japan (Infoserve-USA and Infoserve-Japan were mainly engaged in the provision of communication services to enterprises in the United States and Japan respectively; in view of their unsatisfactory performance over the past two years and the persistent negative sentiment in the telecom sector in the United States and in Japan, the Group has substantially downscale the business operations of Infoserve-USA and Infoserve-Japan at the beginning of the fourth quarter of 2002) and decrease in unit purchase price from suppliers. Other cost increased by 20% to US$926,000 in 2002. Other costs mainly comprised of setup cost and hardware cost. The increase in other costs resulted from the significant increase of VPN customers during the year.

Operating Expenses

Total operating expenses were US$19,712,000 for 2002 (2001: US$31,740,000), representing an decrease of 38% compared to 2001. Total staff costs for 2002 amounted to US$6,833,000 (2001: US$12,172,000), representing a decrease of 44%. During 2002, certain sales personnel who were previously engaged in communication services and Internet access and related services were either laid off or assigned to VPN and solution services. Staff number was decreased from 388 as at 31st December, 2001 to 255 as at 31st December, 2002. The reduction in headcount was in line with the change of the Group's sales strategy from direct sales to channel sales for its communication services and Internet access services since 2001. The reduction in headcount was also attributable to the substantial downscale of the Group's business operations in the United States and in Japan since the beginning of the fourth quarter of 2002. Occupancy expenses amounted to US$2,709,000 (2001: US$3,406,000), representing a decrease by 20% comparing to 2001. The decrease resulted from the scale down of certain under-utilized offices and closure of certain remote sales offices in Taiwan (previously required for the direct selling of communication services and Internet access services) since late 2001. Provision for early termination of tenancies amounted to US$366,000 in 2002 (2001: US$2,333,000). During 2002, the Group continued to focus on developing the VPN business in the Greater China market. The provision in 2002 represents one-time, non-recurring losses such as penalty for early termination of office lease agreements and impairment loss on the relevant assets like leasehold improvement due to the substantial downscale of business operations of Infoserve-USA and Infoserve-Japan. The Group's prepaid network capacity represents international bandwidth capacity on an indefeasible right of use basis.

During the year, the Directors conducted a review based on the Group's current utilization of prepaid network capacity and determined not to settle the remaining balance in respect of two of the capacity purchases. Accordingly, the respective services were terminated by the vendor resulting in the write-off of the remaining prepaid network capacity amounting to US$1,531,000. In view of the one-off nature of the above provisions and write downs, the Directors believe that no further material provisions and write downs would be made in the coming year.

Net Loss Attributable to Shareholders

Net loss attributable to shareholders for the year ended 31st December, 2002 narrowed by 69% to US$8,631,000 from US$27,526,000. It was mainly due to the significant improvement in gross margin and savings in operating expenses.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group generally finances its operations with internally generated cash flows, bank loans, finance leases, and proceeds from issuance of new shares and loans from a substantial shareholder.

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk. As at 31st December, 2002, the Group had available banking facilities of approximately US$12,609,000 (2001: US$7,220,000) for bank overdrafts and loan financing and the unused banking facilities amounted to approximately US$2,873,000 (2001: US$300,000). As at 31st December, 2002, the Group had bank overdrafts, short-term bank loans and long-term bank loans amounted to US$500,000 (2001: US$119,000), US$5,871,000 (2001: US$3,024,000) and US$3,365,000 (2001: US$3,801,000) respectively. All bank loans were denominated in New Taiwan dollars. Interest rates ranged from 2.61% to 7.61% (2001: 5.00% to 8.12%). During the year, the Group rolled over short-term bank loans of approximately US$3,018,000, representing 96% of the total short-term bank loans and bank overdrafts outstanding as at 31st December, 2001. In view of the continuing improvement in operating results, the Directors are confident that the Group will be able to rollover the majority of its short-term bank loans upon maturity in 2003. As at 31st December, 2002, the Group had loans from a substantial shareholder of US$1,000,000 (2001: nil). The loans was repaid by issuance of 15-months convertible notes in January 2003.

As at 31st December, 2002, the Group had a cash and bank deposit balance of US$74,000 (2001: US$413,000). Approximately US$9,000 (2001: US$54,000), US$20,000 (2001: US$6,000), US$7,000 (2001: US$9,000), US$19,000 (2001: US$63,000), and US$15,000 (2001: US$10,000) 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$4,000 (2001: US$271,000) were denominated in United States dollars.

GEARING RATIO

As at 31st December, 2002, the gearing ratio of the Group calculated as a ratio of total long-term borrowings (including obligations under finance lease due after one year, long-term bank loans, loans from a substantial shareholder and advances from directors) to shareholders' equity was 1.4. As at 31st December, 2002 as the shareholders' equity was negative, no gearing ratio is provided.

CAPITAL STRUCTURE

Details of the movements in the authorized and issued share capital of the Company during the year ended 31st December, 2002 are set out in note 24 to the financial statements.

CHARGES ON GROUP ASSETS

Certain of the Group's assets are pledged to banks as security for bank loan facilities granted to the Group. As at 31st December, 2002, approximately US$2,989,000 (2001: US$870,000) of bank deposits, and US$3,659,000 (2001: US$3,660,000) 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 31st December, 2001 and 2002, the Group had no outstanding hedging instruments.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2002, the Group had 255 employees (2001: 388 employees). Employees are remunerated according to their performance and working experience. Staff benefits include participation in pension schemes and medical insurance. Share options may be granted to employees based on performance valuation in order to provide incentive and reward to them.

CONTINGENT LIABILITIES

As at 31st December, 2002, the Group had no material contingent liabilities (2001: nil).

MATERIAL ACQUISITION AND DISPOSAL

No acquisition or disposal of subsidiary or affiliated company was made during the year ended 31st December, 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group will continue to focus on developing the IP VPN business in the Greater China market in the coming year. In accordance with business objectives stated in the Prospectus, the Group will continue to 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.

MATERIAL LITIGATION

Neither the Company nor its subsidiary was involved in any material litigation or arbitration in 2002.

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 7 to the financial statements.

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.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and loss from operations by business and geographical segments for the year ended 31st December, 2002 are set out in note 5 to the financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 58 of the annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme are set out in note 32 to the financial statements.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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

	For the period from 1st January, 2002 to 31st December, 2002	
	Planned amount	**Actual use**
	HK$'000	*HK$'000*
To fund network infrastructure expansion and upgrade by acquiring international bandwidth capacity on an indefeasible right of use basis	19,500	22,000 *(Note 1)*
To further expand the VPN business of the Group, to finance purchase of CPEs, to finance the construction of VPN demonstration rooms, develop partner programmes for VPN business in the regions in which the Group has established offices and recruit technical staff, and to lease additional warehouse spaces for storage of customer premises equipment	11,800	10,600
To strengthen the Group's sales and customer servicing capabilities in the Greater China region	750	750
To finance sales and marketing activities relating to new products and services	750	750
To finance general working capital of the Group	900	900
	33,700	35,000 *(Note 2)*

Notes:

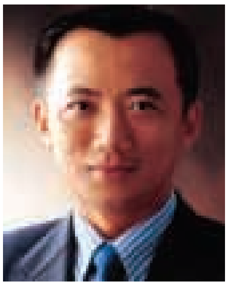
1. For the first half of 2002, the actual use of proceeds was HK$15,560,000 which exceeded the planned amount of HK$7,800,000 by HK$7,760,000. The significant acceleration of use of proceeds for the period was necessary to supplement the shortfall in working capital being generated from operating activities due to the unexpected significant decline in revenue from communication services and Internet access and related services during the same period. The explanation of the difference was set out in the half-yearly report of 2002 note 1 under the section "USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING".

   For the second half of 2002, the actual use of proceeds was HK$6,440,000 which was less than the planned amount of HK$11,700,000 by HK$5,260,000. The actual use of proceeds in this period was mainly for the payment of the acquisition of international bandwidth capacity on an indefeasible right of use basis and establishment of managed IP connections with VPN service providers in the PRC. As set out in the section "Comparison of Business Objectives with Actual Business Progress" under network and facilities development for the second half of 2002, upgrading most existing circuits in Taiwan to either T3 or STM1 was not necessary and developing caching services in conjunction with content delivery network operators was suspended. As such, the actual use for the second half of 2002 was much smaller than the planned amount.

2. The excess of the actual use of proceeds over the planned amount in 2002 amounted to approximately HK$1,300,000. However, the planned use of proceeds of approximately HK$1,300,000 in 2003 (as stated in the Prospectus) mainly for the establishment of POPs and sales offices in Korea and Europe is no longer required because the planned business objectives and strategies for 2003 in respect to the expansion of the Group's business into Korea and Europe (as described in the Prospectus) will be suspended in view of rising competition and uncertainty in these markets. The Group will continue to focus on developing its VPN business in the Greater China market, particularly, the fastest-growing market-China. Expansion of the Group's business into other markets is highly unlikely in 2003.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS



Mr. TSAI Jenp Luh (also known as Phil TSAI), aged 41, the Chairman and Chief Executive Officer of the Group, 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 10 years of experience in the telecommunications industry. 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 CHANG), aged 36, the President of the Group, is responsible for the sales strategic planning and 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 known as Johnny LIU), aged 39, the Chief Operating Officer and Compliance Officer of the Group. He joined the Group in 1996. From 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, (also known as Andrew BUAY), aged 37, was nominated by SingTel and he joined the Group in July 2000. He is the Chief Executive Officer of SingNet Pte Ltd., the ISP arm of SingTel, and the Vice President for SingTel's consumer marketing group. He serves as a director on the board of Point Asia Dot Com (Thailand) Limited, a joint venture of SingTel. His prior responsibilities at SingTel included Chief Executive Officer of SingTel's Multimedia Group from August 2000 to October 2001. Prior to that, 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.

Directors and Senior Management Profile

Mr. YEO Eng Choon, (also known as Thomas YEO), aged 48, 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 Point Asia Dot Com (Thailand) Limited and CrimsonLogic Pte Ltd. 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 52, 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 currently the Vice President for Regional Satellite Business and also the Vice President for Mobile Satellite Business at SingTel. He is responsible for the satellite business and infrastructure of SingTel. 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 electrical 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. LEUNG Man Kit (also known as Michael LEUNG), aged 49, joined the Group in July 2002. He was an investment banker with 25 years of experience in project finance and corporate finance. He has held senior positions with Peregrine Capital Limited, Crosby Securities (HK) Limited and Warburg Dillion Read. He has also represented AIG Asian Infrastructure Fund on the board of directors of its investee companies. Mr. Leung holds a Bachelor of Social Science degree from the University of Hong Kong.

Mr. CHOU Wen Pin (also known as Vincent CHOU), aged 33, joined the Group in January 2002. He 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.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. WANG Kun Hung (also known as Steven WANG), aged 36, is the Chief Technology Officer of the Group. He 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 over 10 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 34, is the Chief Financial Officer of the Group. He joined the Group in October 2000. Mr. Chung has over ten years of experience in public accounting, corporate finance and financial management in Greater China. He started his professional career with a major international accounting firm in 1992. 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 39, the Vice President of Marketing and Communication, is responsible for formulating and implementing marketing strategies and communication programs. He joined the Group in August 2000. From 1997 to 2000, Mr. Guo worked at Bates Taiwan Co. Ltd. For the past 11 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 and communication 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.

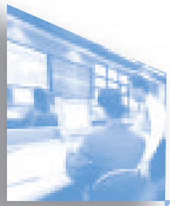
Mr. LEE Cheng Hsiung (also known as Richard LEE), aged 40, the Vice President of System and Network, is responsible for network projects, corporate projects, new solution evaluation and network operation of the Group. He joined the Group in 1999. From 1991 to 1999, Mr. Lee worked for Hitron Technology 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 41, the Vice President of the Customer Satisfaction, is responsible for formulating the Group's customer service strategy, establishing service standards and managing the customer service department. 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 had also worked for Japan Asia Airways for 14 years.

Mr. LIU Chun Kin (also known as Gary LIU), aged 30, is the Company Secretary and Qualified Accountant of the Company. He joined the Group in April 2002. Mr. Liu has over 8 years of experience in public accounting and financial management. He holds a Bachelor of Business Administration degree from the Hong Kong University of Science and Technology and a Master of Professional Accounting degree from the Hong Kong Polytechnic University. He is an associate of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

Comparison of Business Objectives with Actual Business Progress

According to the business objectives as stated in the prospectus of the Company dated 28th December, 2001 (the "Prospectus")	Actual Business Progress
1. For the period from January to June 2002	
Strategic development	
Identify strategic investment opportunities in the PRC if the regulatory environment allows	The Company continues to be open to such opportunities. However, no investment target was identified as at 30th June, 2002.
Extend the range of application services to customers using VPN and other solutions services by co-operating with software developers	An on-line payment software "Smart Cash" has been developed and implemented to certain resellers as an on-line payment gateway for end-users of the Group's communication services in April 2002. This application service will also be promoted to customers using VPN.
Products and services development	
Launch various managed services, including: – Bandwidth on demand; – Load balancing; and – Firewall and anti-virus services	The Group has launched firewall and anti-virus services in June 2002. However, the Group has not launched bandwidth on demand and load balancing services in view of their low market demand due to over-supply of bandwidth and falling bandwidth price. The Group may launch bandwidth on demand and load balancing services when the market condition is greatly improved.
Launch unified message services, storage services and upgrade **isNetHealth** services	These projects were suspended due to obvious reduction in many Asian enterprises' IT budget for 2002. As business confidence returns, the Group will launch these value-added services to capture the expected increase in spending on IT solutions.
Develop short message service system	A short message service system is currently under development. The system development was completed in August 2002. The Group intends to implement this system for its internal use initially as a tool for its customer service center to communicate to the Group's customers by the end of the third quarter of 2002.
Launch data center-related services in the PRC, such as co-location, through cooperation with ISP partners in the PRC	The Group has not launched any data center-related services in the PRC yet in view of the over-supply of these services currently in the PRC market. The Group may launch unless the current market situation is greatly improved.



Comparison of Business Objectives with Actual Business Progress

Business Objectives	Actual Business Progress
Network and facilities development	
Develop managed IP connections for VPN services in the United States, Japan and Singapore	The Group has developed managed IP connections for VPN services in the United States, Japan and Singapore during the first half of 2002. Indeed, the Group has also continued to develop managed IP connections with VPN service providers in the PRC during the first half of 2002 to collaborate with the increasing demand of VPN customers in the PRC.
Establish interconnection with a local IP peering center in Japan	The Group is currently focused on VPN services in Japan instead of IP peering (i.e., Internet access services). In addition, through direct arrangement with local fixed network carriers in Taiwan, the Group can route data and voice traffic originated from Taiwan for termination in Japan in a cost-effective way. Therefore, no IP peering center has been or will be established in Japan.
Establish an additional STM1 international circuit between Taiwan and Los Angeles on an IRU basis	The Group has routed most data and voice traffic originated from Taiwan for termination in the United States through direct IP peering arrangement with local fixed network carriers in Taiwan. This strategy eliminates the necessity to establish an additional STM1 international circuit between Taiwan and Los Angeles, and is considered to be a more cost-effective approach to counteract the effect on bandwidth demand driven by the change of sales mix.
Launch the second data center in Taipei Country, Taiwan	This project has been suspended in view of the currently weak market demand of data center services in Taiwan. The office premises originally reserved for the data center project was leased to other third parties for office use for an initial terms of two to three years commencing August 2002.
Sales and marketing strategy	
Commence marketing efforts for managed services	Marketing for managed firewall services commenced in late June 2002.
Continue to focus on resellers and channel sales arrangements for communication and Internet access and related services	The Group continues to develop new resellers and channel sales business partners to enable wider distribution network for its service offerings. Resellers and channel sales partners joining the Group during the period include XA TMI, Gemplex, Pacific Internet, HyperNet, Unisys, Data System, Leo System and Taiwan Fuji Xerox, etc.

Comparison of Business Objectives with Actual Business Progress

Business Objectives	Actual Business Progress
Continue to promote brand awareness of the Group's products and services	The Group has launched print and airport billboard advertising in Taiwan for the Group's VPN services in March 2002. Print advertising for managed firewall services and promotion for Polycom Video Conferencing (a bundled feature of the Group's VPN services) were commenced in June 2002 in Taiwan.

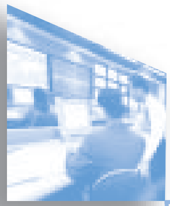
2. For the period from July to December 2002

Strategic development

Business Objectives	Actual Business Progress
Form strategic alliance with telecommunication network operators or resellers in Korea	The Group has not formed any strategic alliance with telecommunication network operators or resellers in Korea yet because the Group continues to focus on its VPN business in the Greater China region. The Group may form strategic alliance with telecommunication network operations or resellers in Korea when the global economic condition is greatly improved.
Continue to look for strategic investment opportunities in the PRC and other regions	The Company continues to be open to such opportunities. However, no investment target was identified as at 31st December, 2002.
Co-operate with software developers to design new software applications or acquire new software applications to meet the needs of the customers using the Group's VPN and other solutions services	The Group has started co-operation with one of the leading software developers based in Taiwan since November 2002. The business co-operation enables the Group to resell the application and solutions services (e.g. enterprise resources planning software) to the Group's customers using VPN.

Products and services development

Business Objectives	Actual Business Progress
Launch short message service system	The Group has developed and implemented a short message service system during the second half of 2002 for its internal use initially, as a tool for its customer service center to communicate to the Group's customers.
Develop new technology and application services for integration into existing products and services	The Group continues to develop new technology and application services (e.g. the short message service system as mentioned above and the enhancement of its VoIP services to allow IDD call and mobile phone call from personal computer (i.e. PC-to-Phone) using broadband Internet access during the second half of 2002) for integration into existing products and services.



Comparison of Business Objectives with Actual Business Progress

Business Objectives	Actual Business Progress
Develop enterprise outsourcing application services Develop web based application services Continue to develop its existing products and services	The Group is currently focused on the co-operation with software developers in the provision of enterprise outsourcing application services and web based application services to its customers using VPN (see "Strategic Development" above). The Group has launched its management outsourcing services using web-based applications by end of December 2002.
Network and facilities development	
Upgrade most existing circuits in Taiwan to either T3 or STM1	Bandwidth usage for a customer of communication services and Internet access services is normally much higher than a customer of VPN services. Due to the drop in revenue and customer number in both communication services and Internet access services during 2002, it was not necessary to upgrade most existing circuits in Taiwan to a higher bandwidth capacity.
Develop caching services in conjunction with content delivery network operators	This project has been planned originally to serve dot com enterprises for their international and multi-sites traffic re-engineering, but the project was subsequently suspended in view of the shrinkage of market demand.
Sales and marketing strategy	
Establish a global customer service center in Hong Kong to serve customers outside Taiwan 24 hours a day, seven days a week	The Group has established customer service call centers in Hong Kong, Shanghai and Shenzhen during the first half of 2002, in conjunction with the customer service call center in Taiwan to serve customers outside Taiwan 24 hours a day, seven days a week.
The Group will continue its marketing efforts in the five Asian markets, namely, Taiwan, Hong Kong, the PRC, Japan and Singapore, and the United States targeting small and medium-sized corporations	While currently focus on its VPN business in the Greater China region, the Group's sales and marketing activities in other locations including Japan, Singapore and the United States are solely relied on its resellers and channel sales business partners in those markets, rather than by its own direct selling and marketing resources. During 2002, the Group has launched print advertising and held seminars mainly in Taiwan and Hong Kong to promote its VPN and other solution services. The Group incurred marketing and promotion expenses totally US$159,000 in 2002.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

PUBLIC LISTING

The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8th January, 2002.

PRINCIPAL ACTIVITY

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

The principal activities of the Company's principal subsidiaries are set out in note 14 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 30 of the annual report.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

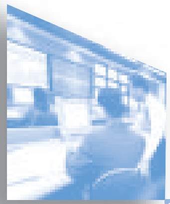
RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 33 of the annual report and note 27 to the financial statements respectively.

The Company's reserves available for distribution represent the share premium less deficit which in aggregate amounted to approximately US$4.2 million as at 31st December, 2002. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or 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, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately US$1.2 million in the acquisition of property, plant and equipment which mainly comprised of furniture, fixtures and equipment. Details of these and other movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.



Directors' Report

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Tsai Jenp Luh, Phil	*(Chairman and Chief Executive Officer)*
Chang Hsiao Hui, Michael	
Liu Yuan Chang, Johnny	

Non-executive directors:

Buay Kee Chuan, Andrew	
Yeo Eng Choon	
Tay Chek Khoon	*(alternate to Buay Kee Chuan, Andrew and Yeo Eng Choon)*

Independent non-executive directors:

Chou Wen Pin	
Leung Man Kit	*(appointed on 12th July, 2002)*
Chan Kok Chung, Johnny	*(resigned on 12th July, 2002)*

In accordance with Article 116 of the Company's Articles of Association, Messrs. Chang Hsiao Hui, Michael and Liu Yuan Chang, Johnny retire and, being eligible, offer themselves for re-election.

The three executive directors have each entered into a service contract with the Company for an initial term of three years commencing on 21st December, 2001 which will continue thereafter until terminated by either party, after the expiry of the first year of service, giving to the other party not less than 3 months' notice in writing or by payment of 3 months' salary in lieu of such notice.

Both non-executive directors have been appointed for a term of two years commencing on 21st December, 2001.

Mr. Chou Wen Pin, an independent non-executive director, has been appointed for a term of two years commencing on 20th December, 2001.

Mr. Leung Man Kit, an independent non-executive director, has been appointed for a term of two years commencing on 12th July, 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and chief executive and their associates in ordinary shares in the Company and their associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of ordinary shares held			
Name of director	Personal interest	Family interest	Corporate interest	Other interest
Tsai Jenp Luh, Phil	99,305,288	218,400 *(Note 1)*	–	–
Chang Hsiao Hui, Michael	99,628,984	3,511,768 *(Note 2)*	–	–
Liu Yuan Chang, Johnny	7,354,528	–	–	–

Notes:

1. Ms. Tu Wen Yueh, the spouse of Mr. Tsai Jenp Luh, Phil, beneficially owns 218,400 shares in the Company.

2. Ms. Lin Huei Lin, the spouse of Mr. Chang Hsiao Hui, Michael, beneficially owns 3,511,768 shares in the Company.

Save as disclosed above, none of directors, chief executive nor any of their associates had any interests as at 31st December, 2002 in the securities of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option schemes, the directors and chief executive of the Company have personal interest in share options which were granted to them to subscribe for ordinary shares in the Company. None of these share options was exercised nor cancelled during the year. A summary of these share options granted is as follows:

(a) Pre-IPO share option scheme

Name of director	Exercisable period	Exercise price per share *HK$*	Number of share options outstanding at 1.1.2002 and 31.12.2002
Tsai Jenp Luh, Phil	8th July, 2002 to 20th December, 2011	0.70	1,144,000
Chang Hsiao Hui, Michael	8th July, 2002 to 20th December, 2011	0.70	1,609,000 *(Note)*
Liu Yuan Chang, Johnny	8th July, 2002 to 20th December, 2011	0.70	520,000

Note: Inclusive of 473,000 share options granted to Ms. Lin Huei Lin, the spouse of Mr. Chang Hsiao Hui, Michael.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES – CONTINUED

(b) Share option scheme

Name of director	Exercisable period	Exercise price per share *HK$*	Number of share options granted during the year and outstanding at 31.12.2002
Tsai Jenp Luh, Phil	1st January, 2003 to 31st December, 2005	1.212	1,500,000
Chang Hsiao Hui, Michael	1st January, 2003 to 31st December, 2005	1.212	1,580,000 *(Note)*
Liu Yuan Chang, Johnny	1st January, 2003 to 31st December, 2005	1.212	1,400,000

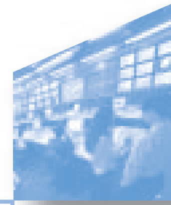
Note: Inclusive of 80,000 share options granted to Ms. Lin Huei Lin, the spouse of Mr. Chang Hsiao Hui, Michael.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or the chief executive 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 or the chief executive or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that in additions to the directors stated under the paragraph headed "Directors' and chief executive's interests in securities", KA Land Pte Ltd. ("KA Land") is interested in 10% or more of the nominal value of the issued ordinary shares of the Company. KA Land, which is a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), has a beneficial interest in 143,802,864 ordinary shares in the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more in the Company's issued share capital as at 31st December, 2002.



SHARE OPTIONS

(a) Pre-IPO share option scheme

A summary of these pre-IPO share options which are exercisable from 8th July, 2002 to 20th December, 2011 is as follows:

		Number of share options			
Type of participants	**Exercise price per share** *HK$*	**Outstanding at 1.1.2002**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2002**
Directors	0.70	2,800,000	–	–	2,800,000
Employees	0.70	10,884,000	79,000	2,750,000	8,055,000
		13,684,000	79,000	2,750,000	10,855,000

The exercise price per share of the above share options granted under the per-IPO share option scheme represented the price determined by the directors on 19th November, 2001.

(b) Share option scheme

A summary of these share options which are exercisable from 1st January, 2003 to 31st December, 2005 is as follows:

		Number of share options		
Type of participants	**Exercise price per share** *HK$*	**Granted during the year**	**Lapsed during the year**	**Outstanding at 31.12.2002**
Directors	1.212	4,400,000	–	4,400,000
Employees	1.212	22,415,000	8,070,000	14,345,000
		26,815,000	8,070,000	18,745,000

The exercise price per share of the above share options granted under the share option scheme represented the average of closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant.

The closing price of the Company's shares as quoted by the Stock Exchange immediately before 21st February, 2002, the date of grant, was HK$1.20.

The directors of the Company consider that it is inappropriate to state the value of the options granted under the above share option schemes of the Company adopted on 10th September, 2001 and 21st December, 2001 (the "Schemes") due to the following reasons:

(i) the calculation of the value of the options will be based on a number of undetermined but crucial variable such as the subscription price payable for the shares in the Company, the number of options to be granted under the Schemes during their duration, the exercise period, interest rate, expected volatility and other relevant variables. In particular, the duration of the Schemes of 10 years will make these volatile variables very difficult to ascertain with accuracy;

(ii) the generally accepted pricing models of options normally value options which are transferable but the options granted to a grantee under the Schemes are personal to the grantee which are non-transferable and non-assignable and hence calculation of the value of the options granted under the Schemes using such pricing models may not be appropriate; and

(iii) the directors of the Company are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to shareholders of the Company.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in notes 21, 22, 24(c) and 33 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 33 to the financial statements. In their opinion, these transactions entered into by the Group were:

(i)) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties;

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) within the relevant cap amounts as agreed by the Stock Exchange in the waiver letter dated 28th December, 2001.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 22 and 24(c) to the financial statements, there were no contracts of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 55% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 28% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued capital, had any interest in the share capital of any of the five largest suppliers of the Group.

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

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors' Report

CORPORATE GOVERNANCE

The Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to 31st December, 2002.

An audit committee was established on 21st December, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises three members, Mr. Buay Kee Chuan, Andrew, the non-executive director and, Messrs. Chou Wen Pin and Leung Man Kit, both being independent non-executive directors. Mr. Buay Kee Chuan, Andrew and Mr. Chou Wen Pin were appointed to the audit committee on 28th March, 2002 and 21st December, 2001 respectively while Mr. Leung Man Kit was appointed as an independent non-executive director and a member of the audit committee on 12th July, 2002 to replace Mr. Chan Kok Chung who resigned on that day.

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

COMPETING INTERESTS

The table below sets out the subsidiaries of SingTel which are all wholly-owned by SingTel and engaged in businesses that compete, or are likely to compete, with the business of the Group.

Name of subsidiary	Place of operation	Nature of business
GB21 (Hong Kong) Limited	Hong Kong	Provision of telecommunication services and products
INS Holdings Pte Ltd.	Republic of Singapore	Running, operating, managing and dealing in telecommunication system services
Singapore Telecom Hong Kong Limited	Hong Kong	Running, operating, managing and dealing in telecommunication system services
Singapore Telecom Japan Co., Ltd.	Japan	Running, operating, managing and dealing in telecommunication system services
Singapore Telecom Taiwan Limited	Taiwan	Provision of customer services for telecommunication related activities
Singapore Telecom USA, Inc.	United States of America	Provision of administrative, technical and advisory services
SingTel Japan Co., Ltd.	Japan	Engaged in telecommunication services business and all other related business
SingNet Pte Ltd.	Republic of Singapore	Carry out the business of an Internet access service provider

In addition, Mr. Buay Kee Chuan, Andrew was a director of Failsafe Corporation (Singapore) Pte Ltd. ("Failsafe"), which was engaged in the provision of data centre and data centre related services as well as disaster recovery services in the Republic of Singapore. Mr. Buay Kee Chuan, Andrew resigned from directorship of Failsafe with effect from 28th November, 2002.

Directors' Report

Mr. Tay Check Khoon is a director of (i) Lanka Communication Services (Private) Limited which is engaged in the provision of data telecommunication service provider of Internet services, international leased circuits, switched services, frame relay, international fax message, VSAT and facility management; and (ii) APT Satellite Telecommunications Limited which is engaged in the 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 or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes, or may compete, with the business of the Group.

SPONSORS' INTERESTS

During the year, Somerley Limited ("Somerley") has been appointed as sponsor of the Company in replacement of Anglo Chinese Corporate Finance, Limited for the period from 16th June, 2002 to 31st December, 2004 in return for a monthly advisory fee. In addition, Somerley has acted as the Company's financial adviser in connection with a transaction of the Company and is entitled to receive fee therefrom.

As updated and notified by Somerley, none of Somerley, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 25th March, 2003.

Save as disclosed above, Somerley had no other interest in the Company as at 25th March, 2003.

AUDITORS

Messrs. Arthur Andersen & Co. were the auditors of the Group up to 23rd July, 2002, on which date they resigned.

On 24th July, 2002, in accordance with the Company's Articles of Association, the Board has appointed Messrs. Deloitte Touche Tohmatsu to be auditors of the Group till the holding of the next annual general meeting. These financial statements accompanying this Annual Report were audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the annual general meeting of the Company to be held on 28th April, 2003 for their re-election.

On behalf of the Board

Tsai Jenp Luh, Phil
Chairman and Chief Executive Officer

25th March, 2003

Auditors' Report

德勤·關黃陳方會計師行

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

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

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

We have audited the financial statements on pages 30 to 57 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Hong Kong, 25th March, 2003

Consolidated Income Statement

For the year ended 31st December, 2002

	Notes	2002 US$'000	2001 US$'000
Turnover	5	**24,310**	26,445
Other operating income		**125**	538
Network operation and telecommunication costs		**(12,672)**	(22,091)
Staff costs		**(6,833)**	(12,172)
Depreciation and amortisation of property, plant and equipment		**(2,414)**	(3,026)
Operating lease rentals in respect of machinery and equipment		**(3,577)**	(3,912)
Occupancy expenses		**(2,709)**	(3,406)
Prepaid network capacity written off		**(1,531)**	–
Provision for early termination of tenancies		**(366)**	(2,333)
Other operating expenses		**(2,282)**	(6,891)
Loss for operations	6	**(7,949)**	(26,848)
Finance costs	9	**(681)**	(665)
Loss before taxation		**(8,630)**	(27,513)
Taxation	10	**(1)**	(13)
Net loss attributable to shareholders		**(8,631)**	(27,526)
Loss per share – Basic	11	**(1.59) cents**	(5.83) cents

Consolidated Balance Sheet

At 31st December, 2002

	Notes	2002 US$'000	2001 US$'000
Non-current assets			
Property, plant and equipment	12	**8,283**	9,872
Prepaid network capacity	13	**2,335**	1,642
Deferred share issuance expenditures		**–**	2,194
		10,618	13,708
Current assets			
Inventories		**1,247**	763
Trade and other receivables	15	**7,938**	6,448
Pledged bank deposits		**2,989**	870
Bank balances and cash		**74**	413
		12,248	8,494
Current liabilities			
Trade and other payables	17	**8,375**	10,162
Service subscription fees received in advance		**1,196**	964
Obligations under finance leases due within one year	18	**3,079**	1,447
Amounts due to directors		**–**	544
Current portion of long-term bank loans	19	**522**	1,039
Short-term bank loans	20	**5,871**	3,024
Bank overdrafts		**500**	119
		19,543	17,299
Net current liabilities		**(7,295)**	(8,805)
Total assets less current liabilities		**3,323**	4,903
Non-current liabilities			
Obligations under finance leases due after one year	18	**686**	69
Long-term bank loans	19	**2,843**	2,762
Loans from a substantial shareholder	21	**1,000**	–
Advances from directors	22	**376**	–
		4,905	2,831
Net (liabilities) assets		**(1,582)**	2,072
Capital and reserves			
Share capital	24	**738**	605
Reserves		**(2,320)**	1,467
(Deficiency) balance of shareholders' funds		**(1,582)**	2,072

The financial statements on pages 30 to 57 were approved and authorised for issue by the Board of Directors on 25th March, 2003 and are signed on its behalf by:

TSAI JENP LUH, PHIL
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CHANG HSIAO HUI, MICHAEL
DIRECTOR

Balance Sheet

At 31st December, 2002

	Notes	2002 US$'000	2001 US$'000
Non-current assets			
Interests in subsidiaries	14	**6,975**	1,459
Deferred share issuance expenditures		**–**	2,194
		6,975	3,653
Current assets			
Accounts receivables		**7**	–
Bank balances		**3**	1
		10	1
Current liabilities			
Accounts payables		**505**	1,582
Amounts due to subsidiaries		**270**	–
		775	1,582
Net current liabilities		**(765)**	(1,581)
Total assets less current liabilities		**6,210**	2,072
Non-current liabilities			
Loans from a substantial shareholder	21	**1,000**	–
Advances from directors	22	**262**	–
		1,262	–
Net assets		**4,948**	2,072
Capital and reserves			
Share capital	24	**738**	605
Reserves	27	**4,210**	1,467
Shareholders' funds		**4,948**	2,072

TSAI JENP LUH, PHIL
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CHANG HSIAO HUI, MICHAEL
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

	Share capital US$'000	Share premium US$'000	Translation reserve US$'000	Deficit US$'000	Total US$'000
At 1st January, 2001	590	48,319	(292)	(19,034)	29,583
Issue of shares	605	(15)	–	–	590
Cancellation of shares	(590)	–	–	–	(590)
Exchange differences arising from translation of financial statements of overseas operations not recognised in income statement	–	–	15	–	15
Net loss attributable to shareholders	–	–	–	(27,526)	(27,526)
At 31st December, 2001	605	48,304	(277)	(46,560)	2,072
Issue of shares	133	7,395	–	–	7,528
Expenses incurred in connection with the issue of shares	–	(2,332)	–	–	(2,332)
Exchange differences arising from translation of financial statements of overseas operations not recognised in income statement	–	–	(219)	–	(219)
Net loss attributable to shareholders	–	–	–	(8,631)	(8,631)
At 31st December, 2002	738	53,367	(496)	(55,191)	(1,582)

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	Note	2002 US$'000	2001 US$'000
Operating activities			
Loss before taxation		**(8,630)**	(27,513)
Adjustments for:			
Interest income		**(26)**	(534)
Interest expenses		**681**	665
Amortisation of prepaid network capacity		**293**	28
Depreciation and amortisation of property, plant and equipment		**2,414**	3,026
Loss on disposal of property, plant and equipment		**383**	649
Impairment in value of property, plant and equipment		**–**	286
Prepaid network capacity written off		**1,531**	–
Allowance for bad and doubtful debts		**455**	930
Allowance for slow moving inventories		**375**	164
Operating cash flows before movements in working capital		**(2,524)**	(22,299)
Increase in inventories		**(859)**	(433)
(Increase) decrease in trade and other receivables		**(1,945)**	1,644
(Decrease) increase in trade and other payables		**(1,787)**	5,011
Increase (decrease) in service subscription fees received in advance		**232**	(1,568)
Cash used in operations		**(6,883)**	(17,645)
Income taxes paid		**(1)**	(13)
Net cash used in operating activities		**(6,884)**	(17,658)
Investing activities			
Interest received		**26**	534
Purchase of property, plant and equipment		**(225)**	(5,795)
Proceeds from disposal of property, plant and equipment		**87**	–
(Increase) decrease in pledged bank deposits		**(2,119)**	506
Net cash used in investing activities		**(2,231)**	(4,755)
Financing activities			
Interest paid		**(681)**	(665)
Proceeds from issue of shares		**7,528**	–
Expenses incurred in connection with the issue of shares		**(138)**	(2,194)
Borrowing raised	*28*	**5,866**	7,609
Repayment of borrowings	*28*	**(3,925)**	(8,569)
Net cash from (used in) financing activities		**8,650**	(3,819)
Net decrease in cash and cash equivalents		**(465)**	(26,232)
Cash and cash equivalents at 1st January		**294**	26,447
Effect of foreign exchange rate changes		**(255)**	79
Cash and cash equivalents at 31st December		**(426)**	294
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**74**	413
Bank overdrafts		**(500)**	(119)
		(426)	294

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8th January, 2002.

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

At the balance sheet date, the Group has an aggregate of 255 (2001: 388) employees situated in Taiwan, Hong Kong, Japan, United States of America ("USA"), Republic of Singapore and the Mainland China.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of US$7,295,000 and net liabilities of US$1,582,000 as at 31st December, 2002.

From an operating perspective in fourth quarter of 2002, the Group significantly curtailed its operations in USA and Japan which had been incurring losses. In terms of financing the Group's activities, certain of the Company's substantial shareholders continue to actively provide financial support to the Group. As explained in note 33, the Group's credit facilities are guaranteed by two substantial shareholders. In November 2002, as explained in note 21, these two substantial shareholders additionally provided guarantees to another substantial shareholder, KA Land Pte Ltd. ("KA Land"), in connection with its subscription for convertible notes in the sum of HK$7,800,000 (equivalent to US$1,000,000). Furthermore, these two substantial shareholders have agreed to provide the Group with sufficient funding to enable it to meet in full its financial obligations for the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Investments in subsidiaries

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

Turnover

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

Revenue recognition

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition – Continued

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

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

Rental income, including rentals invoiced in advance, from land and buildings let under operating leases is recognised on a straight line basis over the period of the respective leases.

Leases

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

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

Property, plant and equipment

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

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

The cost of land and buildings is depreciated and amortised using the straight line method over 50 years.

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

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

Furniture, fixtures and equipment	10% to 33$\frac{1}{3}$%
Motor vehicles	20%

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

Prepaid network capacity

Prepaid network capacity is stated at cost less amortisation and any identified impairment loss. The prepaid network capacity is amortised on a straight line basis over its estimated useful life of 15 years.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories

Inventories, which represent goods held for sale, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other cost that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Impairment

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

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

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

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

Financial assets

The Group's principal financial assets are trade and other receivables, pledged bank deposits, and bank balances and cash.

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

Financial liabilities and equity instruments

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

Significant financial liabilities include trade and other payables, service subscription fees received in advance, obligations under finance leases, advances from a substantial shareholder and directors and bank loans.

Trade and other payables, service subscription fees received in advance, obligations under finance leases and advances from a substantial shareholder and directors are stated at their nominal value.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

Where no internally-generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Transactions in currencies other than United States Dollars are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than United States Dollars are re-translated at the rates of exchange at the balance sheet date. Exchange differences are included in the determination of operating profit.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign currencies – Continued

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

Communication services – provision of voice, facsimile and other basic communication services

Internet access services – provision of Internet access, data centre and data centre-related services

VPN and solution services – provision of VPN and solution services

Business segments for the year are as follows:

	2002		2001	
	Turnover	**Results**	Turnover	Results
	US$'000	***US$'000***	*US$'000*	*US$'000*
Communication services	**9,452**	**390**	12,261	(3,665)
Internet access services	**8,919**	**3,462**	13,175	(3,858)
VPN and solution services	**5,939**	**1,753**	1,009	(295)
	24,310	**5,605**	26,445	(7,818)
Other operating income		**125**		538
Unallocated operating expenses		**(13,679)**		(19,568)
Loss from operations		**(7,949)**		(26,848)
Finance costs		**(681)**		(665)
Loss before taxation		**(8,630)**		(27,513)
Taxation		**(1)**		(13)
Net loss attributable to shareholders		**(8,631)**		(27,526)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

	2002 US$'000	2001 US$'000
BALANCE SHEET		
Assets		
Segment assets		
– communication services	6,190	6,483
– Internet access services	7,359	7,134
– VPN and solution services	6,271	558
Unallocated corporate assets	3,046	8,027
	22,866	22,202
Liabilities		
Segment liabilities		
– communication services	3,654	5,813
– Internet access services	3,257	4,689
– VPN and solution services	2,155	507
Unallocated corporate liabilities	15,382	9,121
	24,448	20,130
OTHER INFORMATION		
Capital additions		
– communication services	459	2,709
– Internet access services	1,979	4,421
– VPN and solution services	1,303	434
	3,741	7,564
Depreciation and amortisation		
– communication services	960	1,453
– Internet access services	1,026	1,585
– VPN and solution services	721	16
	2,707	3,054
Prepaid network capacity written off		
– Internet access services	919	–
– VPN and solution services	612	–
	1,531	–

Geographical segments

The Group's operations are located in Taiwan, USA and others areas. The following table provides an analysis of the Group's geographical operation segment information:

	Turnover	
	2002 US$'000	2001 US$'000
Taiwan	22,475	22,744
USA	653	2,809
Others	1,182	892
	24,310	26,445

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

Geographical segments – Continued

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

	Carrying amount of segment assets		Capital additions	
	2002	2001	**2002**	2001
	US$'000	*US$'000*	***US$'000***	*US$'000*
Taiwan	**21,490**	17,326	**3,723**	5,216
USA	**691**	1,025	**13**	141
Others	**685**	3,851	**5**	2,207
	22,866	22,202	**3,741**	7,564

6. LOSS FROM OPERATIONS

	2002	2001
	US$'000	*US$'000*
Loss from operations has been arrived at after charging:		
Directors' remuneration other than fees *(Note 7)*	**200**	287
Other staff costs	**6,403**	11,590
Retirement benefits scheme contributions	**230**	295
	6,833	12,172
Allowance for bad and doubtful debts	**455**	930
Allowance for slow moving inventories	**375**	164
Amortisation of prepaid network capacity	**293**	28
Auditors' remuneration	**76**	107
Cost of goods sold	**408**	394
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	**2,129**	2,639
– held under finance leases	**285**	387
Impairment in value of property, plant and equipment	**–**	286
Loss on disposal of property, plant and equipment	**383**	649
Operating lease rentals in respect of		
– Internet connectivity leased lines	**5,500**	8,315
– land and buildings	**2,709**	3,406
– machinery and equipment	**3,577**	3,912
Research and development cost	**909**	92
and after crediting:		
Interest income	**26**	534
Property rental income before deduction of negligible outgoings	**99**	–

7. DIRECTORS' REMUNERATION

	2002 US$'000	2001 US$'000
Fees for		
– executive directors	–	–
– independent non-executive directors	30	–
– other non-executive directors	–	–
	30	–
Other emoluments for non-executive directors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	200	272
– bonus	–	15
	200	287
Total directors' remuneration	230	287

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

For the year ended 31st December, 2001, basic salaries and allowances and bonus paid to the three executive directors were US$115,000, US$101,000 and US$71,000.

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

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

During the year, three executive directors have waived their emoluments of US$183,000 (2001: Nil).

8. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2001: two) executive directors of the Company, whose emoluments are included in note 7 above. The aggregate emoluments of the remaining two (2001: three) highest paid individuals are as follows:

	2002 US$'000	2001 US$'000
Basic salaries and allowances	220	591
Bonus	6	–
Retirement benefits scheme contributions	1	1
	227	592

8. EMPLOYEES' EMOLUMENTS – CONTINUED

Their emoluments were within the following bands:

	Number of employees	
	2002	2001
Nil – HK$1,000,000	**1**	2
HK$1,000,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$3,000,000	**–**	1
	2	3

9. FINANCE COSTS

	2002	2001
	US$'000	*US$'000*
Interest on		
– bank and other borrowings wholly repayable within five years	**(370)**	(495)
– bank borrowings not wholly repayable within five years	**(170)**	(96)
– finance leases	**(141)**	(74)
	(681)	(665)

10. TAXATION

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

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of US$8,631,000 (2001: US$27,526,000) and the weighted average number of 543,079,141 shares (2001: 472,103,456 shares after adjusting the effect of the redenomination of shares made by the Company) in issue during the year.

The computation of diluted loss per share does not assume the exercise of outstanding warrants and share options as the effect of the potential shares outstanding during the year were anti-dilutive.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
THE GROUP					
COST					
At 1st January, 2002	3,768	11,202	1,509	71	16,550
Currency realignment	22	65	9	1	97
Additions	–	1,115	109	–	1,224
Disposals	–	(1,059)	(677)	–	(1,736)
At 31st December, 2002	3,790	11,323	950	72	16,135
DEPRECIATION AND AMORTISATION AND IMPAIRMENT					
At 1st January, 2002	12	5,789	837	40	6,678
Currency realignment	–	24	2	–	26
Provided for the year	40	2,159	203	12	2,414
Eliminated on disposals	–	(767)	(499)	–	(1,266)
At 31st December, 2002	52	7,205	543	52	7,852
NET BOOK VALUES					
At 31st December, 2002	3,738	4,118	407	20	8,283
At 31st December, 2001	3,756	5,413	672	31	9,872

The Group's land and buildings which are situated in Taiwan are freehold.

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was US$924,000 (2001: US$210,000).

At the balance sheet date, the Group has pledged certain of its land and buildings with an aggregate net book value of US$3,659,000 (2001: US$3,660,000) to secure the credit facilities granted to the Group.

13. PREPAID NETWORK CAPACITY

	US$'000
THE GROUP	
COST	
Acquired during the year and balance at 31st December, 2001	**1,670**
Additions	**2,517**
Amount written off	**(1,670)**
At 31st December, 2002	**2,517**
AMORTISATION	
Amortised for the year and balance at 31st December, 2001	**28**
Amortised for the year	**293**
Amount written off	**(139)**
At 31st December, 2002	**182**
CARRYING VALUE	
At 31st December, 2002	**2,335**
At 31st December, 2001	**1,642**

The Group's prepaid network capacity represents international bandwidth capacity on an indefeasible right of use basis. During the year, the directors conducted a review based on the Group's current utilisation of prepaid network capacity and determined not to settle the remaining balance in respect of two of the capacity purchases. Accordingly, the respective services were terminated by the vendor resulting in the write-off of the remaining prepaid network capacity amounting to US$1,531,000.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	US$'000	*US$'000*
Unlisted shares, at cost	**51,467**	43,189
Less: Impairment in value	**(45,214)**	(42,343)
	6,253	846
Amounts due from subsidiaries	**3,861**	4,658
Less: Allowance for amounts due from subsidiaries	**(3,139)**	(4,045)
	722	613
	6,975	1,459

Details of the Company's principal subsidiaries, all of which are wholly-owned directly by the Company, at 31st December, 2002 are as follows:

Name of subsidiary	**Place of incorporation/ operations**	**Nominal value of issued and fully paid share capital**	**Principal activity**
Infoserve Technology Corporation	Taiwan	NTD920,000,000	Provision of communication, Internet, VPN and solution services
Infoserve Technology Hong Kong Limited	Hong Kong	HK$8,810,000	Provision of communication, Internet, VPN and solution services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

15. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Trade receivables	**5,607**	4,302
Other receivables	**2,331**	2,146
	7,938	6,448

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

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Age		
0 to 30 days	**3,591**	2,331
31 to 60 days	**1,392**	1,100
61 to 90 days	**289**	393
91 to 180 days	**258**	504
181 to 365 days	**401**	346
1 to 2 years	**1,251**	767
	7,182	5,441
Less: Allowance for bad and doubtful debts	**(1,575)**	(1,139)
	5,607	4,302

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

16. OTHER FINANCIAL ASSETS

Bank balances and cash and pledged bank deposits

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

Credit risks

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

The credit risk on liquid funds and pledged bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Trade payables to		
– a substantial shareholder	**95**	401
– others	**5,027**	4,325
	5,122	4,726
Other payables	**3,253**	5,436
	8,375	10,162

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

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Age		
0 to 30 days	**3,074**	2,647
31 to 60 days	**475**	1,223
61 to 90 days	**342**	361
91 to 180 days	**484**	463
181 to 365 days	**747**	32
	5,122	4,726

18. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	US$'000	*US$'000*	***US$'000***	*US$'000*
Amount payable under finance leases:				
Within one year	**3,161**	1,505	**3,079**	1,447
Between one to two years	**721**	79	**684**	67
Between two to five years	**3**	3	**2**	2
	3,885	1,587	**3,765**	1,516
Less: Future finance charges	**120**	71	**–**	–
Present value of lease obligations	**3,765**	1,516	**3,765**	1,516
Less: Amount due within one year shown under current liabilities			**3,079**	1,447
Amount due after one year			**686**	69

19. BANK LOANS

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Bank loans		
– secured	**2,777**	2,992
– unsecured	**588**	809
	3,365	3,801
The bank loans are repayable as follows:		
Within one year	**522**	1,039
Between one to two years	**402**	230
Between two to five years	**460**	390
After five years	**1,981**	2,142
	3,365	3,801
Less: Amount due within one year shown under current liabilities	**522**	1,039
Amount due after one year	**2,843**	2,762

20. SHORT-TERM BANK LOANS

	THE GROUP	
	2002	2001
	US$'000	*US$'000*
Short-term bank loans		
– secured	**2,158**	–
– unsecured	**3,713**	3,024
	5,871	3,024

21. LOANS FROM A SUBSTANTIAL SHAREHOLDER

The loans are unsecured and carry interest at the rate of 1% per annum above the Hong Kong prime rate. Pursuant to a subscription agreement dated 29th November, 2002 with the Company, KA Land agreed to subscribe for convertible notes issued by the Company with a principal amount of HK$7,800,000. The loans from KA Land were replaced by these convertible notes in January 2003. The maturity date of the convertible notes is 15 months after the date of their issuance. All these loans and convertible notes are guaranteed by the Company's directors and substantial shareholders, Messrs. Tsai Jenp Luh, Phil and Chang Hsiao Hui, Michael.

22. ADVANCES FROM DIRECTORS

The advances are unsecured, interest-free and have no fixed repayment terms. The advances are not required to be repaid within the next twelve months of the balance sheet date and are therefore shown in the balance sheet as non-current.

23. OTHER FINANCIAL LIABILITIES

The directors consider that the carrying amounts of trade and other payables, service subscription fees received in advance, obligations under finance leases and advances from a substantial shareholder and directors approximate to their fair values.

24. SHARE CAPITAL

	Number of ordinary shares	Nominal value per ordinary share	Amount
			US$'000
Authorised			
– at 1st January, 2001	80,000,000	US$0.01	800
– increase in authorised share capital	800,000,000	HK$0.01	1,026
– repurchase and cancellation of share capital	(80,000,000)	US$0.01	(800)
– at 31st December, 2001 and 31st December, 2002	800,000,000	HK$0.01	1,026
Issued and fully paid			
– at 1st January, 2001	59,012,932	US$0.01	590
– issue of shares	472,103,456	HK$0.01	605
– cancellation of shares	(59,012,932)	US$0.01	(590)
– at 31st December, 2001	472,103,456	HK$0.01	605
– issue of shares	103,200,000	HK$0.01	133
– exercise of share options	79,000	HK$0.01	–
– at 31st December, 2002	575,382,456	HK$0.01	738

The following changes in the issued share capital of the Company took place during the current year:

(a) Pursuant to the placing and underwriting agreement dated 4th January, 2002, the Company offered 64,200,000 new ordinary shares for subscription at a price of HK$0.79 per share. The net proceeds from this subscription were used for the Company's business expansion and to provide additional general working capital.

(b) In July 2002, 79,000 share options were exercised at a subscription price of HK$0.70 per share, resulting in the issue of 79,000 ordinary shares of HK$0.01 each in the Company.

(c) In October 2002, the Company issued and allotted 39,000,000 ordinary shares of HK$0.01 each in the Company to a director, 5 management shareholders and 17 employees of the Group at HK$0.20 per share, representing a discount of approximately 4.76% to the closing price of HK$0.21 per share as quoted on the Stock Exchange on 16th September, 2002 (being the date of the announcement of the subscription). The net proceeds from this subscription amounting to US$974,000 were used as to settle trade and other payables, for the repayment of bank loans and bank overdrafts and to provide additional general working capital for the Company. These shares were approved for issue pursuant to an ordinary resolution passed by the Company's shareholders in an extraordinary general meeting held on 21st October, 2002.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

25. WARRANTS

At 31st December, 2002, the Company had outstanding warrants, which were issued in September 2000 to its supplier Cisco Systems Capital Corporation, conferring rights, subject to adjustments, to subscribe for 4,721,040 ordinary shares of HK$0.01 each in the Company at HK$0.7887 per share expiring in September 2005. Exercise in full of these warrants would, under the present share capital structure of the Company as of 31st December, 2002, result in the issue of 4,721,040 additional shares of HK$0.01 each. None of the warrants were exercised by the warrantholders during the current year.

26. SHARE OPTIONS

(a) Pre-IPO share options

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

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

		Number of share options			
Type of participants	**Exercise price per share** *HK$*	**Outstanding at 1.1.2002**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2002**
Directors	0.70	2,800,000	–	–	2,800,000
Employees	0.70	10,884,000	79,000	2,750,000	8,055,000
		13,684,000	79,000	2,750,000	10,855,000

(b) Share options

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

26. SHARE OPTIONS – CONTINUED

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

Type of participants	Exercise price per share *HK$*	Number of share options: Granted during the year	Lapsed during the year	Outstanding at 31.12.2002
Directors	1.212	4,400,000	–	4,400,000
Employees	1.212	22,415,000	8,070,000	14,345,000
		26,815,000	8,070,000	18,745,000

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

27. RESERVES

	Share premium *US$'000*	Deficit *US$'000*	Total *US$'000*
At 1st January, 2001	48,319	(38,956)	9,363
Discount arising on issue of shares	(15)	–	(15)
Net loss attributable to shareholders	–	(7,881)	(7,881)
At 31st December, 2001	48,304	(46,837)	1,467
Premium arising on issue of shares	7,395	–	7,395
Expenses incurred in connection with the issue of shares	(2,332)	–	(2,332)
Net loss attributable to shareholders	–	(2,320)	(2,320)
At 31st December, 2002	53,367	(49,157)	4,210

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Obligations under finance leases	Amounts due to directors	Short-term bank loans	Long-term bank loans	Loans from a substantial shareholder	Advances from directors
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1st January, 2001	876	–	5,928	1,677	–	–
Currency realignment	(63)	–	(235)	(164)	–	–
Inception of finance leases	1,826	–	–	–	–	–
Borrowings raised	–	544	4,136	2,929	–	–
Repayment of borrowings	(1,123)	–	(6,805)	(641)	–	–
At 31st December, 2001	1,516	544	3,024	3,801	–	–
Currency realignment	(3)	–	17	21	–	–
Inception of finance leases	3,516	–	–	–	–	–
Borrowings raised	–	–	3,463	288	1,000	1,115
Repayment of borrowings	(1,264)	(544)	(633)	(745)	–	(739)
At 31st December, 2002	3,765	–	5,871	3,365	1,000	376

29. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of property, plant and equipment and prepaid network capacity with a total capital value at the inception of the leases of US$999,000 (2001: US$156,000) and US$2,517,000 (2001: US$1,670,000) respectively.

30. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group had an unrecognised deferred tax asset of US$46,873,000 (2001: US$41,825,000) which represents the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. The maximum benefit from unutilised tax losses which can be carried forward from the year in which the loss was originated to offset future taxable profits were limited to 5 years, 20 years and indefinitely as to approximately US$29,595,000 (2001: US$29,311,000), US$11,435,000 (2001: US$7,985,000) and US$5,843,000 (2001: US$4,529,000) respectively. This deferred tax asset has not been recognised in the financial statement as it is not certain that the benefit will be realised in the foreseeable future.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

31. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating leases commitments at the balance sheet date, its subsidiaries were committed to make the following minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group					
	2002			2001		
	Land and buildings	**Internet connectivity lease lines**	**Machinery and equipment**	Land and buildings	Internet connectivity lease lines	Machinery and equipment
	US$'000	***US$'000***	***US$'000***	*US$'000*	*US$'000*	*US$'000*
Within one year	**776**	**43**	**1,714**	2,475	614	3,342
In the second to fifth year inclusive	**1,180**	**–**	**66**	2,273	231	1,326
	1,956	**43**	**1,780**	4,748	845	4,668

At the balance sheet date, the Company's subsidiary has contracted with tenants for the following future minimum lease payments in respect of rented land and buildings:

	The Group	
	2002	2001
	US$'000	*US$'000*
Within one year	**258**	–
In the second to fifth year inclusive	**305**	–
	563	–

32. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

The employees of the Company's subsidiary in Mainland China (the "PRC") are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiary is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

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

Defined benefit plan

The Group operates a defined benefit plan for qualifying employees of its subsidiary in Taiwan.

Amounts recognised as staff costs in income in respect of this defined benefit plan were as follows:

	2002	2001
	US$'000	*US$'000*
Current service cost	**140**	177
Interest costs	**24**	29
Expected return on plan assets	**(6)**	–
Amortisation of actuarial losses	**(5)**	–
Amortisation of transition obligation	**34**	35
	187	241

32. RETIREMENT BENEFITS SCHEME – CONTINUED

Defined benefit plan – Continued

The actual return on plan assets was negligible.

The amount included in current liabilities in the balance sheet arising from the Group's obligation in respect of its defined benefit retirement benefit plan was as follows:

	2002	2001
	US$'000	*US$'000*
Present value of funded obligations	**538**	474
Unrecognised actuarial gains	**268**	177
Unrecognised transition liability	**(34)**	(68)
Fair value of plan assets	**(121)**	(121)
	651	462

Movements in the net obligation during the year were as follows:

	2002	2001
	US$'000	*US$'000*
At 1st January	**462**	363
Currency realignment	**2**	(24)
Amounts charged to income	**187**	241
Contributions	**–**	(118)
At 31st December	**651**	462

Key assumptions used:

	2002	2001
Discount rate	**4.0%**	5.0%
Expected return on plan assets	**4.0%**	5.0%
Expected rate of salary increase	**4.5%**	5.5%

33. CONNECTED TRANSACTIONS

During the year, the Group has the following discloseable connected transactions with a substantial shareholder, Singapore Telecommunications Limited ("SingTel") and its subsidiaries (collectively referred to as the "SingTel Group").

	THE GROUP	
	2002	2001
Nature of transactions	***US$'000***	*US$'000*
Provision of services by SingTel Group through subscription arrangements		
– co-location services paid	**184**	179
– international asynchronous transfer mode circuit service paid	**159**	315
– Internet transit service paid	**16**	53
– local leased line service paid	**12**	10
– integrated services digital network services paid	**10**	26
Reselling of services from SingTel to customers of the Group		
– local leased circuit and Internet access reselling paid	**52**	11
– wholesale voice service paid	**10**	300
SingTel staff's secondment arrangement	–	59

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

At the balance sheet date, in addition to the guarantees disclosed in note 21, the directors and substantial shareholders of the Company, Messrs. Tsai Jenp Luh, Phil and Chang Hsiao Hui, Michael, have given personal guarantees to the extent of US$8,344,000 (2001: US$6,917,000) to certain banks to secure the credit facilities granted to the Group.

Financial Summary

RESULTS

	Year ended 31st December				
	1998	**1999**	**2000**	**2001**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover	16,378	23,848	29,588	26,445	24,310
Profit (loss) before taxation	352	1,342	(20,377)	(27,513)	(8,630)
Taxation	(34)	(284)	(68)	(13)	(1)
Net profit (loss) attributable to shareholders	318	1,058	(20,445)	(27,526)	(8,631)

ASSETS AND LIABILITIES

	As at 31st December				
	1998	**1999**	**2000**	**2001**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Total assets	8,936	16,672	45,861	22,202	22,866
Total liabilities	(6,855)	(8,884)	(16,278)	(20,130)	(24,448)
Balance of (deficiency) shareholders' funds	2,081	7,788	29,583	2,072	(1,582)