INFOSERVE TECHNOLOGY CORP.

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2003

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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

BOARD OF DIRECTORS

Executive Directors:

Yu Shu Kuen
(Appointed on 26th November, 2003)
Tsai Tun Chi
(Appointed on 13th October, 2003)
Chang Hsiao Hui, Michael

Independent Non-Executive Directors:

Ip Man Tin, David
(appointed on 4th February, 2004)
Leung Hong Tai
(appointed on 4th February, 2004)

QUALIFIED ACCOUNTANT

Chu Kin Wang, Peleus, *FHKSA, FCCA*

COMPANY SECRETARY

Chu Kin Wang, Peleus, *FHKSA, FCCA*

COMPLIANCE OFFICER

Yu Shu Kuen

AUTHORIZED REPRESENTATIVES

Yu Shu Kuen
Chu Kin Wang, Peleus

AUDIT COMMITTEE

Ip Man Tin, David
Leung Hong Tai

SPONSOR

Hantec Capital Limited
45/F, COSCO Tower
183 Queen's Road
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

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
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Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar:
Hong Kong Registrars Limited
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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.

I am pleased to present to the shareholders the third annual report for the year ended 31st December, 2003 since the shares of the Company 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

2003 has been a challenging year for the Company and its subsidiaries (the "**Group**"). The lethargic macroeconomic environment brought on by the Iraq war and terrorist attacks worldwide was further aggravated by the adverse economic impact of the Severe Acute Respiratory Syndrome ("**SARS**") epidemic in Asia. In addition, the Group has been experiencing increased competition in the telecommunications and technology industry in Asia, especially in the Greater China region.

The slowdown in IT spending as a result of the weak economic conditions was predominantly manifest in reduced investment by enterprises in non-vital value added services. However, continued growth in the more popular communication solutions such as videoconferencing did help to generate a meaningful income to the Group in 2003. The Group's total turnover in 2003 amounted to approximately US$16.98 million representing a decrease of approximately 30.2 per cent. compared with 2002. The Group's operating loss for 2003 was approximately US$13.14 million, of which approximately US$11.25 million related to the operations in Taiwan.

In 2003, the Group introduced isMS – Infoserve Management Services, a new value added service combining managed network performance services and managed network security services. By the end of 2003, the revenues generated from the VPN and other value added solutions represented 33.2 per cent. of the total revenues of the Group, an increase of 2 per cent. from 2002.

The Group's expertise in systems integration and network management capabilities were further demonstrated with the collaboration since April 2003 between the Group and FLAP, a Japanese mobile communications operator. The Group built and operates an integrated platform for the provision of facsimile, voice, video conference and internet access services to FLAP's PDA users in Japan.

Since the beginning of 2003, the Group adopted a revenue sharing management model for the management and operation of its Singapore operations with a view to streamlining its operations in Singapore and reducing costs. Netplus Communication Pte Ltd ("**Netplus**"), an experienced telecommunications manager and a business partner of the Group in Singapore, was appointed by the Group to manage the operations in Singapore. The total revenues in 2003 of the Singapore operations amounted to approximately US$1.8 million, an increase of 472 per cent. since 2002. In addition, the customer base has increased by 325 per cent., from 200 at the end of 2002 to 850 by the end of 2003.

BUSINESS PROSPECTS

Although there have been certain positive developments for the Group in 2003, the cashflow position and financial condition of the Group deteriorated during the year, largely due to problems with the Taiwanese operations. The current management was introduced in the final quarter of 2003 and I was appointed in November 2003, with a view to seeking a comprehensive restructuring of the Group.

The Board considered various proposals to raise additional financing, so as to improve the fiscal position of the Group. Following discussions with potential new investors, a subscription agreement was entered into on 18th March, 2004 with Tenway Limited for the subscription in cash of 2,000,000,000 new shares in the Company at a subscription price of HK$0.01 each. It is proposed that the net proceeds from the placing, estimated to be approximately US$2.4 million, will be applied to repay the Group's existing indebtedness and for general working capital purposes. An extraordinary general meeting of the Company will be convened shortly, to seek shareholder approval for the subscription.

In addition, the Board has been formulating proposals to rationalize the operations of the Group, by divesting the non-core and loss-making businesses and concentrating on the stronger, revenue-generating operations. On 18th March, 2004, the Company entered into three disposals agreements with Mr Choi Wai Him, for the disposal of Infoserve Technology Corporation ("**IS-Taiwan**"), 北京英普達資訊科技有限公司("**IS-PRC**") and Infoserve Telecom Corp. ("**IS-US**"), at nominal consideration in each case. In addition, all inter-company balances between these subsidiaries and the existing Group would be waived. These disposals allow the Group to divest its non-performing businesses and concentrate on growing its stronger Singapore and Japan operations. Following the disposals, the operations of the Group will be smaller but stronger. An extraordinary general meeting of the Company will be convened shortly, to seek shareholder approval for the disposals.

Following completion of the subscription and the disposals, the fiscal condition of the Group will be significantly revitalised. As part of the continued efforts to improve the gearing of the Group, the Board is in discussions with its creditors for a restructuring of the Group's debt. Given the prevailing economic conditions and the financial difficulties experienced by the Group, the Company will be seeking as a priority to consolidate its operations and strengthen its customer base in Singapore and Japan. Nonetheless, the Board recognizes that it is vital to the long term growth of the Group that it should continue to expand and improve its telecommunications solutions offering. In particular, the Group will continue to develop sophisticated value-added services to further complement its existing data and IP VPN solutions offering, so as to better serve its customers. .

Yu Shu Kuen
Chairman
Hong Kong
26th March, 2004

CORPORATE PROFILE

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

The Group's service offering included the following:

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

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

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

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

OPERATIONAL REVIEW

Singapore operations

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

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

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

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

Japan operations

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

Taiwan operations

(i) *Disposal of ISR business*

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

(ii) *Suspension of business operation*

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

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

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

(iii) *Issue of injunction order by the Taiwan court*

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

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

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

(iv) *Resignation of the entire accounting team in Taiwan*

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

(v) *De-consolidation*

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

PRC operations

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

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

US operations

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

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

Hong Kong operations

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

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

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

FINANCIAL REVIEW

Turnover

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

Total turnover of the Group are detailed as follows:

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

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

Network Operation and Telecommunications Cost

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

Network operation and telecommunications costs are detailed as follows:

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

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

Operating Expenses

Total operating expenses amounted to approximately US$20.86 million for 2003, an increase of approximately 6 per cent. compared to approximately US$19.712 million in 2002. Total staff costs for 2003 amounted to approximately US$4.058 million, a decrease of approximately 40.6 per cent. compared with approximately US$6.833 million in 2002. During 2003, the Group has implemented a stringent cost cutting policy and the headcount had been reduced significantly from 255 in 2002 to less than 100 prior the suspension of service in Taiwan. Occupancy expenses amounted to approximately US$857,000, representing a decrease of approximately 68 per cent. compared to 2002. The decrease is mainly due to the cessation of Taiwan operations in November 2003, but also as a result of the reduction in headcount and size of operations as part of the Group's economy drive.

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

Net loss attributable to Shareholders

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

LIQUIDITY AND FINANCIAL RESOURCES

Financing

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

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

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

Liquidity

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

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

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

New Management

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

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

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

Restructuring Proposals

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

GEARING RATIO

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

CAPITAL STRUCTURE

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

CHARGES ON GROUP ASSETS

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

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

FOREIGN EXCHANGE EXPOSURE

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

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

MATERIAL LITIGATION

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

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

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

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

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

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

IS-Taiwan: employee disputes

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

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

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

DIRECTORS' REMUNERATION

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

MANAGEMENT CONTRACTS

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

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and loss from operations by business and geographical segments for the year ended 31st December, 2003 is 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 74 of the annual report.

SUBSIDIARIES

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

RETIREMENT BENEFITS SCHEME

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

RESTRUCTURING PROPOSALS

Subscription

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

Further details of the subscription will be announced shortly.

Disposal of subsidiaries

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

Further details of the disposals will be announced shortly.

Further proposals and developments

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

RESUMPTION PROPOSAL

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

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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

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

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

EXECUTIVE DIRECTORS

Mr. Yu Shu Kuen ("Mr. Yu"), aged 35, Chairman of the Group and the executive director of the Company, is responsible for strategic planning and implementation for the Group. He had worked in the investment banking field in Hong Kong for approximately 2 years and started his own financial services business in 1996.

Mr. Tsai Tun Chi, aged 38, an executive director of the Company, is responsible for strategic planning and setting the operational directions for the Group. He joined Infoserve Technology Corporation, a wholly-owned subsidiary of the Company operating in Taiwan, in August 2002. Mr. Tsai has a Bachelor Degree in Finance from University of Southern California in 1988 and an executive MBA from National Sun Yat Sen, Taiwan in 2003. He has over 10 years of experience in sales and management. He has worked for Citibank, which is listed on the New York Stock Exchange and a private company principally engaged in shopping center development consultancy services in Taiwan.

Mr. Chang Hsiao Hui (also known as Michael Chang), aged 38, an executive director of the Company, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

SENIOR MANAGEMENT

Mr. Chu Kin Wang, Peleus, age 39, is the Company Secretary and Qualified Accountant of the Group. He graduated from the University of Hong Kong with a master's degree in business administration. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, an associate member of Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. He has more than ten years of experience in finance and management. He has worked for an accounting firm, European/US multinationals, listed Company and various small and medium enterprises.

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

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

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

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

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 subsidiaries are set out in note 14 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 37 of the annual report.

SHARE CAPITAL

There were no changes in the share capital of the Company during the year.

RESERVES

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.

The Company had no distributable reserve at 31st December, 2003.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately US$429,000 in the acquisition of property, plant and equipment which mainly comprised of leasehold improvements. Details of these and other movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

SUBSIDIARIES

As detailed in note 3(b) to the financial statements, the Company de-consolidated certain of its former subsidiaries in view of the Group had lost effective control over them.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Yu Shu Kuen (Chairman)	(appointed on 26th November, 2003)
Chang Hsiao Hui, Michael	
Tsai Tun Chi	(appointed on 13th October, 2003)
Tsai Jenp Luh, Phil	(resigned on 26th January, 2004)
Liu Yuan Chang, Johnny	(resigned on 6th August, 2003)

Non-executive directors:

Chong Chin Kok, Mark	(appointed on 24th June, 2003 and resigned on 15th August, 2003)
Buay Kee Chuan, Andrew	(resigned on 24th June, 2003)
Yeo Eng Choon	(resigned on 15th August, 2003)
Tay Chek Khoon (alternate to Chong Chin Kok, Mark)	(appointed on 24th July, 2003 and resigned on 15th August, 2003)
Tay Chek Khoon (alternate to Buay Kee Chuan, Andrew)	(resigned on 24th June, 2003)
Tay Chek Khoon (alternate to Yeo Eng Choon)	(resigned on 15th August, 2003)

Independent non-executive directors:

Ip Man Tin, David	(appointed on 4th February, 2004)
Leung Hong Tai	(appointed on 4th February, 2004)
Chou Wen Pin	(resigned on 10th November, 2003)
Leung Man Kit	(resigned on 7th November, 2003)

In accordance with Articles 99 and 116 of the Company's Articles of Association, all remaining directors retire and, being eligible, offer themselves for re-election.

Mr. Yu Shu Kuen has entered into a service contract with the Company for an initial term of two years commencing on 26th November, 2003 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.

Mr. Chang Hsiao Hui, Michael has 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.

Mr. Tsai Tun Chi has entered into a service contract with the Company for an initial term of one year commencing on 13th October, 2003 which will continue thereafter, unless and until terminated by either party, at any time without cause, giving to the other party not less than 2 weeks' notice in writing or by payment of 2 weeks' salary in lieu of such notice.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st December, 2003, the interests of the directors, chief executive and their associates in the shares, and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Hong Kong Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions:

(a) *Ordinary shares of HK$0.01 each of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Tsai Jenp Luh, Phil	Beneficial owner	99,305,288	17.26%
	Held by spouse *(Note 1)*	218,400	0.04%
		99,523,688	17.30%
Chang Hsiao Hui, Michael	Beneficial owner	99,628,984	17.32%
	Held by spouse *(Note 2)*	3,511,768	0.61%
		103,140,752	17.93%

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.

(b) *Share options*

The Company has a pre-Initial Public Offering ("IPO") share option scheme and a post-IPO share option scheme. Details of the scheme are set out in note 26 to the financial statements.

Name of director	Capacity	Number of options held	Number of underlying shares
Tsai Jenp Luh, Phil	Beneficial owner	2,644,000	2,644,000
Chang Hsiao Hui, Michael	Beneficial owner	2,636,000	2,636,000
	Held by spouse (Note)	553,000	553,000

Note: Ms. Lin Huei Lin, the spouse of the Mr. Chang Hsiao Hui, Michael beneficially owns 553,000 share options in the Company.

Save as disclosed above, none of the directors, chief executive and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders maintained under Section 336 of the SFO showed that in addition to the directors stated under the paragraph headed "Directors' and chief executive's interests in shares and share options", KA Land Pte Ltd. ("KA Land") is interested in 24.99% 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. In addition, at 31st December, 2003, KA Land also held convertible notes with an aggregate principal amount of HK$7,800,000 issued by the Company. Upon full conversion of these convertible notes, the number of shares held by KA Land will be increased to 182,802,864 shares.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2003.

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		
Participants	**Exercise price per share** HK$	**Outstanding at 1.1.2003**	**Lapsed during the year**	**Outstanding at 31.12.2003**
Directors:				
Tsai Jenp Luh, Phil	0.70	1,144,000	–	1,144,000
Chang Hsiao Hui, Michael *(Note 1)*	0.70	1,609,000	–	1,609,000
Liu Yuan Chang, Johnny *(Note 2)*	0.70	520,000	520,000	–
		3,273,000	520,000	2,753,000
Employees	0.70	7,582,000	3,348,000	4,234,000
		10,855,000	3,868,000	6,987,000

Notes:

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

2. Mr. Liu Yuan Chang, Johnny has resigned as an executive director on 6th August, 2003.

(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		
Participants	**Exercise price per share** HK$	**Outstanding at 1.1.2003**	**Lapsed during the year**	**Outstanding at 31.12.2003**
Directors:				
Tsai Jenp Luh, Phil	1.212	1,500,000	–	1,500,000
Chang Hsiao Hui, Michael *(Note 1)*	1.212	1,580,000	–	1,580,000
Liu Yuan Chang, Johnny *(Note 2)*	1.212	1,400,000	1,400,000	–
		4,480,000	1,400,000	3,080,000
Employees	1.212	14,265,000	4,570,000	9,695,000
		18,745,000	5,970,000	12,775,000

Notes:

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

2. Mr. Liu Yuan Chang, Johnny has resigned as an executive director on 6th August, 2003.

MANAGEMENT CONTRACT

The Group has contracted with an independent third party, Netplus Communication Pte Ltd ("Netplus"), in December 2002 for the management of its Singapore operations for a term of three years. During the year, the Group paid remuneration of US$573,000 to Netplus. Subsequent to 31st December, 2003, the term of the contract has been revised to 1 year expiring on 31st December, 2004 by parties subject to renewal by parties.

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 18, 20 and 35 to the financial statements.

As detailed in notes 3(b) to the financial statements, the directors believe information on the Group's connected transactions may not be complete and accurate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 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 were also less than 30% of the Group's total purchases.

As detailed in note 3(b) to the financial statements, the directors believe information on the Group's major customers and suppliers may not be complete and accurate.

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.

CORPORATE GOVERNANCE

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

In the opinion of the current directors, the Company has complied thoughout the period from 26th November, 2003 to 31st December, 2003 after their appointment as directors board practices and procedures as set out in Rules 5.28 and 5.39 of the GEM Listing Rules.

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

COMPETING INTERESTS

The table below sets out the subsidiaries of SingTel which are all wholly-owned by SingTel and engaged in businesses that have competed, or might have competed, 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 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. (in liquidation with effective from 10th November, 2003)	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

Mr. Buay Kee Chuan, Andrew, a director nominated by SingTel, resigned on 24th June, 2003 and was replaced by Mr. Chong Chin Kok, Mark ("Mr. Chong"). Messers. Chong and Yeo Eng Choon, both SingTel nominated directors, resigned on 15th August, 2003. SingTel has not nominated any director to replace them after their resignations.

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 terminated the sponsor agreement dated 17th May, 2002 with the Company and ceased to act as the Company's sponsor on 5th December, 2003. Prior to Somerley's termination, it entitled to receive a monthly advisory fee from the Company.

On 16th January, 2004, Hantec Capital Limited ("Hantec") was appointed as sponsor of the Company to replace Somerley in return for a monthly advisory fee.

None of Somerley and Hantec, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 26th March, 2004.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 36 to the financial statements.

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 as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

YU SHU KUEN
CHAIRMAN

Hong Kong, 26th March, 2004

德勤‧關黃陳方會計師行

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

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永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF INFOSERVE TECHNOLOGY CORP.

(incorporated in the Cayman Islands with limited liability)

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

As explained in note 3(a) to the financial statements, the directors have been taking active steps to improve the Group's liquidity position. On 18th March, 2004, the Company entered into a subscription agreement with an independent subscriber conditional upon obtaining the necessary shareholders and regulatory approvals. The net proceeds from the subscription are estimated to be HK$20,000,000 which the directors intend to apply to repay indebtedness and to provide general working capital to the Group. In addition, the directors are currently in the final stages of negotiations with a vendor to extend settlement terms, and are in discussion with lenders to roll-over all short-term loans and also with prospective lenders for the obtaining of additional credit facilities.

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

ADVERSE OPINION

As explained in note 3(b) to the financial statements, in November 2003, having lost contact with the management and officers of Infoserve Technology Corporation, Infoserve Technology Hong Kong Limited which was put under liquidation, Infoserve Technology Beijing Limited and Infoserve Telecom Corp., the directors concluded that the Group had lost effective control over these subsidiaries. The directors considered that the financial interests of the Group were best served not by expending significant time and resources to regain control of these subsidiaries, but instead by actively seeking means to divest these investments. As disclosed in note 36 to the financial statements, certain of these subsidiaries were finally disposed of in March 2004. The directors do not have any available information about the results of these subsidiaries for the period from 1st October, 2003 to the date when, in the opinion of the directors, the Group lost effective control. On this basis, the consolidated income statement of the Group for the year ended 31st December, 2003 includes a loss of US$12,146,000 in respect of these subsidiaries for the period from 1st January, 2003 to 1st October, 2003 based on unaudited management accounts together with a gain on de-consolidation of these subsidiaries of US$14,498,000.

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

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

DELOITTE TOUCHE TOHMATSU
Hong Kong, 26th March, 2004

Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Notes	**2003 US$'000**	2002 US$'000
Turnover	5	**16,975**	24,310
Other operating income		**567**	125
Network operation and telecommunication costs		**(9,816)**	(12,672)
Staff costs		**(4,058)**	(6,833)
Depreciation and amortisation of property, plant and equipment		**(1,599)**	(2,414)
Operating lease rentals in respect of machinery and equipment		**(1,548)**	(3,577)
Occupancy expenses		**(857)**	(2,709)
Prepaid network capacity written off		**(2,207)**	(1,531)
Provision for early termination of tenancies		**(68)**	(366)
Other operating expenses		**(10,526)**	(2,282)
Loss from operations	6	**(13,137)**	(7,949)
Finance costs	9	**(661)**	(681)
Gain on disposal of certain businesses		**769**	–
Gain on de-consolidation of former subsidiaries		**14,498**	–
Allowance for amounts due from former subsidiaries		**(2,928)**	–
Loss before taxation		**(1,459)**	(8,630)
Taxation	10	**–**	(1)
Net loss attributable to shareholders		**(1,459)**	(8,631)
Loss per share – Basic	11	**(0.25) cents**	(1.59) cents

Consolidated Balance Sheet

AT 31ST DECEMBER, 2003

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

The financial statements on pages 37 to 73 were approved and authorised for issue by the Board of Directors on 26th March, 2004 and are signed on its behalf by:

YU SHU KUEN
CHAIRMAN

TSAI TUN CHI
DIRECTOR

Balance Sheet

AT 31ST DECEMBER, 2003

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

YU SHU KUEN
CHAIRMAN

TSAI TUN CHI
DIRECTOR

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2003

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

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Notes	2003 US$'000	2002 US$'000
Operating activities			
Loss before taxation		**(1,459)**	(8,630)
Adjustments for:			
Interest income		**(18)**	(26)
Interest expenses		**661**	681
Amortisation of prepaid network capacity		**128**	293
Depreciation and amortisation of property, plant and equipment		**1,599**	2,414
Loss on disposal of property, plant and equipment		**15**	383
Prepaid network capacity written off		**2,207**	1,531
Gain on disposal of certain businesses		**(769)**	–
Gain on de-consolidation of former subsidiaries		**(14,498)**	–
Allowance for amounts due from former subsidiaries		**2,928**	–
Allowance for bad and doubtful debts		**1,845**	455
Allowance for slow moving inventories		**36**	375
Operating cash flows before movements in working capital		**(7,325)**	(2,524)
Decrease (increase) in inventories		**52**	(859)
Increase in trade and other receivables		**(557)**	(1,945)
Increase in amounts due from former fellow subsidiaries		**(6,237)**	–
Increase (decrease) in trade and other payables		**3,776**	(1,787)
(Decrease) increase in service subscription fees received in advance		**(1,196)**	232
Cash used in operations		**(11,487)**	(6,883)
Income taxes paid		**–**	(1)
Net cash used in operating activities		**(11,487)**	(6,884)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

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

1. GENERAL

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

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS

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

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

(b) In November 2003, having lost contact with the management and officers of Infoserve Technology Corporation, Infoserve Technology Hong Kong Limited which was put under liquidation, Infoserve Technology Beijing Limited and Infoserve Telecom Corp., the directors concluded that the Group had lost effective control over these former subsidiaries. The directors considered that the financial interests of the Group were best served not by expending significant time and resources to regain control of these subsidiaries, but instead by actively seeking means to divest these investments. As disclosed in note 36, certain of these subsidiaries were finally disposed of in March 2004. The directors do not have any available information about the results of these subsidiaries for the period from 1st October, 2003 to the date when, in the opinion of the directors, the Group lost effective control. On this basis, the consolidated income statement of the Group for the year ended 31st December, 2003 included a loss of US$12,146,000 in respect of these subsidiaries for the period from 1st January, 2003 to 1st October, 2003 based on unaudited management accounts together with a gain on de-consolidation of these subsidiaries of US$14,498,000.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Investments in subsidiaries

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

Turnover

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

Leases

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

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

Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment (Continued)

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

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

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

Impairment

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

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

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

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

Financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

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

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

Convertible notes

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

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

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

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation (Continued)

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

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

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

Foreign currencies

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Principal activities are as follows:

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

Business segments for the year are as follows:

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

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

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

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

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

6. LOSS FROM OPERATIONS

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

7. DIRECTORS' REMUNERATION

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

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

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

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

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

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

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

8. EMPLOYEE' EMOLUMENTS

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

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

Their emoluments were within the following bands:

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

9. FINANCE COSTS

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

10. TAXATION

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

11. LOSS PER SHARE

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

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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

13. PREPAID NETWORK CAPACITY

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

14. INTERESTS IN SUBSIDIARIES

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

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

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

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

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

15. INTERESTS IN FORMER SUBSIDIARIES

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

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

16. TRADE AND OTHER RECEIVABLES

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

16. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

17. OTHER FINANCIAL ASSETS

Bank balances and cash

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

Credit risk

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

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

18. TRADE AND OTHER PAYABLES

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

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

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

19. OBLIGATIONS UNDER FINANCE LEASES

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

20. CONVERTIBLE NOTES TO A SUBSTANTIAL SHAREHOLDER

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

20. CONVERTIBLE NOTES TO A SUBSTANTIAL SHAREHOLDER *(Continued)*

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

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

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

21. BANK LOANS

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

22. SHORT-TERM BANK LOANS

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

23. OTHER FINANCIAL LIABILITIES

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

24. SHARE CAPITAL

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

25. WARRANTS

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

26. SHARE OPTIONS

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

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

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

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

(b) *Share options*

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

26. SHARE OPTIONS *(Continued)*

(b) *Share options (Continued)*

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

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

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

27. RESERVES

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

28. DISPOSAL OF CERTAIN BUSINESSES

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

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

29. DE-CONSOLIDATION OF FORMER SUBSIDIARIES

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

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

31. MAJOR NON-CASH TRANSACTIONS

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

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

32. LITIGATIONS

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

33. PLEDGE OF ASSETS

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

34. RETIREMENT BENEFITS SCHEME

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

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

35. CONNECTED TRANSACTIONS

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

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

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

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

35. CONNECTED TRANSACTIONS *(Continued)*

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

36. POST BALANCE SHEET EVENTS

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

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

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

	Year ended 31st December,				
	1999	2000	2001	2002	**2003**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Turnover	23,848	29,588	26,445	24,310	**16,975**
Profit (loss) before taxation	1,342	(20,377)	(27,513)	(8,630)	**(1,459)**
Taxation	(284)	(68)	(13)	(1)	**–**
Net profit (loss) attributable to shareholders	1,058	(20,445)	(27,526)	(8,631)	**(1,459)**

	As at 31st December,				
	1999	2000	2001	2002	**2003**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	16,672	45,861	22,202	22,866	**562**
Total liabilities	(8,884)	(16,278)	(20,130)	(24,448)	**(3,178)**
Balance of (deficiency in) shareholders' funds	7,788	29,583	2,072	(1,582)	**(2,616)**