



*change* OPPORTUNITY



 **Pacific  
Internet**  
NASDAQ : PCNTF

annual report 2005

## Contents

04	Letter from the President and Chief Executive Officer
12	Board of Directors
16	Vote of Thanks & Appreciation
18	Senior Management
26	Regional Connectivity
30	Business Review
38	Financial Highlights
40	Business Highlights
41	Management Discussion & Analysis
52	Investor Information
53	Financial Contents

## change

With change comes opportunity.

The corporations which succeed in the future will be those that change with the times and often ahead of the times.

Yes, change is here. But so is opportunity. Pacific Internet is changing with the times, for the future, for the better.



[a *change* in]

We are optimistic as we look to the future. We are investing and implementing strategies that we believe will drive our growth further.

Equally important are our new shareholders who joined us through our acquisition and our new Board members. They are committed with a passion for our business and we are proud and pleased to have them onboard. There is no doubt in our minds that we are building the best team here to lead us into our next phase of growth.

A photograph of a row of tall, conical topiary trees in a garden. The trees are dark green and have a pointed, cone-like shape. They are arranged in a line that recedes into the distance. The ground is a mix of green grass and a light-colored gravel path. In the background, there are more trees and a cloudy sky. The word "structure" is overlaid in white text on the middle of the image.

**structure**

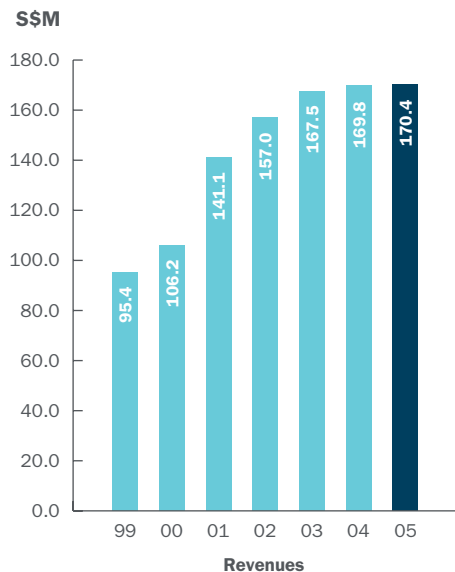
## Letter From the President and Chief Executive Officer



I am delighted to be part of the Pacific Internet team. At the time of writing this letter, I had just completed my first 30 days. I discovered the opportunities are enormous and we are in the unique position of being able to realize these opportunities.

Almost immediately after I came on board, I had the pleasure of announcing our Q4 results, including the 16th consecutive quarter of profitability for the Group. Pacific Internet had once again rewarded shareholders' faith with net positives in its full-year top and bottom lines.

Revenues of S\$170 million (US\$102.5 million) in 2005, rising from S\$95 million (US\$57 million) in 1999, edged the Group's Compound Annual Growth Rate (CAGR) up to 10%. Profit after tax and minority interest grew to S\$10.8 million (US\$6.5 million).



The Company has delivered consistent revenues and profitability. Revenues have increased each year, from S\$95.4 million in fiscal 1999 to S\$170.4 million in fiscal 2005, by a 10% compounded annual growth rate.

Most encouragingly, the results also showed good payoffs from our focus on corporate business and value-added services. The Group registered double-digit growths in corporate business and broadband access revenues, and a 38% increase in its value-added services (VAS) revenues. These gains reflect our concerted efforts in growing higher-margin activities while maintaining the more traditional consumer, dial-up and Internet-access focused markets. The Group has achieved such results by getting many things right. Yet ours is a business of constant change. We must remain vigilant at understanding the trends of our customer requirements and technology.

Pacific Internet has witnessed significant changes in the last few months, and is set to undergo even more in the coming quarters. (We sincerely thank Bien Kiat Tan and Hai Chwee Chew for their contributions during the changes in 2005.) Indeed, the early stages of the tenure of our revamped senior management team and Board of Directors have been dedicated to the crafting of new strategies to perpetuate Pacific Internet's profitable streak on the cutting-edge of this fast-churning industry.

On that note, we have identified two primary, broad-based opportunities to grow our business organically and inorganically. One is to extend our footprint by aggressively entering the Chinese market and expanding our capabilities in India – to name the two largest targets currently on our radar screen. The other opportunity is to move into spaces created by disruptive technologies.

## Letter From the President and Chief Executive Officer

### ENLARGING OUR FOOTPRINT

The tail end of 2005 saw the Group making a much anticipated entry into China. This came via the co-operation agreement for the formation of a joint venture with mainland-based Internet services provider, Zhong Ren Telecom. In a single stroke, we have broadened our geographical coverage and set ourselves up as a brand-name provider of premium, transnational connectivity solutions to MNCs operating in the region out of China.

Naturally, this initial foray is a stepping stone to the vast Chinese market for our suite of services. We are actively evaluating further partnerships as well as merger and acquisition opportunities to establish a national presence across China.

The other, comparable market that we are addressing is India. Here's another bullish economy with an increasing demand for the premium products and services we offer. The difference is that we have been present on the subcontinent since 2000, and have in fact begun well ahead of schedule to turn a profit there. Our plan is to propagate our brand beyond its current coverage of Mumbai, Bangalore, Pune, Chennai and Delhi.

As in China, we are also looking at M&A possibilities with local incumbents to better service the growing MNC market. Meanwhile, with its rapidly increasing demand for state-of-the-art connectivity, India is joining the ranks of the markets where our newly rolled-out technologies get their first commercial run.

Watch for the unfolding of our plans for India, China and a number of other emerging markets. You will see why Pacific Internet, already Asia's largest telco-independent ISP by geographic reach, is poised to lengthen the lead over its competition.

### DISRUPTING THE ORDER, TECHNOLOGICALLY SPEAKING

One reason for Pacific Internet's competitiveness is its consistent ability to leverage on disruptive technologies for growth. Growing bigger while staying nimble, we are well-positioned to do justice to the opportunities being opened up by the prevalence of wireless connectivity such as the WiMAX standard, and of converged IP services.

**WiMAX:** We have secured the wireless spectrum rights in our home base of Singapore. After the pilot trials this year, we expect to deploy wireless broadband and fixed wireless services nationwide in 2007. When the WiMAX standard is ready for adoption, so will our compatible spectrum be in place to deliver more wireless broadband choices to both corporate and consumer Internet users.

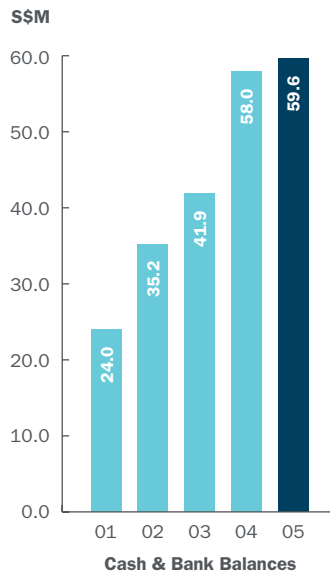
**Converged IP services:** Two recent developments at Pacific Internet illustrate our agility and ability to add voice and video to our mainstay data transmission capabilities. First, there was our acquisition in Australia of T3 Communications, a telecom company whose customer base comprises small-to-medium sized businesses (SMBs). This acquisition has strengthened our position as a leading communications service provider that can bundle telephony and broadband for Australian SMBs. Second, Pacific Internet has partnered Skype to introduce a co-branded portal that enables subscribers to make free high-quality voice calls with our service capabilities. This is the first of several partnerships we look forward to establishing as part of our commitment to deploy VoIP across the Group’s network.

Our adoption of these disruptive technologies is in line with Pacific Internet’s mission to add further value with every service we provide to customers. In that vein, we also offer a comprehensive suite of Managed Services for our corporate clientele, by which companies can avail themselves of integrated network solutions for trouble-free, high-speed Internet access. We expect Managed Services to grow substantially as a key revenue contributor in tandem with the threats to Internet communications and the awareness thereof.

**FUNDING OUR PLANS**

I wish to leave you in no doubt about the magnitude of our ambitions in the coming months. And about our ability to realize them.

As we have demonstrated over the years, Pacific Internet is a fiscally disciplined company underpinned by consistently sound financial management. And whenever we have expanded through mergers and acquisitions, we have exploited the resultant synergies to lower our operating costs. Consequently, despite the price pressures and declining Average Revenue Per User (ARPU) in this increasingly competitive industry, the Group’s cash position remains remarkably strong. So that once our strategies are well defined, we can swiftly align our resources and fundings to their execution.



Through the years, Pacific Internet has accumulated S\$59.6 million in cash and bank balances. This reflects the Company’s strong financial discipline. We are committed to invest our resources for the future.

## Letter From the President and Chief Executive Officer

### OUR MOST VALUABLE ASSETS: CUSTOMERS AND EMPLOYEES

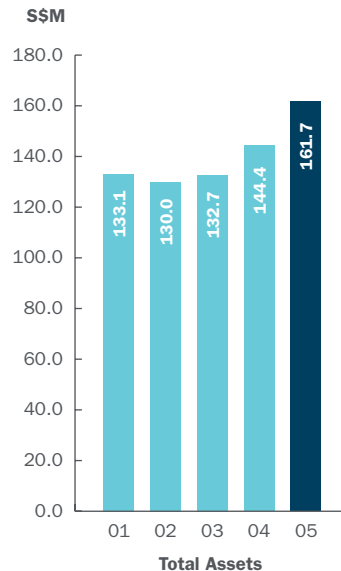
As we seek further M&A opportunities to advance our objectives, we are mindful of our other assets upon which all future growth will also rest.

Foremost are the long-time users of our services. To them, we owe and will continue to offer the best customer experience possible. Pacific Internet has won a number of awards and continues to do so every year. Ours is a well-known, award-winning brand in every country we operate in. An early head start in most of them also affords us invaluable name recognition in each market.

This list of our assets certainly would be incomplete without mentioning the people behind the Pacific Internet brand. We have a passionate and dynamic staff, with a core of technical experts who have been with the Group for many years. Skills development remains a constant priority in the organization. Only then can we invest in our people and reap any synergies from our organic growth. At the same time, we are hiring talent with the experience required to grow the voice and wireless business.



**Our Customer:** (Harvey World Travel (HWT)- Pacific Internet's partner in the provision of voice & data services).  
**From top left to bottom right:** Matthew Harris, HWT's Manager-Technological Solutions, Mark Emney, HWT's General Manager-Travel Related Business, Teck Moh Phey, CEO, Pacific Internet, Dennis Muscat, Managing Director, Pacific Internet Australia.



The Company enjoys strong financial health. Total assets have recovered and grown to an all-time high.

At the helm of this dedicated workforce, we have a management team that understands our customers and is in tune with the new realities of the marketplace as well as the opportunities they present. From this team, and from our Board of Directors, you can expect a culture of innovation, execution and accountability, and a commitment to building of shareholder value.

Thank you for your faith in Pacific Internet. I look forward to bringing you news of our successes in the coming year.

**Teck Moh Phey**  
 President and Chief Executive Officer



*"Not only has HUDGP partnered with a great company for connectivity, but by working with Pacific Internet we've been able to implement a managed broadband service to a group of doctors, who are traditionally non-technical. We've also achieved an ongoing emphasis on security improvement." \**

Chris Scott  
Chief Information Officer  
Hunter Urban Division of General Practice



*"Pacific Internet has provided broadband to 245 Harvey World Travel franchisees and connected our head office for over three years and I've been very happy with their ability to deliver reliable business-grade services for our group's unique needs. Their account management and ability to offer expert support means Pacific Internet has become a trusted advisor for us."*

Matthew Harris  
HWT's Manager - Technology Solutions  
Harvey World Travel (HWT)



*"We have been with Pacific Internet since 2004 and we keep on growing our business with them because of the great after-sales service delivered by their technical engineers and account management teams. Their response time to our concerns and the reliability of their service help us to efficiently coordinate with our regional office, particularly in fulfilling critical online transactions with our data center in Japan. We work with them in such a personal way that makes us feel that they are our partner in growing our business."*

Masatoshi Kimura  
President  
Kintetsu World Express



*"We have been a client of Pacific Internet since 1998 and we are very much pleased with the efficiency of their technical support as well as their responsive and professional account management team. We chose Pacific Internet then because we wanted to deal with the industry leader to deliver our Internet banking services."*

Antonio "Tony" P. Chua  
First Vice President  
Network Communications and Engineering Division  
Metropolitan Bank and Trust Company.




*"Pacific Internet has good service standards and is very willing to assist us when troubleshooting is required. We have had a few spamming incidents and e-mail problems in the past and Pacific Internet's responsive assistance played a critical role in our ability to resolve such problems in a minimal time period. Pacific Internet is also on the forefront of providing new service and access packages, enabling our Law Corporation to upgrade our services to clients."*

Stefanie Yuen Thio  
Head, Corporate & Joint Managing Director  
TSMP Law Corporation

\* Pacific Internet's collaboration with the Hunter Urban Division of General Practice to connect over 90 doctors to broadband won us the 2005 Australian Telecommunications Users Group (ATUG) Award for 'Best Broadband Solution in the Hunter Valley.'



*[changing]*



Pacific Internet today is a different entity than it was before. Rapidly advancing technology is creating a new competitive landscape and our business model is poised to capitalize on promising growth opportunities.

A world that can change overnight demands an enterprise that can react quickly. But a world that is evolving constantly demands leaders that can adapt and lead.

frontiers

## Board of Directors

1. Teck Moh Phey  
President and Chief Executive Officer  
Director
2. Claude Roger Charles  
Lead Independent Director  
Chairman of Litigation Committee  
Member of Audit Committee  
Member of Nominating Committee \*
3. Soon Hock Lim  
Independent Director  
Chairman of Audit Committee  
Member of Compensation & Administrative Committee  
Member of Executive Committee  
Member of Litigation Committee  
Member of Nominating Committee \*
4. Johnson Chin Kwang Tan  
Independent Director  
Member of Audit Committee  
Member of Compensation & Administrative Committee  
Member of Nominating Committee \*

On February 24, 2006, Vantage Corporation Limited (“Vantage”) had completed its acquisition of Kingsville Capital Limited’s (“Kingsville”) entire equity interest in Pacific Internet. On September 29, 2005, Vantage had entered into a sale and purchase agreement with Kingsville to purchase 3.83 million ordinary shares or approximately 28.6% of Pacific Internet’s total outstanding shares at an aggregate price of US\$30.5 million.

On February 24, 2006, as a result of the transaction, Kingsville’s representatives on the Pacific Internet board of directors, namely Mr. Bien Kiat Tan who was the Chairman, and Mr. Hai Chwee Chew, both relinquished their directorships. Concurrently, the board had appointed Mr. Meng Dong Tan, Chief Executive Officer of Vantage, and Ms. Yun Zhang, Chief Investment Officer of Vantage, as directors.

The profiles and photographs of Mr. Meng Dong Tan and Ms Yun Zhang, as on February 15, 2006, were not available, for publication in this report.

\* On February 13, 2006, the Nominating Committee was reconstituted as Nominating/Corporate Governance Committee.



## Board of Directors

### Teck Moh Phey

President and Chief Executive Officer  
Director

Mr. Phey joined Pacific Internet as President and CEO on January 16, 2006. He brings 20 years of leadership and management experience in the information technology (IT) and telecommunications industries to his steerage of Pacific Internet. Previously, Mr. Phey served in various senior positions with Motorola where, among his achievements, he turned around its wireless business in China and significantly expanded its presence into multiple cities. At the global level, he launched the company's wireless broadband initiative in the enterprise sector and developed it into a strong growth engine for Motorola. He was also at one time Compaq's youngest general manager in Asia; he built its channel network and grew the business multiple folds in Indonesia and the Philippines. Mr. Phey started his career with IBM Singapore in 1986.

### Claude Roger Charles

Lead Independent Director  
Chairman of Litigation Committee  
Member of Audit Committee  
Member of Nominating Committee

Mr. Claude Charles is an advisor to multinational companies and an international financier. He is currently President of Great Tangley Corporation, a consulting firm operating in Asia, Europe and North America providing financial and business advice to investors and companies. He was previously Chairman of Equinox Group Holdings Ltd., a private equity firm specialized in Asia, which he co-founded. Prior to that, Mr. Charles was Executive Director at Peregrine Investment Holdings Ltd., Hong Kong and Executive Director of S.G. Warburg and Co. Ltd in London. Mr. Charles has a Bachelor of Science degree in Economics from Wharton School of Finance and Commerce, University of Pennsylvania and a Masters of Science in International Finance from Columbia University.

**Soon Hock Lim**

Independent Director  
 Chairman of Audit Committee  
 Member of Compensation & Administrative  
 Committee  
 Member of Executive Committee  
 Member of Litigation Committee  
 Member of Nominating Committee

Mr. Lim has over 25 years of leadership experience in engineering, IT software and hardware, and telecommunications sectors across Asia Pacific and Japan.

Mr. Lim was the former Vice President and Managing Director of Compaq Computer Asia Pacific Pte Ltd and a member of the worldwide management team. From 1999-2003, he was the President of SITA INC Asia Pacific Pte Ltd, a global information and communications solutions provider for the air transportation industry. He was also General Manager of Digital Equipment before its integration into Compaq. Mr. Lim was the first Asian appointed to all three senior positions. Other senior positions which he held include being the Chairman of Singapore Institute of Management, Chairman of the Institute of High Performance Computing, President and CEO of Australian-based Matrix Telecommunications Ltd and Chairman and CEO of its subsidiary, EasyCall International Pte Ltd.

Mr. Lim is currently a Corporate Advisor and Company Director. He is the Group Vice-Chairman of Advent Air Ltd and the Corporate Advisor of Westech Electronics Ltd. He sits on the Board of Directors of several listed companies, government agencies and civic organizations. Mr. Lim holds a Bachelor of Engineering degree with Honors in Electrical Engineering from the then University of Singapore and is a Fellow of the Institution of Engineers, Singapore; the Institution of Electrical Engineers, UK; and the Singapore Institute of Directors.

**Johnson Chin Kwang Tan**

Independent Director  
 Member of Audit Committee  
 Member of Compensation & Administrative  
 Committee  
 Member of Nominating Committee

Mr. Johnson Tan is currently Managing Partner of IB Partners Pte Ltd, an investment firm. He was previously Head of Corporate Finance-Transport/Leisure, Asia at UBS/Warburg Asia. Prior to this, he worked in New York and Hong Kong for more than a decade where he served as Managing Director of BzW/Barclays, Hong Kong, and was Vice President, J.P. Morgan, Hong Kong. Mr. Tan has a Bachelor of Arts and a Bachelor of Social Science Economics (Honors) degree from the University of Singapore where he graduated at the top of his class.

## Vote of Thanks & Appreciation

Following a change of shareholders, board directors Mr. Bien Kiat Tan, who was also the Chairman, and Mr. Hai Chwee Chew have both relinquished their directorships.

The Board thanks Mr. Tan and Mr. Chew for their exceptional contributions and stewardship of the Group's interests during a momentous period, and extends its best wishes for their future endeavors.



Bien Kiat Tan

*Formerly;*  
Director and Chairman of the Board  
Chairman of Executive Committee  
Chairman of Nominating Committee  
Chairman of Compensation & Administrative  
Committee

Mr. Tan is the Managing Director of Titan Capital, a boutique investment firm. He was previously Managing Director of Newbridge Capital Asia, a leading private equity and buyout firm in Asia, where he had overall responsibility for Southeast Asia, India and Australia. Mr. Tan had previously ran a major Southeast Asian conglomerate, and was a pioneer in starting up two US strategy consulting firms Booz Allen Hamilton and AT Kearney in Southeast Asia. Mr. Tan has a first class honors degree in Mechanical Engineering and an MBA and MS from Columbia University in New York.



Hai Chwee Chew

*Formerly;*  
Executive Director  
Member of Executive Committee  
Member of Litigation Committee

Mr. Chew has considerable experience in international finance, building shareholder value, and introducing innovative business processes to enhance profitability. He was the Chief Operating Officer of Country Foods Pte Ltd, a subsidiary of Singapore Airport Terminal Services (SATS). Prior to that, he was the Chief Financial Officer for Delifrance Asia Limited. Mr Chew spent 15 years working for US and Asian multinational companies where he was responsible for regional finance and operations.

He is also the Independent Director of United Fibre System (UFS) and chairs the Audit Committee of UFS, a company listed on the Singapore Stock Exchange.

## Senior Management

### Teck Moh Phey

President and Chief Executive Officer  
Director

*For personal biodata, please refer to Board of Directors section*

“Vast opportunities lie before those of us steering this ship. Pacific Internet was founded on technology innovation, which is what we will use to realize these opportunities.

Together with my team, I am working to strengthen our strategies and identify new ones to carry Pacific Internet through the sea changes occurring in the industry.”



### Tuck Chuen Ho

Chief Financial Officer

Mr. Ho has more than 20 years of experience in accounting, internal controls, audit, financial governance especially Sarbanes-Oxley Compliance, and tax with multinational corporations and listed companies. Prior to joining Pacific Internet, Mr. Ho spent nine years at Sony Electronics Asia Pacific where he was Director of Accounting, Tax and Internal Control. Previously, Mr. Ho held regional financial controller positions in Haw Par Healthcare, Intergraph Systems, and Master Builders Technology.

“The financial discipline we have exercised has allowed us to establish a solid foundation on which to grow our business in the years ahead. Our priorities include stronger internal controls, effective cost management, establishment of a centralized finance operations group and improved investor confidence through focussed Investor Relations efforts.”

### Lawrence Kok Keong Ang

Chief Information Officer

Mr. Ang has more than 19 years of experience with business IT, project management and formulating process improvement initiatives in the Internet, banking and automotive industries. Before joining Pacific Internet, Mr. Ang was the Regional Chief Information Officer of DaimlerChrysler Services Africa & Asia Pacific in the Financial Services Division. He has also worked in a wide variety of roles with United Bank, DBS Securities, Morgan Grenfell, and Deutsche Bank.

“We are committed to persistent innovation to ensure that we can deliver best-in-class network and communications solutions for our customers. We will continue to drive focused strategies and particularly build capabilities around converged solutions through strong partnerships.”



## Senior Management

### Jerry Swee Heng Tan

Vice President, Group Strategy

Mr. Tan joined Pacific Internet in February 2006, bringing with him more than 20 years' experience of working in leading business consulting and IT companies, including IBM, Arthur Andersen, Cap Gemini Ernst & Young, and Sun Microsystems. His primary expertise is in formulating and implementing business strategies, in driving organizational transformation, and in direct sales and business development.

“New disruptive technologies are allowing us to offer a wider variety of very exciting value propositions to our customers. I am extremely excited to participate in this age of rapid technology innovation by assembling the strategy, processes, people and resources, and partners to transform these technologies into offerings that provide value to our customers, enhance our marketplace presence, and deliver to stakeholders' expectations.”



### Doreen Peck Hoon Loh

Senior Vice President, Group Human Resources & Administration

Ms. Loh has more than 15 years of human resource experience in the information technology and healthcare industries. She was previously the Group Human Resource and Administration Manager for the New Businesses Group of SembCorp (Internet Industry, Food Industry and Petrochemical Industry). Prior to SembCorp, Ms. Loh was with National Computer Systems Pte. Ltd.

“Pacific Internet’s leadership has a longstanding commitment to human resources and human capital initiatives. We have a strong record of identifying and addressing workforce needs and challenges. Our consistent focus on the Group’s comprehensive HR strategies and competencies ensures investment in existing talent and bringing in the best of the industry’s talent into the organization.”

### Deborah Shing Mei Foo

Vice President, Group Legal  
Company Secretary

Ms. Foo rejoined Pacific Internet in April 2005. She had previously served the Group as Company Secretary and sole Legal Counsel from 1997 to 1999. In the interim, Deborah worked at National Computer Systems Pte Ltd, the IT arm of Singapore Telecommunications Limited, and at PCCW in Hong Kong. At PCCW, Deborah was heavily involved in the rollout of the Network of the World service in the Asia Pacific Region and after the merger with C&W HKT, she advised the iTV, Netvigator, and NOW Broadband TV group of businesses. She was also in private practice for a period of time.

“We as the Group’s legal counsels are committed to assisting the Board and management achieve their strategic goals within the laws and regulatory framework applicable in each country that the Company operates in. One of our aims is to implement and observe best corporate governance practices within the Group in tandem with our status as a Nasdaq-listed company.”



## Senior Management

### Rodney Wee Hong Tan

Senior Vice President, Regional Business Group  
Director of the Board, Pacific Internet, Malaysia

Mr. Tan has more than 35 years of experience in the enterprise technology, manufacturing, and payments industries. As Senior Vice President, Regional Business Group, he spearheads the company's servicing of Asian-based regional and large enterprises. Mr. Tan spent more than 23 years with IBM, and was previously CEO of Singapore-based Sei Woo Rubber Works, where he was instrumental in establishing the company's operations, including in Mexico & China. His career also includes stints with NCR and Adroit.

"Pacific Internet is leveraging its network expertise and in-depth understanding of business needs to provide integrated and seamless access, data, e-services, and value-added solutions for enterprises. Malaysia, with its distinct geographical character and as a growing IT hub, is a potentially enormous communications market. We are determined to create stronger regional links and position ourselves as the preferred service provider amidst this thriving region."



**Dennis John Muscat**

Managing Director, Australia

Mr. Muscat joined Pacific Internet in 1999 and co-founded the Australian operations. Previously Finance Director, he was appointed Managing Director in 2001. He has more than 15 years of senior IT management and finance experience. Before joining Pacific Internet, he had held various management positions at MITS Limited, Fosters Brewing Group, and SIP Pty Limited. Mr. Muscat sits on the Board of the Service Providers Association Inc (SPAN), the national body that represents communications service providers in Australia.

“In 2005 Pacific Internet Australia solidified its position as a first-class communications provider for SMBs with significant inroads into specific industries, like the health and franchise sectors. With the acquisition of T3 Communications, we’re now moving forward with converged voice and data offerings that provide more value to our growing SMB customer base.”

**Eddy Cho Yiu Kuk**

Managing Director, Hong Kong

Mr. Kuk has been with Pacific Internet Hong Kong since 1997. He has more than 10 years’ experience in the Information Technology industry, most notably in the Internet and systems integration business. Mr. Kuk currently sits on the executive committees of the Hong Kong Internet Service Providers Association, Internet & Telecom Association of Hong Kong, Hong Kong Information Technology Federation, and Hong Kong Internet Registration Corporation Limited.

“2005 was a momentous year for us. We renamed ourselves Pacific Internet (Hong Kong) Limited to align the brand with parent Pacific Internet. The alignment further empowers us to maintain outstanding levels of customer support and introduce a wider range of communications-based services. Since China’s entry into the WTO, Pacific Internet is now extensively exploring the mainland China market.”



## Senior Management

### Raman Palaniappan

Managing Director, India

In less than two years since Mr. Palaniappan took over the helm, he has helped Pacific Internet India record its first full-year profit. Mr. Palaniappan has over 15 years of diversified experience in Asia, Europe, and the US, most notably with Singapore telecom company StarHub where he held the regional management position for international carrier partnerships across the world. At Nippecraft, he led the regional distribution network and product development that steered the company on a new growth path.

“India is a strategic market for us. Not only is it a leading professional services export hub, it is also the gateway between US, the Middle East, and Asia. We are confident, through strategic investments in India and our collaborations with both domestic and international carriers, we can benefit substantially from India’s growing position on the world stage.”

### Julia Theresa Yap

President & Managing Director, The Philippines

Ms. “Jojie” Yap has been President of Pacific Internet Philippines, Inc. since 1996. She became a pioneer of the country’s commercial Internet upon establishing Primeworld Digital Systems, Inc., a local ISP, which subsequently entered into a joint venture with Pacific Internet. Her previous experience also includes a nine-year tenure as Vice President of Citibank Manila and stints with the National Economic Development Authority, the Central Bank of the Philippines, and the Federal Reserve Bank of San Francisco.

“While our competitors were busy bringing down their prices, we focused on giving value to our partners and customers through innovative service offerings, superior customer service and proactive anticipation of client requests and requirements. Our vision is to expand broadband penetration in the Philippines using wireless Internet solutions. Our company was also granted a franchise to construct, install, establish, operate, and maintain telecommunications systems throughout the Philippines.”



**Kevin Aeng Keong Lim**

Managing Director, Singapore

Mr. Lim has over 20 years of international, multi-industry experience, the last 14 of them acquired in IT related organizations. He joined Pacific Internet in 2002 as Senior Vice President, Group Marketing and was appointed Managing Director of Pacific Internet Singapore in August 2005. Before Pacific Internet, Mr. Lim was worldwide General Manager of the Intelligent Interface Solutions Division at Lernout & Hauspie (L&H), and Director of Marketing for ASEAN and South Asia at IBM. He has also served at Apple Computer, Asia Pacific Breweries, and Pepsi. Mr. Lim sits on a number of national and industry advisory councils.

“The ‘tradition’ of using Singapore as a test bed for the Group’s newest technologies looks set to continue indefinitely. In the latest government budget is a US\$4.6 billion plan to boost R&D that includes infocomm media and technologies. Pacific Internet Singapore is certainly contributing to the national effort, particularly with our acquisition of wireless spectrum rights. We have commenced pilots of wireless services in selected areas, with nationwide plans in 2007. If successful here, wireless will be subsequently offered in the Group’s other markets.”

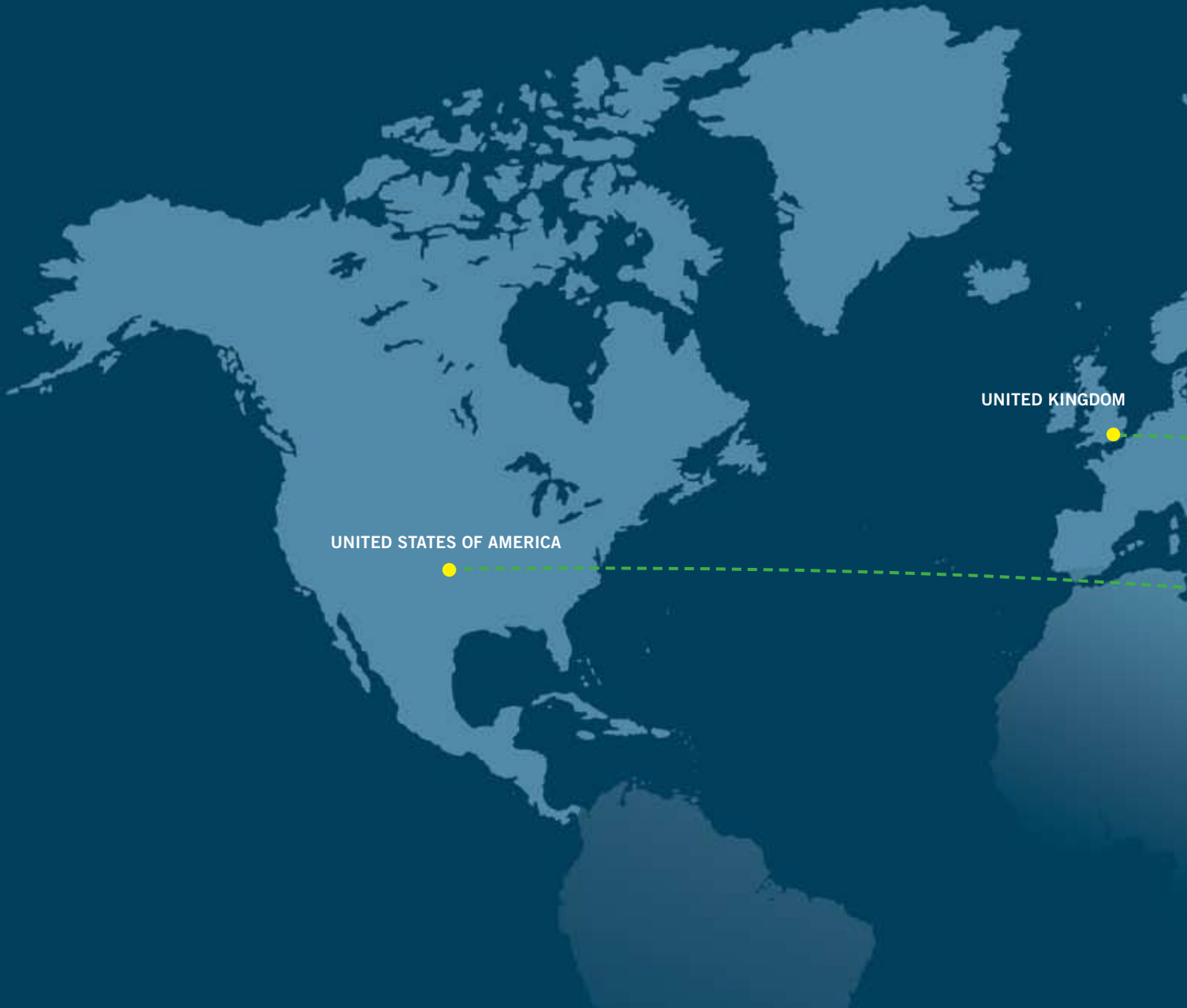
**Prithayuth Nivasabutr**

Managing Director, Thailand

Mr. Nivasabutr joined Pacific Internet Thailand as its Managing Director in late 2000, bringing with him extensive leadership and management experience from leading local and global companies in the IT, telecom, and payments industries. He was previously Director for MasterCard International in Thailand and founding Managing Director of Posnet Co. Ltd., a subsidiary of Thailand’s Smart Telecoms. Mr. Nivasabutr has also worked in the US with McDonnell Douglas Corporation.

“Our business strategies are geared to providing complete Internet communication solutions to the corporate sector. The demand for Value Added Services (VAS) and Data Center services is increasing consistently; we have expanded our Data Center to respond to the needs of the market. Data Center is a tool for managing the core IT infrastructure for customers on an outsourced or managed services model.”





## Regional Connectivity

Key to seamless global connectivity services provided by Pacific Internet are its wide Internet Protocol Virtual Private Networks (IP VPN) enabling wider geographical reach. To extend our geographical reach, we peer extensively with Network providers such as PCCW, Asia Netcom, Flag Telecom, T-System, France Telecom, Qwest, and AT&T.

Recently Pacific Internet and PCCW announced a collaboration which has significantly contributed further to expansion in the global network coverage. Under this agreement, both companies have linked up their Internet Protocol Virtual Private Networks (IP VPN) through a Network-to-Network Interconnection (NNI) to enable IP, voice and data communications in many more locations for their customers.

With the NNI, Pacific Internet has doubled the availability of its IP-VPN services to 14 countries and markets. Pacific Internet customers can now connect their branch offices, partners, suppliers and clients in additional regions such as China, Japan, Korea, Indonesia, Taiwan, the United Kingdom, and the United States. \*



**PI-IN**

PCCW  
VSNL  
i2i

**INDIA**

New Delhi  
Pune  
Chennai  
Bangalore

**THAILAND**

Bangkok

**MALAYSIA**

Pulau Penang  
Kuala Lumpur  
Johor Bahru

**HONG KONG**

Manila

**TAIWAN**

**THE PHILIPPINES**

**SINGAPORE**

**INDONESIA**

**AUSTRALIA**

Perth  
Adelaide  
Melbourne  
Newcastle  
Sydney  
Brisbane

**PI-TH**

PI-SG  
IIG

**PI-HK**

T-System  
PCCW  
HGC  
MCI  
China Motion  
PI-SG

**PI-PH**

Globe  
Teleglobe  
PI-SG

**PI-AUS**

Optus  
Telstra  
MCI

**Legend**

-  HQ Main Hub City
-  Main Hub
-  PoP Point of Presence
-  Pacific Internet Inter-Country Link
-  Internet Link
-  Inter-City Backbone
-  \* Network-to-Network Interconnection



[a *changing*]

We have the agility to meet challenges and adapt to the changing landscape of the business environment. Change has no physical properties, and we cannot succeed without thriving on it, or capitalizing on the opportunities that come with it.

Our successful acquisition of T3 Communications in Australia and our partnership with industry leaders such as Skype, will now allow us to look toward the future with new eyes. We will continue to lead our industry by helping our customers and partners lead theirs. There are some things that should change, but some things at Pacific Internet never will including our commitment to delivering value and building growth.

landscape

## Business Review

The Group's performance in 2005 reflected a continuing shift in emphasis to its corporate business as well as to a wide portfolio of services and products beyond just Internet access.

### REGIONAL FOOTPRINT

Pacific Internet has a footprint of seven countries today: Singapore, Hong Kong, the Philippines, Australia, India, Thailand, and Malaysia. This is what differentiates Pacific Internet from other ISPs and telcos. We have in-country Network Operations Centers, localized customer support, localized products, and a consistent focus on customer service. We intend to continue enlarging our footprint to expand our ability to serve more customers. This is why we have entered into a co-operation agreement for the formation of a joint venture with China-based Zhong Ren Telecom. With this partnership, the Group is now starting to synergize its existing regional capabilities with Zhong Ren's network to service Chinese MNCs as well as foreign companies with a presence on the mainland. Pacific Internet remains on the lookout for opportunities to extend its presence to more countries.

In another notable milestone, Pacific Internet India reported its first profit, considerably ahead of schedule, since starting operations in January 2000. Riding the booming Indian economy, the Group enjoyed a more than ten-fold revenue increase between 2000 and 2005. In particular, the huge global and regional business interest in the country has helped Pacific Internet India garner an approximately 20% market share of the inbound Internet roaming services that are commonly used by business travelers.

We also acquired a number of blue-chip clients to whose needs we will now respond with the newest technologies being rolled out in our test markets. They include the most prominent software companies in Bangalore, India's IT capital, which contributed 60% of our subsidiary's total revenue last year. As well, a series of alliances entered into with the country's largest telecommunication providers is paving the way for Pacific Internet India to continue its growth in 2006.



**From left to right** - Mohammad Salman Sajid, Senior Manager, Enterprise Risk, Group Finance.  
Reshma Murthy, Assistant Manager, Product Marketing, Business Development & Product.

Our Indian office is joining the Group's other subsidiaries that have evolved from an ISP into a total communications provider with an extended outreach to the business community.

All the same, Pacific Internet remains an innovative service provider to the full spectrum of Internet users, as evidenced by the consumer and corporate customer service awards it won again during FY2005 from Australia to the Philippines.

#### CATERING TO THE SAVVY CONSUMER

Pacific Internet started out as a purveyor of premium Internet access to individual consumers in the region.

Today, we have chosen to compete on the value, rather than price, of our offerings. This strategy holds true for both our expanding corporate clientele and the declining consumer base that is nevertheless still contributing sizably to our bottom line.

In the Philippines, for instance, we continue to cater to a thriving prepaid and postpaid dial-up market with value-added services and attractive deals ranging from promotional tie-ups with nationwide retail chains to cost-efficient usage plans to bundled offers such as free IT accessories. So well-received are these programs and, indeed, the Pacific Internet brand of service that the Company was once again named the Most Outstanding Internet Service Provider at the 20th National Consumers Excellence Awards and Best ISP in the 3rd Shoppers' Choice Awards for the second year in a row.

#### MINDING OUR CORPORATE BUSINESS

The Group's corporate business turned in a 15.5% revenue increase between 2004 and 2005, accounting for 67.8% of overall sales receipts versus 59% the year before.

Our portfolio of corporate offerings ranges from a comprehensive set of access services – dial-up, broadband and leased lines – to related solutions such as network services, hosting, managed services, and voice.



Lin Fah Leow, Vice President, Regional Marketing.

## Business Review

### Access

Within the “access” category, broadband continued to account for the highest share of revenue, and in fact contributed nearly half of total takings for the year. The sizable growth in both broadband and value-added solutions business also came from an increased corporate take-up of those services.

Broadband revenues continued to grow by double-digit percentage points as measured against 2004. Most significantly, Pacific Internet’s corporate customers in Singapore will soon be offered wireless broadband. This follows the Group’s acquisition of 30MHz of frequency spectrum in the WiMAX-supported 2.5GHz band from the Infocomm Development Authority of Singapore (IDA). With this license, Pacific Internet is set to become the first operator in the Republic to offer a comprehensive choice of broadband services – ADSL, cable, and wireless – and thus more and better-quality solutions such as voice, security, collaboration, and mobility.

The timing of this much-anticipated rollout could not have been better. It comes after the Singapore Government’s unveiling of its new 2010 ICT (Information & Communications Technologies) blueprint for the nation in the 2006 Budget. A key priority of this US\$4.6 billion plan is to step up the development of cutting-edge broadband facilities for widespread usage.

Elsewhere, the Group’s Australian subsidiary was named Best Broadband Solution in the Hunter Valley for providing a broadband network linking up over 90 of the territory’s doctors. It also claimed NEC NEXTEP Broadband’s “Channel Partner of the Year” award.



**From left** - Mervin Kek Pienn Wang, Senior Manager, Corporate Planning, Singapore MD's office. Karen Tsuey Woan Chang, Assistant Manager, Corporate Secretarial, Group Legal. Christina Lay Ping Tan, Corporate Accountant, Group Finance.

### Voice Over Internet Protocol (VoIP)

The Group entered into a number of alliances last year that have collectively served to add a major disruptive technology to our core offerings: voice services.

Pacific Internet became the first ISP in Southeast Asia to co-market Skype. The Singapore debut of this revolutionary technology, which allows free high-quality Skype-to-Skype voice calls over the Internet, marks another milestone in our transition to the provision of data, voice, and video transmission.

As does our acquisition of the T3 Communications group of companies in Australia, following which we can now bundle telephony and broadband for the country's SMBs. Likewise, Pacific Internet has of late partnered up with CallThai.NET, Thailand's leading telco, to offer Broadband Phone, E-security, and VDO Phone & Conference services via Internet Protocol.

We have laid similar groundwork in the Philippines, with the blessing of the authorities, to launch VoIP and other voice products nationwide. India is another voice market that's steadily gaining momentum, and we plan to tap into that as well.

### Regional Business Services

Beyond access services, we are leveraging our footprint and network expertise to appeal to companies wishing to enjoy seamless connectivity across their transnational operations. Pacific Internet's Regional Business Group (formerly "Enterprise Business"), is backed by our own regional IP backbone and partnerships with the world's top carriers and service providers. This division is driving the integration of enterprise applications – access, data, e-services, and value-added solutions – on a single network nationally and regionally.



**From left** - Tamir Aloni, *Business Development Manager*.  
Liza Drake, *Marketing Communications Specialist*.



Manuala Stancic, *Project Implementation Executive*.

## Business Review

Owing to our wide networks based on the Internet Protocol, furnished by extensive peering arrangements with the likes of PCCW-HKT Networks Services (PCCW), Asia Netcom, Flag Telecom, T-System, France Telecom, Qwest, and AT&T, we can deliver seamless global connectivity well beyond our own footprint.

In February 2006, Pacific Internet and PCCW announced a collaboration to jointly expand their global network coverage. Under this agreement, both companies have linked up their IP Network through a Network-to-Network Interconnection (NNI). This will facilitate IP, voice, and data communications in many more locations for our customers. With the NNI, we have doubled the availability of our IP-VPN services to 14 markets. Pacific Internet customers can now connect their branch offices, partners, suppliers, and clients in China, Japan, Korea, Indonesia, Taiwan, the United Kingdom, and the United States, in addition to our own network of seven markets.

The IP VPN services are based on MPLS (Multi Protocol Label Switching) technology, which offers classes of services to prioritize voice, video, and data traffic.

### Hosting Services

Companies have the option of expending massive resources on maintaining their own IT infrastructure. Or they could just opt for Pacific Internet's hosting facilities for their servers, websites, and entire email systems. Our state-of-the-art Internet Data Center (IDC) boasts complete redundancy, biometric security, climate control, file protection, and a co-location service that allows customers to choose between a shared server or a private one. These features combined ensure the highest levels of protection and safety for our corporate customers' servers.

Last year saw Pacific Internet Thailand launching a second IDC to capitalize on the country's growing need for data warehousing. Also currently operating a pair of IDCs are our Hong Kong and Philippine subsidiaries.



*A state of the art Internet Data Centre in Singapore.*

In India, we successfully negotiated arrangements with several large private telecommunication service providers to establish point-of-interconnect at our IDC, thereby gaining access to their Internet and domestic network in a timely and scalable fashion to meet the needs of our own swelling customer base. While Down Under, our Sydney IDC – the largest of four full-fledged Pacific Internet data centers in Australia, has been relocated to Global Switch's top-notch facility to accommodate escalating network needs. Global Switch empowers Pacific Internet to deliver an extremely reliable co-location and network service.

In Singapore, Games MAP (Games Market Access Program), a games hosting initiative jointly developed by Pacific Internet and Sun Microsystems and supported by IDA, did brisk business last year. It was enlisted by SeaSky NetJoy for the regional release of the Chinese gaming firm's first cross-channel, multi-player platform, Dream-i.

A scalable program that meshes Sun Microsystems' Sun Fire v20z servers with Pacific Internet's regional content distribution network, hosting, and billing capabilities, Games MAP is set to make further inroads into Asia's nascent online gaming industry.

Over in Hong Kong, to attract businesses with storage and self-administration issues, we launched the territory's first 10GB email service, along with an all-in-one communication solution to manage fax, voicemail, and email through PI Messenger. In India, leveraging on the Group's infrastructure, we introduced a now-popular managed email hosting service that includes anti-spam and anti-virus protection.

## Business Review

### Managed Services

Once an SMB, Pacific Internet is today an ever-expanding multinational corporation. Intimately acquainted with the needs of both SMBs and MNCs, the Group is superbly positioned to furnish them with the requisite communication tools – ranging from security to wireless access, voice, collaboration, and mobility – to optimize their respective business opportunities. In essence, these Managed Services are dedicated Internet access services that provide businesses with high-speed Internet access through communication facilities managed by Pacific Internet.

### Security as Internet Defence System

Big or small, no Internet-linked business can afford to dispense with effective data and communication protection measures. Pacific Internet frequently partners leading security experts to battle the endless threats in cyberspace to its clients' operations with service packages comprising firewalls as well as anti-virus and anti-spyware solutions.

Recent examples of such partnerships include tie-ups with Cisco Systems to launch PI Broadband in Hong Kong and SecureSite in Australia. These programs represent their respective markets' first integrated connectivity and security solution for SMBs. An expanded version has also been formulated for both SMBs and large enterprises in Thailand through the joint efforts of Pacific Internet and the award-winning open-source-based security software provider, Astaro.

Similarly getting into Managed Services in a big way is Pacific Internet Philippines. It has inaugurated a slate of sophisticated solutions – Managed Network, Managed Security, Managed Voice, Systems Integration, and Secured Access. This last offering, which generates reports on security threats and includes consultation services on improving security, is adding much value to our connectivity packages and boosting margins as a result.



### **SURGING AHEAD WITH STRONG ALLIANCES AND PARTNERSHIPS**

Pacific Internet's telco-independent status leaves us with substantial leeway to satisfy the complex and varied needs of our customers through strategic partnerships with key organizations such as Microsoft, Cisco, HP, IBM, and Sun Microsystems.

As we entrench Pacific Internet in its revised role of offering far more than just Internet, the Group will constantly be seeking, and be sought for, partnerships to deliver new technologies, products, and services. A case in point is Thailand, where we have launched IBM-supported e-business services and provided the banking and real estate sectors with the country's first integrated communications solution in collaboration with Sony.

In short, we are committed to establishing alliances that will extend our footprint, enhance or supplement our core capabilities, and build differentiation into our offerings.

Pacific Internet is the original IP based Technology Disruptor. We utilize IP based technology and deploy it for the benefit of our customers. We will return to our roots by leveraging on the future of IP based technology disruption to serve the increasing demands of our customers.

## Financial Highlights

	2001	2002	2003	2004	2005	
(in millions, except share data and per share amounts)	S\$	S\$	S\$	S\$	S\$	US\$ <sup>(5)</sup>
<b>Consolidated Statements of Operations Data</b>						
Total gross revenues	141.1	157.0	167.5	169.8	170.4	102.5
Total net revenues	141.1	157.0	167.5	169.8	170.4	102.5
Operating (loss) income	(13.4)	8.1	8.2	12.1	10.2	6.2
Net (loss) income	(15.0)	2.9	4.8	10.1	10.8	6.5
Net (loss) income per share – basic <sup>(1)</sup>	(1.17)	0.23	0.37	0.77	0.81	0.49
Net (loss) income per share – diluted <sup>(2)</sup>	(1.17)	0.23	0.36	0.75	0.81	0.49
Weighted average number of shares outstanding – basic <sup>(1)</sup>	12,815,066	12,815,066	12,985,036	13,238,793	13,339,896	13,339,896
Weighted average number of shares outstanding – diluted <sup>(2)</sup>	12,815,066	12,815,066	13,249,096	13,429,615	13,384,706	13,384,706
<b>Consolidated Balance Sheets Data</b>						
Cash and cash equivalents	24.0	35.2	41.9	58.0	58.4	35.1
Intangible assets and goodwill	28.3	27.6	29.7	28.8	36.4	21.9
Total assets	133.1	130.0	132.7	144.4	161.7	97.3
Total debt <sup>(3)</sup>	24.6	17.1	4.9	4.5	4.0	2.4
Total shareholders' equity	61.9	65.9	78.0	90.6	101.7	61.1
<b>Other Operating Data</b>						
Capital expenditures <sup>(4)</sup>	8.0	5.5	5.7	8.0	7.6	4.6
Cash flows from:						
Operating activities	9.0	22.7	16.8	23.4	13.9	8.3
Investing activities	(3.3)	(5.9)	(6.2)	(8.2)	(13.5)	(8.1)
Financing activities	(0.1)	(5.5)	(4.4)	1.0	0.09	0.05

<sup>(1)</sup> Based on the weighted average number of shares deemed to be outstanding during the period.

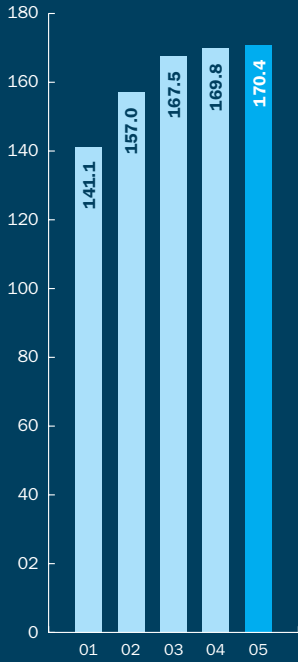
<sup>(2)</sup> Includes the dilutive effect of all outstanding options under the Group's share option plans.

<sup>(3)</sup> Includes capital lease obligations, bank borrowings and non-trade payables to related parties but excludes payables to related parties arising from transactions in the ordinary course of business.

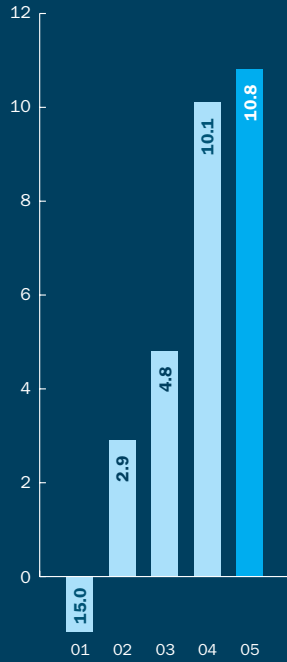
<sup>(4)</sup> The amounts shown above for capital expenditures are equal to the sums of the amounts presented on the Group's Consolidated Statements of Cash Flows as "cash flows from investing activities – acquisition of fixed assets".

<sup>(5)</sup> For convenience, Singapore dollar amounts have been translated into U.S. dollar amounts at the exchange rate as of December 31, 2005, which was S\$1.6628 to US\$1.00.

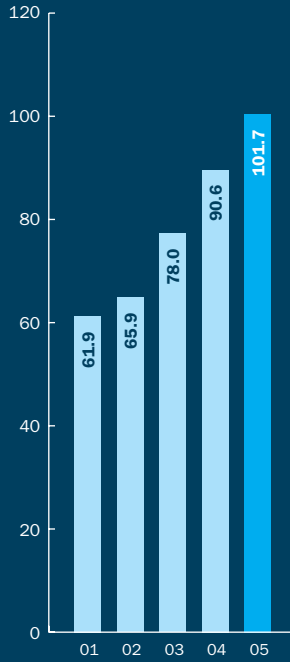
**Total Revenues (\$M)**



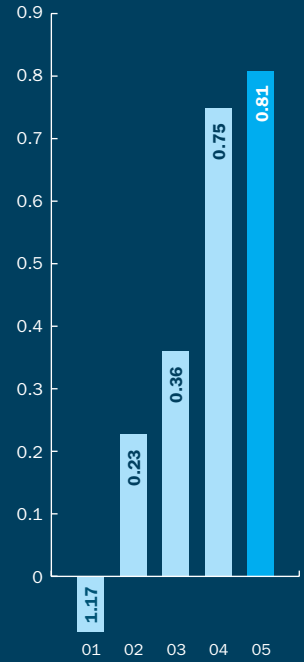
**Net Income (\$M)**



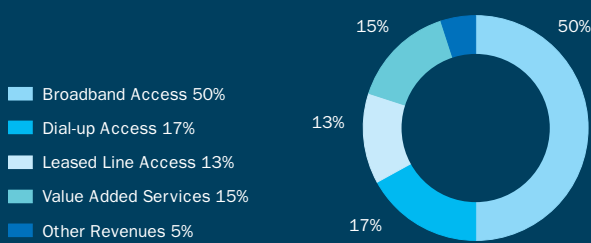
**Shareholders' Equity (\$M)**



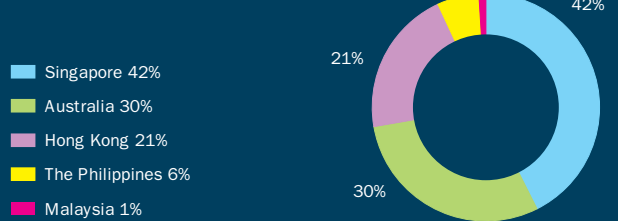
**Diluted Earnings Per Share (cents)**



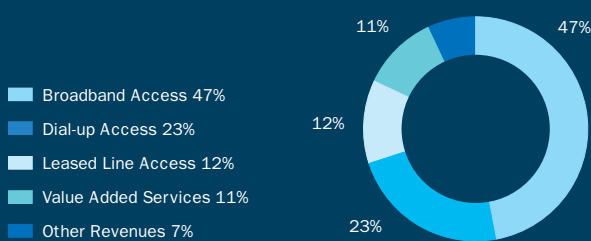
**Revenues for FY2005**



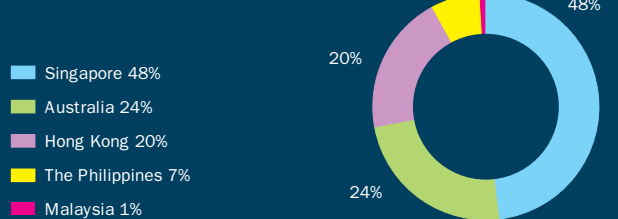
**Revenues by Geographical Areas for FY2005**



**Revenues for FY2004**



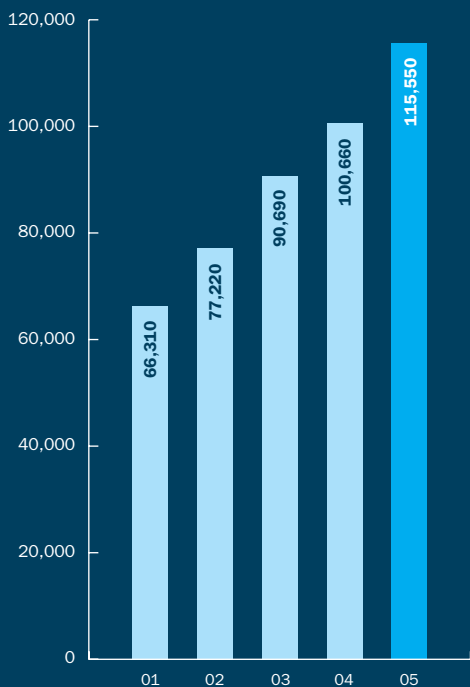
**Revenues by Geographical Areas for FY2004**



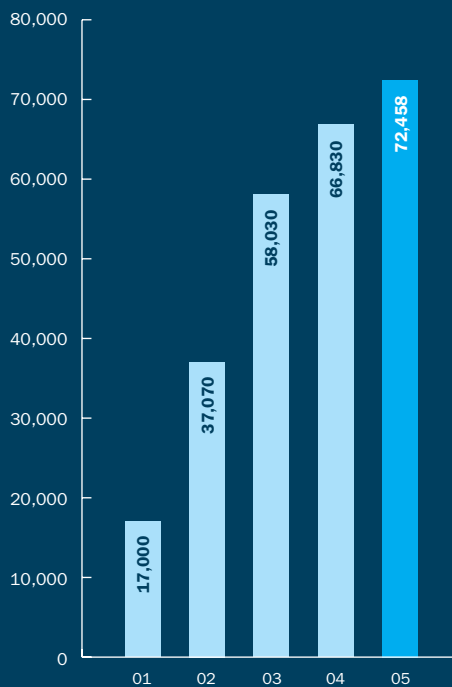
## Business Highlights

Pacific Internet provides a comprehensive suite of secured Internet data, voice and video services through its regional Internet Protocol network to more than 370,000 customers (corporate businesses and consumers), in the Asia Pacific region.

**Corporate Customers**

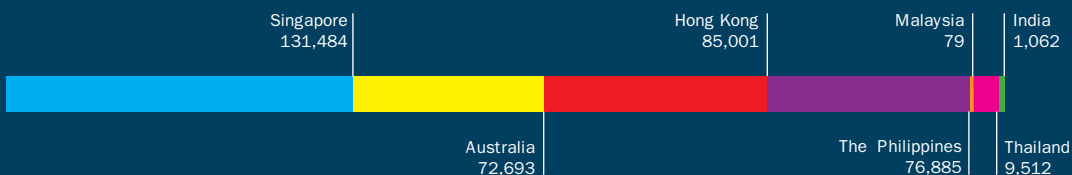


**Broadband Customers**



The corporate business customer base grew by 15% over last year.

**Total Customer Base by Country**



Total Customer Base, as on Dec 31, 2005: 376,716

# Management Discussion & Analysis

## For the Year Ended December 31, 2005

### 1. Business Overview

Pacific Internet is the largest telco-independent Internet Communications Service Provider by geographic reach in the Asia Pacific region. It provides integrated data, voice and video services to businesses and individuals across seven countries – Singapore, Hong Kong, the Philippines, Australia, India, Thailand and Malaysia. Pacific Internet has been sharpening its Internet engineering expertise since 1991, in the days of TechNet, the R&D unit of the National University of Singapore, making it one of the most experienced Internet Service Providers in the region. In 1995, Pacific Internet commenced commercial Internet services in Singapore and started its regional expansion in 1996 both organically and through acquisitions. Today, the Group has a total customer base of 376,716.

Pacific Internet's primary service offerings include basic Internet access services through dial-up, broadband, leased lines and **value-added** services like VPN (virtual private network), managed security, hosting, international roaming, voice and collaboration services, email outsourcing and many others.

Pacific Internet provides this broad range of Internet services to individuals and businesses through a regional network of more than 30 points of presence ("POP") in seven countries. The Group's systems and network infrastructure are designed to provide customers with reliability and speed through efficient use of international bandwidth and implementation of a scalable infrastructure. This regional network footprint provides the Group stronger bargaining power for collective negotiation of international bandwidth and the ability to build extensive peering relationships with international carriers.

We aspire to capitalize on the advantages from comprehensive regional network as well as derive synergy between domestic and overseas operations to execute our international strategy. We also aim to become a world-class Internet service provider in the telecom space, through continuous management system reforms in the areas of finance, operations, and customer services.

Pacific Internet's goal is to to be the leading Business Communications Service Provider recognized for delivering value and quality solutions beyond customer expectations and leverage on its regional presence by:

- > **Value Added Services & Differentiation:** continue to foster the introduction of new content, value-added services such as VOIP, applications and devices that will increase demand for our broadband services and enrich the on-line experience of our customers;
- > **Transition or Reinvention Towards Converged IP Services:** visionary approach which keeps us firmly at the forefront of converged communications;
- > **Strong Regional Connectivity Solutions:** persistent focus on an evolving comprehensive roadmap that helps us deliver stronger IP communications solutions to enterprises today and in the future;

*Pacific Internet's regional connectivity solutions include IP VPN (high performance Internet Protocol Virtual Private Network services) and global roaming services, which is a fully managed solution that supports unlimited solutions over IP.*

## Management Discussion & Analysis

For the Year Ended December 31, 2005

### > Provision of a Suite of Secure Access & Managed Network Solutions to Enterprises:

integrated network security solutions comprising of managed firewall & virus and spam protections;

**Customer delight:** provide reliable customer experience and delight, and work towards being the service provider of choice for domestic and international businesses throughout Asia and beyond;

**Reinforce brand promise:** seek to further align our branding strategy across our products and service regions and centralize our brand management functions to promote a unified brand image;

**Focus on high growth areas:** such as broadband, including gaining access to a variety of broadband infrastructures;

**Regional integration:** continue to integrate our operations & realize synergies exploiting our regional network coverage to provide one-stop service to regional corporate customers.

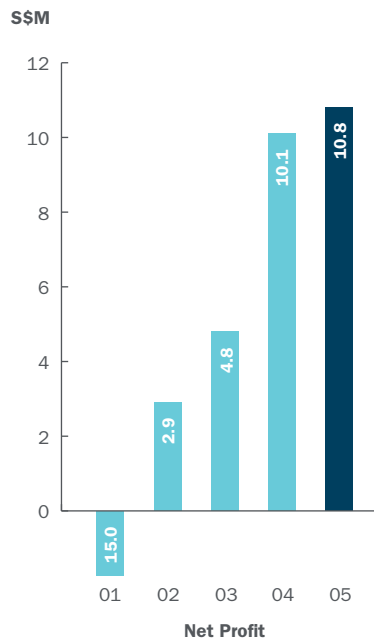
## 2. Discussion of Results of Operations

The Group ended 2005 with total net revenues of S\$170.4 million (US\$102.5 million), with a growth of 0.4% from last year or S\$0.7 million (US\$0.4 million).

The higher revenue was mainly contributed by the increase in **value added services**, broadband and leased line revenues offset by decline in dial up access and other revenues.

Significant contribution was from the broadband business and increasingly **value added services**. This is mainly due to the migration of the dial-up customers to higher-speed access i.e. broadband and significant incremental revenue contribution during the quarter on account of T3's acquisition (*Details narrated in the segmental revenue analysis*).

The Group achieved a full year profit of S\$10.8 million (US\$6.5 million).



As of December 31, 2005, the Group held cash and bank balances of S\$59.6 million (US\$35.8 million).

**2.1 Revenue & Segmental Revenue Analysis:**

During the fourth quarter of this year, highest revenue growth is witnessed in value added services along with that in corporate business broadband and leased line services.

This trend is particularly evident in Hong Kong and Australia with strong growth in the corporate subscriber base.

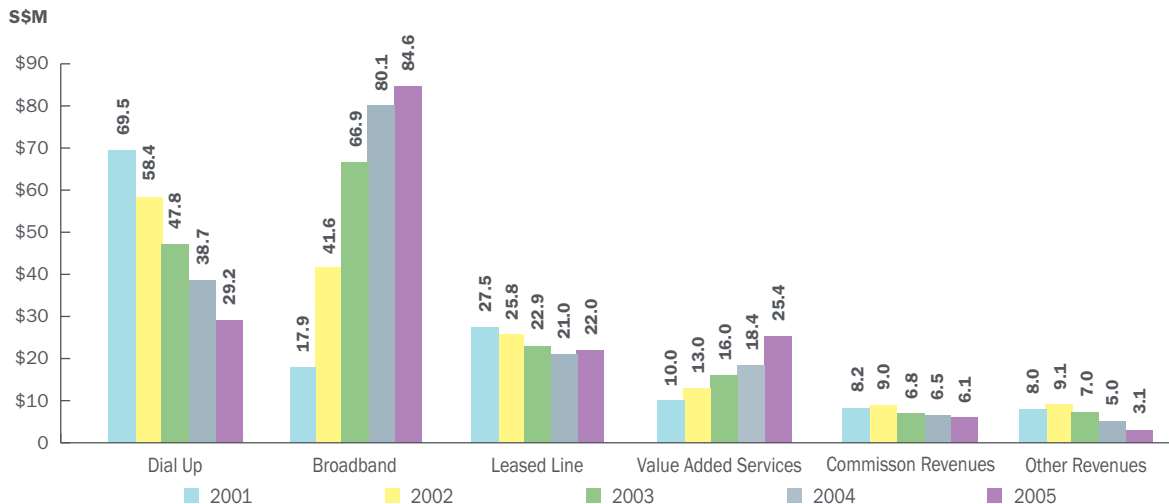
This is a result of the strong value proposition to businesses of higher speed broadband services at affordable prices. Revenue contribution on account of value added services has been significant as we focus on providing high-end **value-added services** to large companies, small and medium-sized enterprises, internationally oriented businesses and high-end residential communities.

Over the years, we have built a network infrastructure that enables us to target major cities, which have high demand and growth potential for telecommunications services.

To retain our existing customers and gain new customers, we intend to continue to enhance our network quality and customer service, strengthen our sales efforts through further customer segmentation and broaden our sales channels.

To maximize revenue per customer, we intend to develop and roll out more value-added services and focus on cross-selling existing and new services to our existing customers.

**Trend Analysis—Revenues by Product Categories (\$M)**



## Management Discussion & Analysis

### For the Year Ended December 31, 2005

#### 2.1.1 Value-Added Services (“VAS”)

The Group currently provides a variety of value-added services to cater to the increasing needs of today’s Internet-savvy customers. VAS includes global roaming, web hosting, anti-virus solutions, wireless access, data services, E-commerce and voice services etc.

**Value-Added Services Revenues of S\$25.4 million (US\$15.3 million) for the year, exhibited the highest growth** amongst all revenue streams, representing growth of 38.1%, compared to last year. The year-on-year increase in revenue was mainly from other services such as wireless access and voice services.

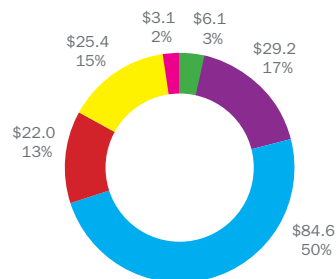
During the fourth quarter of this year, VAS Revenues of S\$9.8 million (US\$5.9 million), registered a year-on-year and quarter-on-quarter growth of more than 100% (~110.5%) and 81.5% respectively. The result was primarily due to T3’s contribution from its voice revenue, which was accounted for from October 2005 onwards. VAS Revenues from Pacific Internet, Australia, has contributed an incremental S\$4.1m revenue during the fourth quarter of the year.

The Group ended the year with 23,956 subscribers, registering for value added services; with a phenomenal year-on-year growth of 78%.

#### Revenue Contribution by Product (S\$M & %)

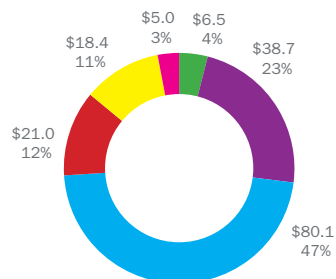
##### FY2005

- Dial up Access
- Broadband Access
- Leased Line Access
- Value Added Services
- Other Revenues
- Commission Revenues



##### FY2004

- Dial up Access
- Broadband Access
- Leased Line Access
- Value Added Services
- Other Revenues
- Commission Revenues



VAS Revenues of S\$25.4 million (US\$15.3 million) for the year, exhibited the highest growth. Whilst Broadband revenues formed the highest revenue contribution at 50% of the total revenues this year.

### **2.1.2 Broadband Access**

Currently, Pacific Internet provides high-speed and high-capacity broadband access services using the Digital Subscriber Line (“DSL”) technology in six countries – Singapore, Hong Kong, the Philippines, Australia, Thailand and Malaysia.

Broadband Access Revenues for the year was S\$84.6 million (US\$50.9 million), accounting for the highest contribution at 49.7% of total revenues. Contribution of total revenues increased from 47.2% a year ago at S\$80.1 million (US\$48.2 million). Broadband Access Revenues for the year grew by 5.7% or S\$4.5 million (US\$2.7 million). Based on past trends, broadband remained to be a key revenue driver.

The Group ended the year with 72,458 broadband subscribers registering a year-on-year growth of 8%. The growth is more evident in the broadband corporate segment.

Substantial increase in the corporate broadband subscribers during the period was witnessed in Australia. With the increasing demand for corporate broadband Internet services due to the high-speed bandwidth and its price competitiveness as compared to other traditional offerings such as leased lines, the Group expects demand for broadband services to continue on its upward trend.

The following table summarizes the broadband subscribers by geography:

Broadband subscriber base by geography	December 2005	December 2004
Singapore	32,969	34,250
Malaysia	3	-
Hong Kong	15,784	14,910
Australia	23,076	17,160
Philippines	182	170
<b>Total for consolidated companies</b>	<b>72,014</b>	<b>66,490</b>
Thailand **	444	340
<b>Total</b>	<b>72,458</b>	<b>66,830</b>

\*\* Results of Thailand operations are equity accounted for.

## Management Discussion & Analysis

### For the Year Ended December 31, 2005

#### **2.1.3 Dial-up Access**

Dial-up Access Revenues for the year were S\$29.2 million (US\$17.6 million), accounting for 17.2% of total revenues down from 22.8% a year ago at S\$38.7 million (US\$23.3 million). Dial up revenues for the year dropped by 24.4% or S\$9.5 million (US\$5.7 million). Dial-up revenues following a consistent downward trend reflects the continuing strategic shift from volume-based consumer business to higher margin corporate business.

The Group ended the year with 278,513 dial-up subscribers, registering a year-on-year decline of 28%; wherein the churn is more evident in the dial-up consumer segment. Moreover, the Group's more Internet savvy dial-up customers continued to migrate to higher speed access i.e. broadband.

The following table summarizes the dial up subscribers by geography:

Dial-up subscriber base by geography	December 2005	December 2004
Singapore	97,219	123,020
Malaysia	4	10
Hong Kong	66,392	74,020
Australia	29,119	33,340
Philippines	76,490	137,740
<b>Total for consolidated companies</b>	<b>269,224</b>	<b>368,130</b>
India **	840	1,040
Thailand **	8,449	19,790
<b>Total</b>	<b>278,513</b>	<b>388,960</b>

\*\* Results of India and Thailand operations are equity accounted for.

#### **2.1.4 Leased Line Access**

Leased Line Services are dedicated high-speed connectivity internet access provided to corporate customers and include a wide array of options that could be customized according to customers' requirements.

Leased Line Access Revenues for the year were S\$22.0 million (US\$13.2 million), representing growth of 4.5%, compared to last year.

In terms of revenue mix, Leased Line Revenues had a healthy contribution of 12.9% of the Group's total revenues for the year.

The Group ended the year with 1,789 leased line subscribers, registering a year-on-year growth of 12%.

The following table summarizes the leased line subscribers by geography:

Leased Line subscriber base by geography	December 2005	December 2004
Singapore	556	540
Malaysia	48	30
Hong Kong	200	210
Australia	195	140
Philippines	183	190
<b>Total for consolidated companies</b>	<b>1,182</b>	<b>1,110</b>
India **	116	100
Thailand **	491	390
<b>Total</b>	<b>1,789</b>	<b>1,600</b>

\*\* Results of India and Thailand operations are equity accounted for.

## Management Discussion & Analysis

For the Year Ended December 31, 2005

### **2.1.5 Commission Revenues and Other Revenues**

Commission revenue relates primarily to travel commission generated by the Group's travel arm - Safe2Travel Pte Ltd ("Safe2Travel"), which is the second largest corporate travel-ticketing agent in Singapore.

Safe2Travel applies Emerging Issue Task Force No. 99-19 ("EITF 99-19"), Reporting Revenue Gross as a Principal Versus Net as an Agent, in the recognition of commission revenues. As such, all air-ticketing revenues are recorded at the net amount, i.e. the amount charged to the customer less the amount payable/paid to the airlines.

For this year, Safe2Travel earned total commission revenues of S\$6.1 million (US\$3.7 million). Commission revenues for the year witnessed a decrease of 6.3% as compared to last year.

Although the commission revenue is recorded net, Safe2Travel's accounts receivable and payable are recorded at the gross amounts charged to the customer and payable to the airlines, respectively. This partly explains the large balance of accounts receivable and payable in the Group's balance sheet relative to its revenues and cost of sales.

As on December 31, 2005, Safe2Travel's accounts receivable and accounts payable were S\$11.1 million (US\$6.7 million) and S\$3.9 million (US\$2.3 million) respectively.

### **2.1.6 Other Revenues**

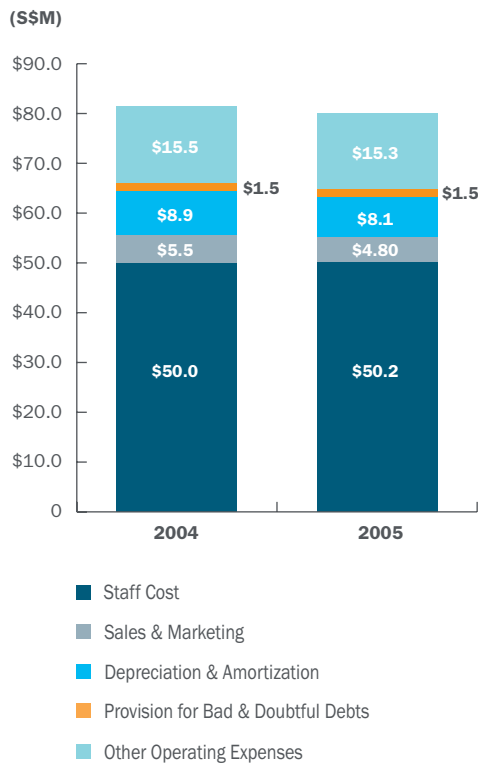
Other revenues include e-services revenue, online gaming revenue, network services and systems integration revenues.

Other revenues for the year were at S\$3.1 million (US\$1.8 million), representing a decline of 38.8%, compared to last year.

**2.2 Operating Costs and Expenses**

Total Operating costs and expenses (excluding cost of sales) for the year at S\$79.9 million (US\$48.1 million), decreased by 1.8%, compared to last year.

**Operating Expenses (\$M)**



**2.2.1 Cost of Sales**

The Group’s cost of sales consists mainly of ADSL wholesale charges, telecommunication costs in international leased circuits, leased lines and monthly charges for the use of telephone lines to the Group’s modem pool. Compared to last year, cost of sales for the year at S\$80.3 million (US\$48.3 million) increased by 5.3% over last year.

This was mainly due to change in sales mix as a result of the Group’s more Internet savvy dial-up customers continued migration to higher-speed access i.e. broadband which gives a lower gross margin. Moreover, the acquisition of T3 saw a large increase in value added services revenues, in particular voice revenue but lower gross profit margin. This has also contributed to the decline in gross margin during the period.

Gross margin for the year declined from 55.1% to 52.9%.

**2.2.2 Staff Costs**

Staff costs (inclusive of stock-based compensation costs) for the year were S\$50.2 million (US\$30.2 million), an increase of 0.3%, compared to last year.

Staff costs (before stock-based compensation costs) for the year were S\$50.3 million (US\$30.3 million).

## Management Discussion & Analysis

### For the Year Ended December 31, 2005

The Group has adopted the disclosure-only provisions of SFAS 123 Accounting for Stock-based Compensation and applies Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (“APB 25”) and related interpretations in accounting for its employee stock-based compensation plans. The Group has elected to use the intrinsic value method prescribed in APB 25 to account for options issued to employees. For options issued to non-employees under its stock-based compensation plan, the Group has accounted for them as provided under SFAS 123. The fair value of the options granted is estimated using the Black-Scholes option-pricing model.

Stock options granted under the 4th tranche of 1999 Share Option Plan issued after January 18, 2001 are variable accounted for in accordance with EITF 00-23 *Issues Relating to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44, Issue 31* (“EITF 00-23 Issue 31”). As of December 31, 2005, there are 1,125 outstanding options with an exercise price of US\$3.09, which are subject to variable accounting. A total compensation cost for the 4th tranche stock options for the year was a reversal of S\$0.13 million (US\$0.08 million), compared to a charge of S\$0.24 million (US\$0.15 million) last year.

The total stock-based compensation cost recognized by the Group for the year, was a reversal of S\$0.1 million (US\$0.06 million) compared to a charge of S\$0.8 million (US\$0.5 million) last year.

Excluding the effects of stock-based compensation cost, staff costs as a percentage of gross revenues were 29.5% and 29.0% for this and last year respectively.

The Group’s staff strength including the unconsolidated affiliates as at year end was 1,075 compared to 1,119, a year ago.

#### **2.2.3 Sales and Marketing Expenses**

Sales and marketing expenses for the year were S\$4.9 million (US\$2.9 million), witnessing a decline of 11.2 % over last year.

**2.2.4 Other General and Administrative Expenses**

Other general and administrative expenses consisted mainly of travelling expenses, office expenses and professional and consultancy fees.

Other General and Administrative expenses for the year were S\$15.3 million (US\$9.2 million). These expenses decreased by 1.3% over last year.

**2.2.5 Depreciation and Amortization**

Depreciation and amortization for the year was S\$8.1 million (US\$4.9 million), a year-on-year decline of 9.0%. The reduction is mainly due to lower depreciation charges due to more fully depreciated assets.

**2.2.6 Allowance for Doubtful Accounts Receivables**

For the year ended December 31, 2005, allowance for doubtful accounts receivables were at S\$1.5 million (US\$0.9 million), which reduced by 1.2% compared to 2004. This was a resultant of effective credit management.

**2.2.7 Other Income/(Expenses)**

Other income/(expenses) comprises largely of equity in gain/(losses) of unconsolidated affiliates, net gain in foreign exchange revaluation, interest income earned and others.

Other income for the year was S\$3.0 million (US\$1.8 million), a year-on-year increase of S\$2.5 million (US\$1.5 million). The reasons for increase in "other income" are increase in profit from associates company and interest income.

**2.3 Net Income**

The Group's full year net income was S\$10.8 million (US\$6.5 million), a year-on-year increase of 6.8% or S\$0.7 million (US\$0.4 million).

**2.4 Liquidity and Capital Resources**

As of December 31, 2005, the Group held cash and bank balances of S\$59.6 million (US\$35.8 million). Total cash generated for the year was S\$0.5 million (US\$0.3 million).

For the year ended December 31, 2005, operating activities generated cash of S\$13.9 million (US\$8.3 million). This was offset by the outflow of S\$13.5 million (US\$8.1 million) in investing activities, which were mainly on account of acquisition of fixed assets and intangible assets. Cash provided by financing activities amounted to S\$0.09 million (US\$0.05 million).

## Investor Information

**Independent Registered Public Accounting Firm**  
Ernst & Young

### Quarterly Earnings

Schedule of our quarterly earnings release dates and quarterly results are available on our Investor Relations website. A conference call is held on the same day after the earnings results have been released.

### Stock Exchange

The Common Stock of the Company is traded on the NASDAQ National Market under the symbol PCNTF in lots of 100 shares.

### Shares Outstanding

As of December 31, 2005 are 13,412,247

### Fiscal Year

December 31

### Stock Register and Transfer Agent

The Bank of New York  
One Wall Street  
New York, New York 10286

### Forward-looking Statements Disclaimer

Included in this report are various "forward-looking statements" which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, some of these may be identified by the use of words such as "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "may" and "might". The Group has made forward-looking statements with respect to the following, among others:

- projected capital expenditures, expansion plans and liquidity;
- development and growth of additional revenue sources;
- development and maintenance of profitable pricing programs; and
- outcome of potential litigation.

These statements are forward-looking which reflect the Group's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. They are subject to a number of risks and uncertainties, including but not limited to, (1) continued decline in economic conditions; (2) increasing maturity of the market for Internet access and fluctuations in the use of the Internet that may adversely impact the Group's subscriber growth rates and revenues; (3) changes in technology and the Internet marketplace; (4) the Group's continued ability to develop and win acceptance of its products and services, which are offered in highly competitive markets, more particularly, changes in the assumptions of the effectiveness of business strategies or initiatives carried out or to be carried out by the Group; (5) the success of its business partnerships and alliances; (6) exchange rates, particularly between the Singapore dollar, the US dollar and other currencies in which the Group makes significant sales or in which its assets and liabilities are denominated; (7) deterioration of the financial position of debtors; (8) changes in estimates of network service costs accruals due to delayed or late billing by telecommunication companies; (9) changes in economic environment, churn rate of subscribers or assessment of future operations resulting in an impairment in goodwill and other intangible assets; (10) changes in assumptions of the effectiveness of strategies related to legal proceedings generally and more particularly changes in assumptions of costs of maintaining such proceedings; (11) changes in assumptions of the effectiveness of tax planning strategies generally and more particularly (i) changes in operations that may affect the assumptions relating to deferred tax assets; and (ii) changes in factors affecting the interpretation of certain withholding tax laws which may significantly impact the Group's cash resources; (12) obtaining the requisite funding support and the challenge of keeping expense growth at manageable levels while increasing revenues; (13) changes in the economic, regulatory and political environment in the countries where the Group operates, or may in the future operate, including but not limited to (i) changes in tax, telecommunications, licensing and other relevant laws and regulations; (ii) changes in political stability; and (14) the outcome of contingencies. In addition to the foregoing factors, a description of certain other risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements can be found in the section captioned "Risk Factors" in our latest Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. In light of the many risks and uncertainties surrounding the Group and the Internet marketplace, many of which are beyond the Group's control and are difficult to predict, actual results could differ materially from those in the forward-looking statements. Given these concerns, undue reliance should not be placed on these forward-looking statements. The Group assumes no obligation to update any such forward-looking statements.

### Form 20-F and 6-K Information

Softcopies of Form 20-F and 6-K as filed with the Securities and Exchange Commission are available on our Investor Relations website:  
[www.pacnet.com/investor](http://www.pacnet.com/investor)

### Investor Contact Information

Shareholders, financial analysts, brokers, financial media and others seeking information about the Company's financial affairs may contact:

Pacific Internet Limited  
Investor Relations  
89, Science Park Drive  
#01-07, The Rutherford  
Singapore 118261  
Tel: 65-6872 0322  
Fax: 65-6872 2126  
Email: [investor@pacific.net.sg](mailto:investor@pacific.net.sg)

## Financial Contents

Report of the Directors	55
Statement by Directors	62

### **US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

Report of Independent Registered Public Accounting Firm	63
Consolidated Balance Sheets	64
Consolidated Statements of Operations and Comprehensive Income	66
Consolidated Statements of Cash Flows	68
Consolidated Statements of Shareholders' Equity	70
Notes to Consolidated Financial Statements	72

### **SINGAPORE FINANCIAL REPORTING STANDARDS**

Report of the Auditors	119
Profit and Loss Accounts	120
Balance Sheets	121
Statements of Changes in Equity	122
Statements of Cash Flows	123
Notes to Financial Statements	125

## **Notes**

The Company maintains its records and prepares its statutory financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50. On January 3, 2006, the Company has obtained waivers granted by the Chief Executive Accounting & Corporate Regulatory Authority (formerly known as Registrar of Companies & Business) in Singapore from preparing, amongst others, consolidated financial statements prepared in accordance with the Singapore Financial Reporting Standards (“SING GAAP”).

With the waiver, the Company has prepared its consolidated financial statements in accordance with the generally accepted accounting principles in the United States of America (“US GAAP”), which is found at pages 64 – 118. A set of the Company’s audited accounts, prepared in accordance with SING GAAP, can be found at pages 120 – 168.

Please note that there are variances between some of the figures in the financial statements reported under US GAAP and those stated under SING GAAP. These variances have arisen solely as a result of differences in certain accounting standards under the two GAAP regimes. Some examples of the adjustments relate to: (1) capitalization and amortization of goodwill, (2) deferred income taxes, and (3) stock-based compensation.

## Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and of the Group for the financial year ended December 31, 2005.

### Directors

The names of the Directors in office at the date of this report are :

Tan Bien Kiat	(Appointed as Chairman and director on July 6, 2005)
Chew Hai Chwee	(Appointed on July 6, 2005)
Claude Roger Charles	(Appointed on September 9, 2005)
Tan Chin Kwang Johnson	(Appointed on September 9, 2005)
Lim Soon Hock	(Appointed on October 10, 2005)
Phey Teck Moh	(Appointed on January 16, 2006)

### Directors' Interest in shares and debentures

None of the Directors who held office at the end of the financial year had, according to the register required to be kept under Section 164 of the Singapore Companies Act, any interest in shares, share options, warrants or debentures of the Company, or its related companies, either at the beginning of the financial year, or date of appointment if later, or at end of the financial year, except as follows :

	<b>Holdings in the name of the Director, spouse or infant children</b>	
	<b>At beginning of the financial year or date of appointment</b>	<b>At end of the financial year</b>

#### **Pacific Internet Limited**

#### **Options to purchase ordinary shares of S\$2 each <sup>(1)</sup>**

Tan Bien Kiat	–	12,000
Chew Hai Chwee	–	5,000
Claude Roger Charles	–	5,000
Tan Chin Kwang Johnson	–	5,000
Lim Soon Hock	–	5,000

## Report of the Directors (continued)

- (1) These options are granted under the 1999 share options plans of the Company, subject to continued employment. These share options, upon vesting, are exercisable within the time periods ranging from November 7, 2005 to November 6, 2010 at S\$10.69 per share.

### **Directors' contractual benefits**

Since the end of the previous financial year, no Director of the Company or the Group has received or has become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except those disclosed in the financial statements.

On August 8, 2005, Chew Hai Chwee, a non-executive non-independent Director of the Company entered into a service contract with the Company whereby he was appointed Executive Director of the Company to act as primary liaison with the management of the Company until a new Chief Executive Officer was appointed.

Save as disclosed above, neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements, to which the Company is a party, to enable Directors of the Company to acquire benefits by means of the acquisition of shares in, warrants or debentures of, the Company or any other body corporate.

### **Share Options**

#### **The Company**

**(a) 1998 Employee Share Option Plan (the "1998 ESOP")**

Options under the plan fully expired in financial year 2004.

**(b) 1999 Share Option Plan (the "1999 SOP")**

On November 10, 1999, the Directors approved the 1999 SOP for certain eligible persons to subscribe for ordinary shares in the Company. The maximum number of shares which may be granted under the 1999 SOP shall be the number together with the total number of options granted under the 1998 ESOP equals 20% of the Company then issued share capital on a fully diluted basis. The exercise price is the average of the officially quoted closing price of the Company's shares on the NASDAQ's National Market System for the five trading days immediately preceding the date of grant.

The first tranche of options expired during the financial year 2004.

On April 25, 2000, the Company issued the 2nd tranche of options under the 1999 SOP. Options to subscribe for a total of 408,000 shares were granted to eligible persons of which 394,900 were accepted. The exercise price per share of these options is US\$25.60.

No options were exercised and 94,600 options under the 2nd tranche of options expired during the financial year.

## Report of the Directors (continued)

### Share Options (continued)

#### (b) 1999 Share Option Plan (the “1999 SOP”) (continued)

On January 10, 2001, the Company issued the 3rd tranche of options under the 1999 SOP. Options to subscribe for a total of 804,000 shares were granted to eligible persons of which 725,950 were accepted. The exercise price per share of these options is US\$3.60.

27,964 options were exercised and 6,450 were expired during the financial year. There is a balance of 36,600 shares subject to options under the 3rd tranche of options as at December 31, 2005.

On April 10, 2001, the Company issued the 4th tranche under the 1999 SOP. Options to subscribe for a total of 319,000 shares were granted to eligible persons of which 316,800 were accepted. The exercise price per share of these options is US\$3.09.

86,475 options were exercised and zero options expired during the financial year. There is a balance of 1,025 shares subject to options under the 4th tranche of options as at December 31, 2005.

On August 18, 2003, the Company issued the 5th tranche under the 1999 SOP. Options to subscribe for a total of 821,000 shares were granted to eligible persons of which 707,800 were accepted. The exercise price per share of these options is S\$11.22.

3,630 options were exercised, 206,230 options were cancelled or expired during the financial year. There is a balance of 324,504 shares subject to option under the 5th tranche of options as at December 31, 2005.

On March 25, 2004, the Company issued the 6th Tranche under the 1999 SOP. Options to subscribe for a total of 781,000 shares were granted to eligible persons of which 766,000 were accepted. The exercise price per share of these options is S\$16.92.

No options were exercised, 283,500 options were cancelled or expired during the financial year. There is a balance of 394,500 shares subject to option under the 6<sup>th</sup> tranche of options as at December 31, 2005.

On November 7, 2005, the Company issued the 7<sup>th</sup> Tranche under the 1999 SOP. Options to subscribe for a total of 279,100 shares were granted to eligible persons of which 279,100 were accepted. The exercise price per share of these options is S\$10.69.

No options were exercised, cancelled or expired during the financial year. There is a balance of 279,100 shares subject to option under the 7<sup>th</sup> tranche of options as at December 31, 2005.

Up to December 31, 2005, pursuant to the 1999 SOP, options to subscribe up to 4,059,100 shares have been granted to eligible persons of which 3,813,150 were accepted.

The options granted under the 1999 SOP do not carry any rights to participate in share issues of any other company.

## Report of the Directors (continued)

### Share Options (continued)

#### Information pertaining to Outstanding Options

At the end of the financial year, unissued ordinary shares of the Company under the 1999 SOP were as follows :

#### *Number and class of shares*

1,035,729 ordinary shares of S\$2 each arising from the 1999 SOP.

#### *Exercise Price*

1999 Options (3 <sup>rd</sup> tranche)	–	US\$3.60 per share
1999 Options (4 <sup>th</sup> tranche)	–	US\$3.09 per share
1999 Options (5 <sup>th</sup> tranche)	–	S\$11.22 per share
1999 Options (6 <sup>th</sup> tranche)	–	S\$16.92 per share
1999 Options (7 <sup>th</sup> tranche)	–	S\$10.69 per share

#### *Option Terms*

1999 Options (3 <sup>rd</sup> tranche)	–	From January 10, 2001 to January 9, 2006
1999 Options (4 <sup>th</sup> tranche)	–	From April 10, 2001 to April 9, 2006
1999 Options (5 <sup>th</sup> tranche)	–	From August 18, 2003 to August 17, 2008
1999 Options (6 <sup>th</sup> tranche)	–	From March 25, 2004 to March 24, 2009
1999 Options (7 <sup>th</sup> tranche)	–	From November 7, 2005 to November 6, 2010

#### Statutory and other information regarding the Options

- (i) The 1999 SOP is administered by the Compensation & Administrative Committee (“CAC”) which is the reconstitution and merger of the Compensation Committee and the Administrative Committee on May 30, 2002. It is a committee comprised of members of the Board of Directors of the Company.
- (ii) The Bank of New York has been appointed as the Stock Administrator for both Option Plans.
- (iii) Pursuant to the resolutions passed by the CAC on February 19, 2004, one former Director was authorized to exercise his options in full (including in respect of unvested shares) under the option agreements signed with the Company dated November 10, 1999, April 25, 2000, January 10, 2001 and August 18, 2003 in respect of some or all of the shares at any time prior to or on February 18, 2006, with effect from February 19, 2004.

## Report of the Directors (continued)

### Share Options (continued)

#### Statutory and Other Information Regarding The Options (continued)

(iv) The Options for 1999 (2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> tranche) generally became exercisable as follows :

- (a) 25% of the Options vested and became exercisable on the first anniversary of the date of grant;
- (b) an additional 25% of the Options vested and became exercisable on the second anniversary of the date of grant; and
- (c) the remaining 50% of the Options vested and became exercisable on the third anniversary of the date of grant.

The Options for 1999 (5<sup>th</sup> and 6<sup>th</sup>) became exercisable as follows :

- (a) 33% of the Options vested and became exercisable on the first anniversary of the date of grant;
- (b) an additional 33% of the Options vested and became exercisable on the second anniversary of the date of grant; and
- (c) the remaining 34% of the Options vested and became exercisable on the third anniversary of the date of grant.

During the year, the CAC approved and authorized the acceleration of the vesting date of 5<sup>th</sup> and 6<sup>th</sup> tranche to November 8, 2005. The remaining 34% (5<sup>th</sup> tranche) and 67% (6<sup>th</sup> tranche) of the Options vested and became exercisable on November 8, 2005.

The Options for 1999 (7<sup>th</sup> tranche) become exercisable as follows :

- (a) 33% of the Options vested and became exercisable on the date of grant;
- (b) an additional 33% of the Options will vest and become exercisable on the first anniversary of the date of grant; and
- (c) the remaining 34% of the Options will vest and become exercisable on the second anniversary of the date of grant.

## Report of the Directors (continued)

### Share Options (continued)

#### Subsidiary

##### (a) Equity Incentive Plan (“EIP”)

In August 2000, a subsidiary of the Company, Pacfusion Limited (“PF”) established the 2000 Equity Incentive Plan. Options to subscribe for up to 4,471,800 shares were granted on August 8, 2000 to employees and non-employees of PF at an exercise price of US\$0.59 per share of which 4,227,000 were accepted. Options to subscribe for up to 295,800 shares were granted on November 16, 2000 to employees of PF at an exercise price of US\$0.59 per share of which 230,800 were accepted.

During the year, the Board and the CAC authorized the termination of the EIP, with effect March 7, 2005.

#### Information pertaining to Outstanding Options

At the end of the financial year, nil options were outstanding as the plan expired during the financial year.

#### Statutory and other information regarding the Options

The 2000 Equity Incentive Plan is administered by the Administrative Committee, a committee constituted by members of the Board of Directors of PF.

The vesting schedule is as follows :

- (i) 25% of the Options vested and became exercisable on the earlier of the date which was five years after the grant date and the first date upon which the shares of PF were listed or approved for listing (the earlier of such dates being the ‘Initial Vesting Date’);
- (ii) an additional 25% of the Options vested and became exercisable on the first anniversary of the Initial Vesting Date; and
- (iii) the remaining 50% of the Options vested and became exercisable on the second anniversary of the Initial Vesting Date.

## Report of the Directors (continued)

### Audit Committee

The Audit Committee was established on November 19, 1998 and as at December 31, 2005 comprised the following members:

Non-Executive Independent Directors:

Lim Soon Hock	(Appointed as member on October 10, 2005 and appointed as Chairman on November 18, 2005)
Tan Chin Kwang Johnson	(Appointed on September 9, 2005)
Claude Roger Charles	(Appointed on November 24, 2005)

The Audit Committee has adopted an Audit Committee Charter to, among others, regulate and administer the proceedings of the Committee. In the discharge of its functions, the Audit Committee may seek guidance from the best corporate governance practices in Singapore, including without limitation the Code of Corporate Governance issued by the Corporate Governance Committee in Singapore and the SGX Securities Trading Listing Manual issued by the Singapore Exchange Limited, to the extent that such practices are not inconsistent with the regulatory requirements of the US Securities Exchange Commission or the NASDAQ National Stock Market applicable to it.

During the financial year, the Audit Committee met four times and has:

1. reviewed the audit plan and the scope of examination of the external auditors of the Group; and
2. evaluated the findings and recommendation of the external auditors' review of the internal controls of the Group.

The Audit Committee recommends to the Board of Directors the nomination of Ernst & Young for re-appointment as external auditors, at the forthcoming annual general meeting of the Company.

### Auditors

The auditors, Ernst & Young, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board,

#### Tan Bien Kiat

Director

#### Chew Hai Chwee

Director

Singapore  
February 15, 2006

## Statement by Directors

Pursuant to Section 201(15) of the Companies Act, Cap. 50

We, Tan Bien Kiat and Chew Hai Chwee, being two of the Directors of Pacific Internet Limited, do hereby state that, in the opinion of the Directors :

- (i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and statements of cash flow together with notes set out on pages 120 to 168 are drawn up so as to give a true and fair view of the state of affairs of the Company as at December 31, 2005, and the results of the business, changes in equity and cash flows of the Company for the financial year ended on that date;
- (ii) the balance sheets, statements of operations and comprehensive income statements, statements of shareholders' equity and statements of cash flow together with notes set out on pages 64 to 118 are drawn up so as to give a true and fair view of the state of affairs of the Group as at December 31, 2005, and the results of the business, changes in equity and cash flow of the Group for the financial year ended on that date;
- (iii) at the date of this statement there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they fall due.

On behalf of the Board,

**Tan Bien Kiat**

Director

**Chew Hai Chwee**

Director

Singapore

February 15, 2006

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
Pacific Internet Limited

We have audited the accompanying consolidated balance sheets of Pacific Internet Limited (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Internet Limited at December 31, 2005 and 2004 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 and Note 24 of the consolidated financial statements, in 2003, the Company changed its method of accounting for asset retirement obligations.

### **ERNST & YOUNG**

Singapore  
February 15, 2006

## Consolidated Balance Sheets

(Singapore and U.S. Dollar Amounts in Thousands, except Share Data)

### ASSETS

	Note	December 31,		
		2004 S\$	2005 S\$	2005 US\$
<b>Current assets:</b>				
Cash and cash equivalents		\$ 57,964	\$ 58,421	\$ 35,134
Fixed deposits with financial institutions	20	–	1,151	692
Accounts receivable, net of allowance for doubtful accounts of S\$3,143 and S\$3,556 (US\$2,139) at December 31, 2004 and 2005, respectively		25,174	28,119	16,911
Receivables from related parties	6	4,413	498	299
Inventories		341	377	227
Prepaid expenses and other current assets	7	2,651	6,741	4,054
Deferred income taxes	19	1,468	1,828	1,099
<b>Total current assets</b>		<b>92,011</b>	<b>97,135</b>	<b>58,416</b>
<b>Non-current assets:</b>				
Investments in unconsolidated subsidiary and affiliates	8	2	346	208
Long term investments	9	32	46	28
Fixed assets – net	10	17,860	18,040	10,849
Intangible assets	11	561	4,390	2,640
Goodwill	12	28,206	32,012	19,252
Long term receivables and loan receivable from unconsolidated affiliates	13	4,957	8,802	5,293
Deposits and other assets		262	294	177
Deferred income taxes	19	533	676	407
<b>Total non-current assets</b>		<b>52,413</b>	<b>64,606</b>	<b>38,854</b>
<b>Total assets</b>		<b>\$ 144,424</b>	<b>\$ 161,741</b>	<b>\$ 97,270</b>

See accompanying notes

## Consolidated Balance Sheets (continued)

(Singapore and U.S. Dollar Amounts in Thousands, except Share Data)

### LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	December 31,		
		2004 S\$	2005 S\$	2005 US\$
<b>Current liabilities:</b>				
Bank borrowings	14,15	\$ 2,526	\$ 2,460	\$ 1,479
Accounts payable		9,858	11,226	6,751
Payables to related parties	16	951	910	547
Accrued expenses and other liabilities	17	26,553	29,998	18,041
Deferred income	18	5,594	7,384	4,441
Current portion of capital lease obligations	22	470	317	191
Income tax payable		4,295	3,892	2,340
Total current liabilities		50,247	56,187	33,790
<b>Non-current liabilities:</b>				
Capital lease obligations, less current portion	22	524	297	179
Deferred income taxes	19	1,554	1,765	1,061
Total non-current liabilities		2,078	2,062	1,240
Minority interest		1,480	1,820	1,095
<b>Shareholders' equity</b>				
Ordinary shares, S\$2 par value; authorized 25,000,000 shares, issued and outstanding 13,294,178 and 13,412,247 shares at December 31, 2004 and 2005, respectively		26,588	26,824	16,132
Additional paid-in capital		97,636	97,939	58,900
Accumulated other comprehensive income		1,366	990	596
Accumulated deficit		(34,901)	(24,081)	(14,483)
Deferred compensation		(70)	-	-
Total shareholders' equity		90,619	101,672	61,145
<b>Total liabilities and shareholders' equity</b>		<b>\$ 144,424</b>	<b>\$ 161,741</b>	<b>\$ 97,270</b>

See accompanying notes

## Consolidated Statements of Operations and Comprehensive Income

(Singapore and U.S. Dollar Amounts in Thousands, except Share Data)

	Note	Year Ended December 31,			
		2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Revenues</b>					
Dial-up access		\$ 47,792	\$ 38,708	\$ 29,247	\$ 17,589
Broadband access		66,918	80,104	84,646	50,906
Leased line access		22,934	21,038	21,978	13,217
Value-added services		16,044	18,364	25,361	15,252
Commission revenue		6,808	6,537	6,122	3,682
Other <sup>(1)</sup>		6,997	5,008	3,063	1,842
		167,493	169,759	170,417	102,488
<b>Operating costs and expenses</b>					
Cost of sales		73,866	76,243	80,263	48,270
Selling, general and administrative expenses	4	72,702	70,998	70,336	42,300
Depreciation		9,612	8,519	7,675	4,616
Amortization of intangible assets		1,021	380	425	255
Allowance for doubtful accounts receivable	23	2,079	1,506	1,488	895
Total operating expenses		159,280	157,646	160,187	96,336
Operating income		8,213	12,113	10,230	6,152
<b>Other income (expense)</b>					
Interest income <sup>(2)</sup>		367	427	1,159	697
Interest expense <sup>(2)</sup>		(251)	(141)	(147)	(88)
Gain on disposal of quoted investment		69	–	–	–
Equity in (loss) gain of unconsolidated affiliates		(244)	306	669	402
Foreign exchange gain (loss)		549	(425)	(66)	(40)
Others	5	317	347	1,404	844
Total other income		807	514	3,019	1,815
<b>Income before income taxes and minority interest</b>					
Provision for income taxes	19	9,020	12,627	13,249	7,967
		(3,650)	(3,143)	(2,083)	(1,253)
Minority interest		5,370	9,484	11,166	6,714
Cumulative effect adjustment – net of tax	21	(325)	(97)	(342)	(206)
		(220)	–	(4)	(2)
Net income before extraordinary item		4,825	9,387	10,820	6,506
Extraordinary item – net of tax of S\$nil	33	–	743	–	–
		4,825	10,130	10,820	6,506
<b>Other comprehensive income</b>					
Foreign currency translation		3,516	77	(350)	(210)
Unrealized gain (loss) (net of income tax of S\$7, S\$nil and S\$nil in 2003, 2004 and 2005 respectively) in available-for-sale securities		22	(23)	(26)	(16)
Comprehensive income		\$ 8,363	\$ 10,184	\$ 10,444	\$ 6,280

See accompanying notes

## Consolidated Statements of Operations and Comprehensive Income (continued)

(Singapore and U.S. Dollar Amounts in Thousands, except Share Data)

	Note	Year Ended December 31,			
		2003 S\$	2004 S\$	2005 S\$	2005 US\$
Net income per share:					
Basic – before extraordinary item and accounting change		\$ 0.39	\$ 0.71	\$ 0.81	\$ 0.49
Cumulative effect adjustment		(0.02)	–	–	–
Extraordinary item		–	0.06	–	–
Basic – after extraordinary item and accounting change		\$ 0.37	\$ 0.77	\$ 0.81	\$ 0.49
Diluted – before extraordinary item and accounting change		\$ 0.38	\$ 0.69	\$ 0.81	\$ 0.49
Cumulative effect adjustment		(0.02)	–	–	–
Extraordinary item		–	0.06	–	–
Diluted – after extraordinary item and accounting change		\$ 0.36	\$ 0.75	\$ 0.81	\$ 0.49
Weighted average number of ordinary shares outstanding:					
Basic		12,985,036	13,238,793	13,339,896	13,339,896
Diluted		13,249,096	13,429,615	13,384,706	13,384,706
(1) Includes sales to:					
former intermediate parent company		172	45	–	–
affiliated companies		590	626	228	137
(2) Includes interest paid to (received from) affiliated company		27	–	(43)	(26)

See accompanying notes

## Consolidated Statements of Cash Flows

(Singapore and U.S. Dollar Amounts in Thousands)

	Note	Year Ended December 31,			
		2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Cash flows from operating activities:</b>					
Net income		\$ 4,825	\$ 10,130	\$ 10,820	\$ 6,506
Adjustment to reconcile net cash provided by (used in) operating activities:					
Equity in loss (gain) of unconsolidated subsidiaries and affiliates		244	(306)	(669)	(402)
Allowance for doubtful accounts receivable		2,079	1,506	1,488	895
Depreciation		9,612	8,519	7,675	4,616
Amortization of intangible assets		1,021	380	425	255
Minority interest		325	97	342	206
(Credit) provision for deferred income taxes		(860)	(123)	15	9
Realized gain on disposal of quoted investment		(69)	–	–	–
Loss on disposal of fixed assets		53	26	53	32
Write-off of fixed assets		26	21	4	2
Amortization (write back) of deferred compensation		2,375	842	(46)	(28)
Cumulative effect adjustment – net of tax		220	–	–	–
Extraordinary item		–	(743)	–	–
Changes in operating assets and liabilities, net of effects from business acquisition and dispositions:					
Accounts receivable, net		111	189	(2,523)	(1,517)
Balances with related parties		(5,706)	(111)	354	213
Inventories, net		142	(1)	80	48
Prepaid expenses and other assets		87	820	(3,282)	(1,973)
Accounts payable		770	(3,642)	(506)	(304)
Other payables		552	2,350	(1,392)	(837)
Deferred income		16	3,315	1,790	1,077
Income tax payable		968	141	(753)	(453)
Net cash provided by operating activities		16,791	23,410	13,875	8,345

See accompanying notes

## Consolidated Statements of Cash Flows (continued)

(Singapore and U.S. Dollar Amounts in Thousands)

	Note	Year Ended December 31,			
		2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Cash flows from investing activities:</b>					
Acquisition of fixed assets		(5,735)	(8,031)	(7,640)	(4,595)
Acquisition of a subsidiary, net of cash received		(429)	–	(2,124)	(1,277)
Acquisition of minority interest		–	(300)	–	–
Fixed deposit with maturity more than 90 days		–	–	(1,151)	(692)
Proceeds from disposal of fixed assets		153	282	12	7
Proceeds from disposal of short term investment		250	–	–	–
Purchase of quoted equity investment		(63)	–	–	–
Proceeds from disposal of quoted equity investment		299	–	–	–
Purchase of intangible assets		(570)	(156)	(2,607)	(1,568)
Loan to affiliates		(94)	–	–	–
Net cash used in investing activities		(6,189)	(8,205)	(13,510)	(8,125)
<b>Cash flows from financing activities:</b>					
Proceeds from bank borrowings		–	14	5	3
Repayment of bank borrowings		(605)	(132)	(71)	(43)
Repayment of capital lease obligations		(840)	(465)	(502)	(302)
Repayment of loan from affiliates		(4,250)	–	–	–
Proceeds from issuance of ordinary shares		1,329	1,618	656	395
Net cash (used in) provided by financing activities		(4,366)	1,035	88	53
Net increase in cash and cash equivalents		6,236	16,240	453	273
Cash and cash equivalents at beginning of year		35,179	41,905	57,964	34,859
Effect of exchange rate changes on cash and cash equivalents		490	(181)	4	2
Cash and cash equivalents at end of year	20	\$ 41,905	\$ 57,964	\$ 58,421	\$ 35,134
Supplemental disclosure of cash flow information:					
Cash paid during the year for interest		\$ 242	\$ 134	\$ 136	\$ 82
Cash paid for income taxes		3,012	3,261	2,755	1,657

See accompanying notes

## Consolidated Statements of Shareholders' Equity

(Singapore and U.S. Dollar Amounts in Thousands, except Share Data)

	Ordinary shares	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Deferred compensation
← Singapore \$ →						
<b>Balance at January 1, 2003</b>	12,815,066	25,631	92,741	(49,856)	(2,226)	(382)
Net income	–	–	–	4,825	–	–
Issue of shares through the exercise of share options	219,625	438	891	–	–	–
Deferred compensation relating to options	–	–	2,101	–	–	(2,101)
Amortization of deferred compensation	–	–	–	–	–	2,375
Net unrealized gain (net of income tax of S\$7) in available-for-sale securities	–	–	–	–	22	–
Foreign currency translation	–	–	–	–	3,516	–
<b>Balance at December 31, 2003</b>	13,034,691	26,069	95,733	(45,031)	1,312	(108)
Net income	–	–	–	10,130	–	–
Issue of shares through the exercise of share options	259,487	519	1,099	–	–	–
Deferred compensation relating to options	–	–	804	–	–	(804)
Amortization of deferred compensation	–	–	–	–	–	842
Net unrealized loss (net of income tax of S\$nil) in available-for-sale securities	–	–	–	–	(23)	–
Foreign currency translation	–	–	–	–	77	–
<b>Balance at December 31, 2004</b>	13,294,178	\$ 26,588	\$ 97,636	\$ (34,901)	\$ 1,366	\$ (70)
Net income	–	–	–	10,820	–	–
Issue of shares through the exercise of share options	118,069	236	419	–	–	–
Deferred compensation relating to options	–	–	(116)	–	–	116
Amortization (write back) of deferred compensation	–	–	–	–	–	(46)
Net unrealized loss (net of income tax of S\$nil) in available-for-sale securities	–	–	–	–	(26)	–
Foreign currency translation	–	–	–	–	(350)	–
<b>Balance at December 31, 2005</b>	13,412,247	\$ 26,824	\$ 97,939	\$ (24,081)	\$ 990	–

See accompanying notes

Total shareholders' equity	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Deferred compensation	Total shareholders' equity
	← US\$ →					
65,908						
4,825						
1,329						
-						
2,375						
22						
3,516						
77,975						
10,130						
1,618						
-						
842						
(23)						
77						
\$ 90,619	15,990	58,718	(20,989)	822	(42)	54,499
10,820	-	-	6,506	-	-	6,506
655	142	252	-	-	-	394
-	-	(70)	-	-	70	-
(46)	-	-	-	-	(28)	(28)
(26)	-	-	-	(16)	-	(16)
(350)	-	-	-	(210)	-	(210)
\$ 101,672	\$ 16,132	\$ 58,900	\$ (14,483)	\$ 596	\$ -	\$ 61,145

## Notes to Consolidated Financial Statements

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 1. Organization

Pacific Internet Limited (“Pacific Internet” or the “Company”), together with its subsidiaries and associated companies, is an Internet communications service provider in the Asia Pacific region. Incorporated in the Republic of Singapore on March 28, 1995 as Sembawang Media Pte Ltd, it changed its name to Pacific Internet Pte Ltd on March 17, 1998. On November 23, 1998, it was converted to a public company and was listed on NASDAQ on February 5, 1999.

Pacific Internet and its consolidated subsidiaries are hereinafter collectively referred to as the “Group”.

### 2. Business Acquisitions

#### Singapore

On June 9, 2000, Pacfusion.com Limited (subsequently known as Pacfusion Limited) was incorporated in Bermuda (“Pacfusion”). Pacfusion had an authorized share capital of 262,000,000 shares at par value of US\$0.001 each and an issued and paid-up capital of US\$64,406.78 divided into 64,406,780 shares of US\$0.001 each. In January 2004, the Company acquired 5,084,746 ordinary shares of US\$0.001 each, representing a 7.89% equity interest in Pacfusion, from the minority shareholder for S\$300 (US\$184), in an effort of making Pacfusion a wholly-owned subsidiary. As a result, the Company increased its equity interest in Pacfusion from 92.11% to 100%. On April 12, 2000, Pacfusion.com (Singapore) Pte Ltd was incorporated in Singapore and subsequently changed its name to Pacfusion.com Group Holdings Pte Ltd and then to Pacfusion Group Holdings Pte Ltd and then to Pacific Internet Services Pte Ltd (“PI Services”). PI Services’ principal activities are those of investment holding and electronic commerce and portal business. During 2000, Pacfusion.com (Malaysia) Sdn. Bhd. (subsequently known as Pacfusion (Malaysia) Sdn. Bhd.) (“PF Malaysia”), Pacfusion.com (Australia) Pty Limited (“PF Australia”) and TravelFusion.com Limited (“Travelfusion”) were also incorporated in Malaysia, Australia and Bermuda on April 19, 2000, May 8, 2000 and April 27, 2000, respectively. On March 14, 2000, Pacfusion.com (Thailand) Limited (“PF Thailand”) was incorporated with PI Services holding 49.0% of its issued share capital. The Group also acquired a shell company and renamed it Pacfusion.com (Hong Kong) Limited (“PF Hong Kong”) on March 8, 2000 for a nominal sum.

Safe2Travel.com Pte Ltd (subsequently known as Safe2Travel Pte Ltd) (“Safe2Travel”) was incorporated on April 8, 2000 to acquire the travel and travel related businesses from Safe & Mansfield Travel Group Pte Ltd (“SMTG”) for a purchase consideration of S\$10,000. SMTG is an established International Air Transport Association (IATA) accredited travel agency in Singapore with a focus on the corporate travel market since its formation in 1918. In December 2000, an intercompany loan of S\$9,962 granted to Safe2Travel by Travelfusion was converted into equity. As a result, Travelfusion increased its interest in Safe2Travel from 85.0% to 92.5%. In September 2004, PI Services acquired 18,462,000 ordinary shares of S\$1 each, representing 92.5% equity interest in Safe2Travel, from Travelfusion for S\$18,462. As a result, PI Services became the immediate holding company of Safe2Travel.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 2. Business Acquisitions (Continued)

#### Singapore (Continued)

During 2002, the Group conducted a restructuring exercise on its dormant subsidiaries. PF Hong Kong was deregistered with effect from December 13, 2002.

In December 2003, PF Thailand commenced liquidation.

In February 2004, PF Australia was deregistered. In March 2004, PF Malaysia was officially dissolved under Members' Voluntary Liquidation.

In December 2004, the Company acquired 2 ordinary shares of \$1 each, representing 100% equity interest in PI Services, from Pacfusion for a nominal sum.

On October 14, 2005, TravelFusion.com Limited was officially dissolved under Members' Voluntary Liquidation.

#### Australia

On January 19, 2000, Pacific Internet (Australia) Pty Limited ("PIAU") acquired the business of Kralizec Pty Ltd ("Zeta Internet") for approximately S\$1,396. Zeta Internet is an Internet Service Provider founded in 1985 in Sydney and was one of the first Internet service providers ("ISPs") to operate in the metropolitan area with the commercialization of the Australian Internet industry in 1994.

On February 1, 2000, PIAU acquired the business of Hub Communications Pty Ltd ("Hub Communications") for S\$536. Hub Communications is an Internet Service Provider established in Brisbane, Australia in 1995 and operated a chain of Internet cafes in Brisbane's Central Business District.

On April 5, 2000, PIAU acquired Hunterlink Pty Limited ("Hunterlink") for S\$5,915. Hunterlink is an Internet Service Provider based in Newcastle. Hunterlink was acquired for its reliability, customer service and customer base.

On September 15, 2003, PIAU acquired the customer lists of Product Information Services Pty Ltd ("Talent Internet") for S\$315.

On October 31, 2005, PIAU entered into an agreement to acquire the entire equity interest in T3 Communications Partners Pty Ltd ("T3") and its three subsidiaries, T3 Communications Pty Ltd, T3 Technology Solutions Pty Ltd and T3 Rewards Pty Ltd, for an initial cash payment of S\$4,064 and a contingent consideration of up to a maximum of S\$2,454 to be made, based on the achievement by T3 of earnings before interest and tax of A\$1,000 in the first 12 months subsequent to acquisition. The contingent consideration was included in the initial costs of acquisition based on the guidance of EITF 95-8 *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*. Acquisition costs capitalized in connection with the acquisition amounted to S\$300. T3 is a specialist voice reseller to the SMB sector and was acquired as its capability in voice allowed PIAU to establish more substantial voice and data bundles and position it as a total communications service provider. These factors contributed to a purchase price in excess of the fair market value of the net tangible and intangible assets acquired, and as a result the Company recorded goodwill in connection with this transaction.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 2. Business Acquisitions (Continued)

#### Australia (Continued)

The acquisition of T3 was accounted for using the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of the acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired is recognized as goodwill. The results of operations of T3 were consolidated for the 3 months ending December 31, 2005. A summary of the purchase price allocation as of the acquisition date is as follows:

	S\$	US\$
<b>Tangible assets</b>		
Fixed Assets	342	206
Other current assets	4,807	2,890
Total tangible assets	5,149	3,096
<b>Intangible assets</b>		
Customer base	1,633	982
Goodwill	4,063	2,443
Total intangible assets	5,696	3,425
<b>Liabilities assumed</b>		
Current liabilities	(3,977)	(2,392)
Non-Current liabilities	(350)	(210)
Total liabilities assumed	(4,327)	(2,602)
Net assets acquired	822	494

The pattern of economic benefits to be derived from intangible assets is estimated to be 4 years.

The following presents the condensed unaudited pro-forma results of operation of the Group as though the consolidation of T3 had occurred as of the beginning of the period :

	2004 S\$	2005 S\$	2005 US\$
Revenue	182,910	183,408	110,301
Net income before extraordinary item	9,962	11,322	6,809
Net income after extraordinary item	10,705	11,322	6,809
Net income per share:			
Basic – before extraordinary item	0.75	0.85	0.51
Basic – after extraordinary item	0.81	0.85	0.51
Diluted – before extraordinary item	0.74	0.85	0.51
Diluted – after extraordinary item	0.80	0.85	0.51

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 2. Business Acquisitions (Continued)

#### Hong Kong

The Company first entered the Hong Kong market in June 1996 through the acquisition of a 50.1% interest in Sembawang PacMann Pte Ltd, the holding company of Pacific Supernet Limited ("PSN"). In June 1999, the Company acquired the remaining 49.9% interest in PSN from its minority shareholder, Pacific Media PLC for a consideration of \$16,840 and operated in Hong Kong under the name of PSN. On January 3, 2005, PSN formally changed its name to Pacific Internet (Hong Kong) Limited ("PIHK").

On December 30 2005, PIHK entered into a Cooperation Agreement with a China-based Internet services provider, Zhong Ren Telecom for the formation of an equity joint venture ("EJV") to market integrated IP communication applications in Southern China. Under the Agreement, PIHK and Zhong Ren Telecom will each hold 50.0% of the equity interest of EJV and each party will make a capital contribution in the amount of RMB 5 million for their respective equity interest. As of December 31, 2005, no capital contribution had been made.

#### Thailand

On January 5, 2000, Pacific Digiway Limited ("Digiway"), an investment holding company, was incorporated in Thailand. The Company subscribed to 4,900 ordinary shares of Baht 10 each, representing a 49.0% equity interest in Digiway. Digiway in turn held a 26.0% direct equity interest in I.T. Star Company Limited. Digiway also owned 51.0% equity interest in PF Thailand.

In March 2000, the Company completed the acquisition of a 49.0% direct equity interest in I.T. Star Company Limited, which was the holding company of World Net & Services Co., Ltd. ("WNS"), an ISP based in Thailand for S\$2,040. Headquartered in Bangkok, WNS had points of presence in Ayuthaya, Chon Buri and Songkha. Subsequently, I.T. Star Company Limited changed its name to Pacific Internet (Thailand) Limited ("PITH").

On December 19, 2001, Digiway increased its equity interest in PITH from 26.0% to 41.0%. As a result, the Company's effective interest in PITH was increased from 61.7% to 69.1%.

In July 2003, Digiway purchased 188,176 shares of Baht 100 each, representing a 10.0% equity interest in PITH, from the minority shareholder. As a result, Digiway increased its equity interest in PITH from 41.0% to 51.0%, and the Company's effective interest in PITH was increased from 69.1% to 74.0%.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 2. Business Acquisitions (Continued)

#### Philippines

On March 18, 1998, the Company acquired a 40.0% stake in Primeworld Digital Systems, Inc. (subsequently known as Pacific Internet Philippines, Inc.) (“PIPH”), a Philippines corporation that provides Internet access in the Philippines. On July 31, 1999, the Company acquired 40.0% in PW Holding Corporation (“PWC”), a Philippines corporation, which in turn held 56.7% of PIPH. PIPH formally changed its name back to Primeworld Digital Systems, Inc. (“PDSI”) on March 17, 2005.

On March 16, 2001, the Company disposed 8.9% of its equity interest in PDSI for S\$201 to an unrelated party, reducing its direct interest in PDSI from 40.0% to 31.1%. With this disposal, the Company owns direct and indirect interests of 31.1% and 22.7% respectively in PDSI. As a consequence of the above changes, the Group ceased equity accounting for its investment in PDSI and consolidated PDSI from that date, as it has met the criteria set out in Note 3, *Principles of Consolidation*.

#### India

On October 9, 1998 the Company entered into a non-binding Memorandum of Understanding (“MOU”) with Thakral Brothers (Pte) Ltd (“Thakral Brothers”) to enter into a strategic joint venture for the operation of an Internet-related and ISP business in India (the “India Joint Venture”). On February 5, 1999, Pacific Internet India Private Limited (“PII”) was incorporated in India. On September 30, 1999, the Company acquired a 49.0% equity interest in PII. PII has obtained a nationwide license that allows it to provide public Internet access in any city in India. On February 28, 2001, the Company formally signed a joint venture agreement with an affiliate of Thakral Brothers, Glade Trading Private Limited, which holds the remaining 51.0% equity interest in PII.

On October 5, 2005, the Government of India through the Ministry of Finance (Foreign Investment Promotion Board Unit), granted its approval to the Company to increase its equity interest in PII from 49% to 55% through a further issue of shares. As of December 31, 2005, the Company’s equity interest in PII remains at 49.0% as the increase in equity interest from 49% - 55% had not been effected.

#### Malaysia

Pacific Internet (Malaysia) Sdn. Bhd. (“PIMY”) was incorporated on March 2, 1999 and commenced operations in the second quarter of 2002. Its principal activity is the provision of Internet access service to corporate customers.

Pursuant to an agreement dated May 26, 2005, the Company disposed of 39% of its equity interest in PIMY to a Malaysian investor. No minority interest has been accounted for by the Group.

All of the above acquisitions were accounted for using the purchase method of accounting. The purchase prices have been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of the acquisition. The excess of purchase prices over the estimated fair values of the net assets acquired has been recorded as goodwill. The operating results of these acquisitions are included in the Consolidated Statements of Operations from the date of acquisition. For accounting policy on goodwill, please refer to Note 3.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries after elimination of all significant intercompany balances and transactions. Investments in 20.0% to 50.0% owned affiliates with no controlling interest are accounted for by the equity method.

Where the Company has an indirect ownership of more than 50.0% in its subsidiaries, it will continue to account for these investments using the equity method until it has met the criteria set out by Statement of Financial Accounting Standards (“SFAS”) No. 94 – *Consolidation of All Majority-Owned Subsidiaries* and Emerging Issues Task Force (“EITF”) 96-16 – *Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*.

In January 2003, the FASB issued Interpretation No. 46 (revised December 2003) (“FIN 46R”) – *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. FIN 46R provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statements and provides guidance related to a company’s initial and subsequent measurement of newly consolidated VIEs. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either has: an insufficient amount of equity to carry out its principal activities without additional subordinated financial support; a group of equity owners that are unable to make significant decisions about its activities; or, a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46R requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE is obligated to absorb a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the VIE’s residual returns, or both. FIN 46R must be applied to all entities subject to this Interpretation as of March 31, 2004. There was no financial statement impact from the application of this Interpretation.

#### Accounting Records

The Company maintains its records and prepares its statutory financial statements in accordance with the provisions of the Singapore Companies Act and the Singapore Financial Reporting Standards (“FRS”). In previous years up till the financial year ended December 31, 2002, the statutory financial statements of the Company were prepared in accordance with Singapore Statements of Accounting Standard (“SAS”). The transition from SAS to FRS in the financial year ended December 31, 2003 did not result in any significant change in accounting policies. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous years. The Company has obtained waivers from Chief Executive, Accounting & Corporate Regulatory Authority in Singapore from preparing, amongst others, consolidated financial statements prepared in accordance with the FRS.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Accounting Records (Continued)

The accompanying consolidated financial statements differ from the consolidated financial statements that would have been issued for statutory purposes in Singapore if the exemption was not obtained, in that they reflect certain adjustments, not recorded in the Company's books, which are appropriate to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Some examples of the adjustments relate to: (1) capitalization and amortization of goodwill, (2) deferred income taxes and (3) stock-based compensation.

All dollar amounts included in the financial statements and in the notes herein are Singapore dollars ("S\$") unless designated as U.S. dollars ("US\$").

#### Foreign Currency

The Company, subsidiaries and affiliates consider their respective local currencies as their functional currency and the Singapore dollar as their reporting currency. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recognized in the Consolidated Statement of Operations when incurred.

The assets and liabilities of subsidiaries are translated into Singapore dollars ("S\$") from their respective functional currencies at the exchange rate at the balance sheet date, and revenues and expenses are translated into S\$ at the weighted average exchange rates for the year. Resulting translation adjustments are recorded as a component of Other Comprehensive Income.

The Group's share of net assets of unconsolidated subsidiary and affiliates are translated into S\$ from their respective functional currencies at the exchange rate at the balance sheet date. The Group's share of the operations of unconsolidated subsidiary and affiliates are translated into S\$ from their respective functional currencies at the weighted average exchange rates for the year. Resulting translation adjustments are recorded as a component of Other Comprehensive Income.

The accompanying consolidated financial statement amounts expressed in US\$ amounts are included solely for the convenience of the readers and have been translated at S\$1.6628 to US\$1.00, the approximate exchange rate at December 31, 2005. No representation is made that the S\$ amounts could have been, or could be, converted into US\$ amounts at that or any other rate.

#### Cash and Cash Equivalents

The Group includes in cash and cash equivalents all short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist principally of investments in interest-bearing demand deposit accounts with financial institutions and are stated at cost, which approximates fair value.

The Group maintains cash and cash equivalents with various financial institutions mainly in Singapore, Hong Kong, Australia, the Philippines and Malaysia. The Group performs periodic evaluation of the relative credit standing of financial institutions that are considered in the Group's investment strategy.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Long Term Investments

Long term investments consist of equity securities. These investments are accounted for in accordance with SFAS No. 115 – *Accounting for Certain Investments in Debt and Equity Securities*. The Group has classified all marketable securities as available-for-sale. Available-for-sale securities are reported at fair value with changes in unrealized gains and losses, net of applicable taxes, recorded in a separate component of shareholder's equity. Realized gains and losses are included in Other income and expenses and are determined on a specific identification basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. Fair value for investments in public companies are determined using quoted market prices. Fair value for investments in privately-held companies are estimated based upon one or more of the following: pricing models using historical and forecasted financial information and current market rates; liquidation values; and quoted market prices of comparable companies. In order to determine whether a decline in value is other than temporary, the Group evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the financial condition and business outlook of the company, current market conditions and future trends in the investee's industry and the investee's relative competitive position within the industry. Other-than-temporary declines in fair value from the original cost are charged to the Consolidated Statement of Operations in the period the loss is established.

#### Fixed Assets

Fixed assets, including equipment under capital leases, are stated at cost and are depreciated or amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

Leasehold improvements	– 2 – 15 years
Computer equipment and software	– 2 – 5 years
Furniture and fixtures	– 3 – 8 years
Office equipment	– 3 – 6 years
Motor vehicles	– 5 – 6 years
Telecommunication equipment	– 9 months

Depreciation of assets under capital lease is included in depreciation expense.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterment that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirement, sale and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the Consolidated Statement of Operations.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Asset Retirement Obligations

In August 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 143 – *Accounting for Asset Retirement Obligations*. In accordance with SFAS No. 143, the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expenses. If the obligation is settled for other than the carrying amount of the liability, the Group will recognize a gain or loss on settlement.

The Group adopted SFAS No. 143 as of January 1, 2003. The cumulative effect of the change on prior years resulted in a charge to income, net of tax of S\$220 (S\$0.02 per share), which is included in income for the year ended December 31, 2003.

#### Concentration of Credit Risk

The Group provides Internet access, e-commerce, and travel-related services. The Group has thousands of individual customers primarily located in Singapore, Hong Kong, Australia, the Philippines, India, Thailand and Malaysia. The Group performs ongoing credit evaluations of its customers’ financial condition, and generally requires no collateral from its customers. The allowance for doubtful accounts receivable is based upon the expected collectibility of outstanding accounts receivable at the balance sheet date.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ from those estimates.

#### Inventory

Inventory consists of the following:

- (i) Products and equipment parts for resale – they are stated at the lower of cost (calculated on a first-in-first-out basis) or market value.
- (ii) Unused air-tickets and pre-admission tickets – they are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price after making allowance for expired tickets.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Accounts Receivable, Loan Receivable and Other Receivables

Accounts receivable, which generally have 30–90 days terms, are recognized and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Loan receivable is recognized and carried at cost less an allowance for any uncollectible amounts.

Services rendered but unbilled at the end of the financial year is recorded as unbilled revenue.

#### Allowance for Doubtful Debt

The Group maintains allowances for doubtful accounts for estimated losses resulting from inability of customers to make required payments. The Group reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectibility of individual balances. In evaluating the collectibility of individual receivable balances, the Group considers many factors, including the age of the balance, customer's historical payment history, their current credit-worthiness and current economic trends. As of December 31, 2004 and 2005, the Group's allowance for doubtful debts was S\$3,143 and S\$3,556 (US\$2,139), respectively.

#### Intangible Assets

Identifiable intangible assets consist of the following:

- (i) *Trademarks, service marks and domain names* – The Group has registered certain trademarks, service marks and domain names in the United States Patent and Trademark Office and other jurisdictions. The Group believes the service marks and domain names are of material importance to the Group's business and are amortized on a straight-line basis generally over a period of 10 – 25 years.
- (ii) *License fee* – In April 2000, the Company was awarded a Facilities-Based Operator license for a 15-year period, commencing April 1, 2000, which was transferred to a subsidiary in financial year 2004. License fees are amortized on a straight-line basis over its estimated economic life of 5 –10 years. In 2002, a license to use the Internet messaging server software with estimated useful life of 5 to 10 years was purchased. In 2005, the Company secured the wireless spectrum rights from Infocom Development Authority of Singapore ("IDA"), which is being amortized on a straight-line basis over its estimated life of 10 years.
- (iii) *Acquired customer list* – Acquired customer list represents capitalization of specific costs incurred for the purchase of customer lists from other ISPs and is amortized on a straight-line basis over a period ranging from 2–5 years.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Intangible Assets (Continued)

Annually, the Group reviews, and if necessary, adjusts the carrying value of intangible assets if the facts and circumstances suggest intangible assets may be impaired. If this review indicates the intangible assets may not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the carrying value of intangible assets will be reduced by the estimated shortfall of the discounted cash flows.

#### Goodwill

Goodwill represents the excess of the purchase price of acquired businesses and companies over the fair value of the net assets acquired.

Under SFAS No. 142, goodwill is deemed to exist if the net book value of a reporting unit exceeds the estimated fair value. Fair value is determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risk involved.

#### Government Grants

Grants from the government are recognized in the Consolidated Statement of Operations where there is reasonable assurance that the grant will be received and all matching conditions will be complied with.

#### Revenue Recognition

Revenue from the provision of Internet access services and e-commerce services are recognized in the period the service is rendered in accordance with Staff Accounting Bulletin, SAB 104 – *Revenue Recognition in Financial Statements*. Allowance for discounts is made when the related revenue is recognized. The corresponding cost is recognized when incurred.

The Group presently does not provide refunds to dial-up, broadband or leased line subscribers. Registration and activation fees are payable at the time applications are processed. Revenues generated from such fees are deferred and amortized over the estimated average life of a subscriber relationship of one year. The fees deferred and not yet amortized are shown on the Group's Consolidated Balance Sheet as "Deferred income". Revenues are recorded for monthly charges (which include a certain number of "free hours") and for hours-used in excess of such "free hours". The corresponding cost is recognized when incurred. Free months are offered in connection with referral programs or promotional discounts. Because these free months are usually given without a contract at the beginning of a subscription period, no revenue is recognized during the free months as the customer's continuance is not assured. In 2002, the Group has adopted EITF 01-09 – *Accounting for Consideration Given by Vendor to a Customer or a Reseller of the Vendor's Products*. While the Task Force did not reach a consensus on the classification of the expense associated with free products, the SEC Observer indicated that the SEC staff believes that the expense should be classified as cost of sales.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Revenue Recognition (Continued)

Revenue for pre-paid cards is recognized based on usage hours. In the event that such usage hours cannot be determined or reasonably estimated, revenue is deferred and recognized upon expiration of the pre-paid cards. The corresponding cost is recognized when incurred.

Commission revenues are generated from services rendered for arrangement of air travel, hotel rooms, car rental, vacation packages and cruises. Commission revenues are recognized upon completion of the arrangement service.

The Group enters into fixed-price, long-term contracts for the installation and commissioning of Internet and intranet systems. Revenues from such contracts are recognized on the percentage-of-completion method as measured by the costs incurred to date as a percentage of the total contracts' estimated cost. The corresponding cost is recognized when incurred. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined.

The Group provides website application and development services that include multiple element arrangements, which may include any combination of hardware, services or software. These arrangements and stand-alone software arrangements may also involve any combination of software maintenance, software technical support or unspecified software upgrades. When some elements are delivered prior to others in an arrangement, revenue is deferred until the delivery of the last element unless there is all of the following:

- Objective evidence of fair value of the undelivered elements, which is the price charged by the Group to an external customer for the same element when such element is sold separately.
- The undelivered elements do not affect the quality of use or value to the customer of the delivered elements. An element has been delivered.

In November 2002, the EITF reached a consensus on Issue No. 00-21 – *Revenue Arrangement with Multiple Deliverables*. Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provision of Issue No. 00-21 applied to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. On June 15, 2003, the Group adopted Issue No. 00-21 and the impact of the adoption did not have material effect on the Group's Consolidated Balance Sheet, Statement of Operations or Statement of Cash Flows.

#### Advertising

Advertising costs, primarily advertisements through mass media and billboards, are expensed when incurred. Advertising expense for the years ended December 31, 2003, 2004 and 2005 were S\$5,000, S\$4,280 and S\$3,194 (US\$1,921), respectively.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Per Share Data

Earnings per share is computed in accordance with SFAS No. 128 – *Earnings per Share*. Under SFAS No. 128, earnings per share is calculated using the weighted average number of Ordinary Shares outstanding during the year.

	December 31,		
	2003	2004	2005
Weighted average shares outstanding-basic	12,985,036	13,238,793	13,339,896
Effect of dilutive stock options	264,060	190,822	44,810
Shares used for diluted earnings per share	13,249,096	13,429,615	13,384,706

#### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, fixed deposits with financial institutions, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate fair value because of the short maturity of these instruments.

The aggregate net fair value of capital lease obligations of the Company which are not carried at fair value in the Consolidated Balance Sheet as at December 31, 2005 is \$614 (US\$370). The fair values of these capital lease obligations are estimated using discounted cash flow analysis, based on their effective interest rates.

The carrying amount of the bank borrowings issued pursuant to the Group's bank credit agreement approximates fair value due to its short-term maturity.

#### Stock-Based Compensation Plans

The Group has adopted the disclosure-only provisions of SFAS No. 123 – *Accounting for Stock Based Compensation* (“SFAS No. 123”) and applies Accounting Principles Board Opinion No. 25 – *Accounting for Stock Issued to Employees* (“APB No. 25”) and related interpretations in accounting for its employee stock-based compensation plans. For options issued to non-employees under its stock-based compensation plan, the Group has accounted for them as provided under SFAS No. 123. The fair value of the options granted is estimated using the Black-Scholes option-pricing model. The compensation cost is amortized over the vesting period of the options.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Stock-Based Compensation Plans (Continued)

If the Company elected to recognize compensation costs for all plans based on the fair value of the options at the grant dates, consistent with the method prescribed by SFAS No. 123, net loss and loss per common share would have been different as the pro forma amounts indicate below:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Net income, as reported	4,825	10,130	10,820	6,506
Add(Deduct): Stock-based compensation expense included in reported net income, net of related tax effects	2,375	842	(109)	(66)
Deduct: Total stock based compensation expense determined under fair value based method of all awards, net of related tax effects	(1,678)	(5,041)	(2,464)	(1,482)
Pro forma net income	5,522	5,931	8,247	4,958
Basic net income per share				
As reported	0.37	0.77	0.81	0.49
Pro forma	0.43	0.45	0.62	0.37
Diluted net income per share				
As reported	0.36	0.75	0.81	0.49
Pro forma	0.42	0.45	0.62	0.37

The effect of applying SFAS No. 123 for recognizing compensation expense and providing pro-forma disclosures are not likely to be representative of the effects on reported net income for future years.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### Stock-Based Compensation Plans (Continued)

Fair values of options used to compute pro forma net income and net income per common share disclosures were determined using the Black-Scholes Option Pricing Model with the following assumptions:

The Company	Dividend yield	Expected Volatility	Risk-free interest rate (weighted average in %)	Expected holding period (weighted average in years)
1998 Employee Share Option Plan	0%	155.18%	4.85%	2.94
1999 (1 <sup>st</sup> tranche) Share Option Plan	0%	155.18%	5.84%	2.94
1999 (2 <sup>nd</sup> tranche) Share Option Plan	0%	140.00%	6.35%	2.77
1999 (3 <sup>rd</sup> tranche) Share Option Plan	0%	140.09%	4.79%	2.94
1999 (4 <sup>th</sup> tranche) Share Option Plan	0%	147.02%	4.27%	2.94
1999 (5 <sup>th</sup> tranche) Share Option Plan	0%	134.94%	1.85%	2.76
1999 (6 <sup>th</sup> tranche) Share Option Plan	0%	129.55%	1.56%	2.76
1999 (7 <sup>th</sup> tranche) Share Option Plan	0%	116.37%	4.44%	1.76

The table below summarized the weighted average fair value and exercise price of the stock options granted during the year.

	2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Weighted average grant-date fair value of stock options granted during the year:</b>				
Where exercise price is higher than market price	7.80	12.06	6.02	3.62
<b>Weighted average exercise price of stock options granted during the year:</b>				
Where exercise price is higher than market price	11.22	16.92	10.69	6.43

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 4. Selling, General and Administrative Expenses

Selling, general and administrative expenses comprise the following :

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Payroll and related staff costs	\$ 49,759	\$ 50,016	\$ 50,170	\$ 30,172
Sales and marketing expenses	5,950	5,467	4,855	2,920
Traveling expenses	1,272	1,292	1,412	849
Office expenses	11,632	10,201	9,918	5,965
Professional and consultancy fees	1,390	2,186	1,694	1,019
Others	2,699	1,836	2,287	1,375
	<b>\$ 72,702</b>	<b>\$ 70,998</b>	<b>\$ 70,336</b>	<b>\$ 42,300</b>

Included in professional and consultancy fees is consultancy fees paid or payable to a Director-related company of S\$58, S\$72 and S\$24 (US\$14) for the years ended December 31, 2003, 2004 and 2005, respectively.

Defined contribution costs, which are included in payroll and related staff costs, are S\$3,507, S\$2,698 and S\$2,339 (US\$1,407) for the years ended December 31, 2003, 2004 and 2005, respectively.

### 5. Others

Others comprise the following :

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Loss on disposal of fixed assets	\$ (53)	\$ (26)	\$ (53)	\$ (32)
Miscellaneous income	370	373	1,457	876
	<b>\$ 317</b>	<b>\$ 347</b>	<b>\$ 1,404</b>	<b>\$ 844</b>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 6. Receivables from Related Parties

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
<b>Receivable from former intermediate parent company</b>			
SembCorp Industries Ltd	\$ 262	–	–
<b>Receivable from unconsolidated subsidiary</b>			
Pacific Internet (Thailand) Limited	1,080	–	–
<b>Receivable from affiliates</b>			
Pacific Internet India Private Limited	1,687	–	–
World Net & Services Co, Ltd.	772	468	281
Others	612	30	18
	<b>\$ 4,413</b>	<b>\$ 498</b>	<b>\$ 299</b>

As of December 31, 2004 and 2005, the amounts receivable from related parties included amounts of S\$619 and S\$30 (US\$18) from the sale of goods and services respectively.

The amount receivable from PITH relates to the loan to PITH and payments made by the Company on their behalf. As of December 31, 2005, the amount was reclassified to non-current assets as the repayment period was more than a year.

The amount receivable from PII and WNS relates to payments made by the Company on their behalf. As of December 31, 2005, the amount receivable from PII was reclassified to non-current assets as the repayment period was more than a year.

The amount receivable from affiliates – others mainly relates to sale of air-tickets and provision of Internet access services.

The above receivables are payable upon demand and interest-free, except for the loan to PITH, which bears interest of 2% (2004: 2%) per annum.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Deposits	\$ 481	\$ 3,018	\$ 1,815
Prepaid expenses	1,579	2,622	1,577
Recoverable from third parties	254	745	448
Other assets	337	356	214
	\$ 2,651	\$ 6,741	\$ 4,054

### 8. Investments in Unconsolidated Subsidiary and Affiliates

On January 5, 2000, Digiway, an investment holding company, was incorporated in Thailand. The Company subscribed to a 49.0% equity interest in Digiway, which in turn held a 26.0% equity interest in PITH. From March 2000 to December 19, 2001, the Company effectively owned 61.7% interest in PITH, comprising a 49.0% direct equity interest and 12.7% indirect interest via Digiway. On December 19, 2001, Digiway increased its equity interest in PITH to 41.0%. As a result, the Company's effective interest in PITH was increased to 69.1%. In July 2003, Digiway purchased 188,176 shares of Baht 100 each, representing a 10.0% equity interest in PITH from the minority shareholder. As a result, Digiway increased its equity interest in PITH from 41.0% to 51.0%, and the Company's effective interest in PITH was increased from 69.1% to 74.0%.

The Group will continue to account for PITH using the equity method until it has met the criteria to consolidate the financial statements of PITH under SFAS No. 94 – *Consolidation of All Majority-Owned Subsidiaries* and EITF 96-16 – *Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 8. Investments in Unconsolidated Subsidiary and Affiliates (Continued)

Summarized combined balance sheet and statement of operations for the unconsolidated subsidiary, PITH is presented below:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Summarized Statement of Operations Information</b>				
Net Sales	\$ 7,725	\$ 11,624	\$ 15,109	\$ 9,086
Gross Profit	2,359	4,533	5,256	3,161
Net (loss) profit	(237)	644	663	399
<b>Summarized Balance Sheet Information</b>				
Current assets	\$ 3,180	\$ 4,479	6,055	3,641
Non-current assets	1,723	1,768	2,444	1,470
Current liabilities	6,024	6,683	8,293	4,987
Non-current liabilities	-	16	2	1

On October 9, 1998 the Company entered into a non-binding Memorandum of Understanding (“MOU”) with Thakral Brothers (Pte) Ltd (“Thakral Brothers”) to enter into a strategic joint venture for the operation of an Internet-related and ISP business in India (the “India Joint Venture”). On February 5, 1999, PII was incorporated in India. On September 30, 1999, the Company acquired a 49.0% equity interest in PII. PII has obtained a nationwide license that allows it to provide public Internet access in any city in India. On February 28, 2001, the Company formally signed a joint venture agreement with an affiliate of Thakral Brothers.

As of December 31, 2005 the unamortized difference between the amount at which the investment in PITH was carried and the amount of the Group’s underlying equity in net assets represents goodwill of S\$557 (US\$335).

Summarized combined balance sheet and statement of operations for the unconsolidated affiliates, namely PWC, PII and Digiway is presented below:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Summarized Statement of Operations Information</b>				
Net sales	\$ 927	\$ 2,074	\$ 3,075	\$ 1,849
Gross profit	131	949	1,477	888
Net (loss)/profit	(828)	(360)	349	210
<b>Summarized Balance Sheet Information</b>				
Current assets	\$ 1,027	\$ 1,347	\$ 1,864	\$ 1,121
Non-current assets	946	379	156	94
Current liabilities	15,579	15,523	15,461	9,298

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 9. Long Term Investments

The following table summarizes the Group's investment in securities, all of which are considered available-for-sale.

	December 31, 2005				
	Cost S\$	Gross Unrealized Loss S\$	Impairment in value of investments S\$	Carrying Value S\$	Carrying Value US\$
Quoted equity investments	\$ 69	\$ (23)	\$ –	\$ 46	\$ 28
Unquoted equity investments	1,454	–	(1,454)	–	–
	<b>\$ 1,523</b>	<b>\$ (23)</b>	<b>\$ (1,454)</b>	<b>\$ 46</b>	<b>\$ 28</b>

	December 31, 2004				
	Cost S\$	Gross Unrealized Loss S\$	Impairment in value of investments S\$	Carrying Value S\$	Carrying Value US\$
Quoted equity investments	\$ 58	\$ (26)	\$ –	\$ 32	\$ 20
Unquoted equity investments	1,454	–	(1,454)	–	–
	<b>\$ 1,512</b>	<b>\$ (26)</b>	<b>\$ (1,454)</b>	<b>\$ 32</b>	<b>\$ 20</b>

Unquoted equity investments are accounted for under the cost method. It is not practicable to estimate the fair value of the investment because of the limited information available to the Group and because of the significance of the cost to obtain an outside appraisal. Any impairment in the value of the investments is reported in the Consolidated Statement of Operations in the year the impairment is identified. The impairment analysis is performed based on the specific identification method. These investments generally consist of minority equity interests in a company in related Internet or telecommunication businesses incorporated in the United States of America.

Quoted equity investments are carried at fair value, with any unrealized gains and losses, net of applicable taxes, reported in a separate section of shareholder's equity. Realized gains and losses are included in the statement of operations and are determined on a specific identification basis. Other than temporary declines in market value from the original cost are charged to the Consolidated Statement of Operations in the period in which the loss occurs. These investments consist of equity interest in a telecommunication company and a bank incorporated in the Philippines. Proceeds from sale of available-for-sale securities in the year ended December 31, 2003, 2004 and 2005 were S\$299, nil and nil respectively. The gross realized gain in the year ended December 31, 2003, 2004 and 2005 totaled S\$69, nil and nil respectively.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 10. Fixed Assets – Net

Fixed assets consist of the following:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Computer equipment and software	\$ 54,596	\$ 59,234	\$ 35,623
Furniture and fixtures	2,029	2,289	1,377
Leasehold improvements	6,099	6,539	3,933
Office equipment	5,354	5,597	3,366
Motor vehicles	131	82	49
Telecommunication equipment	1,717	1,721	1,035
Construction-in-progress	1,155	1,665	1,001
	71,081	77,127	46,384
Less: accumulated depreciation	(53,221)	(59,087)	(35,535)
	\$ 17,860	\$ 18,040	\$ 10,849

Fixed assets that are acquired under capital leases consist of the following:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Computer equipment and software	\$ 2,710	\$ 2,641	\$ 1,588
Less: accumulated depreciation	(1,066)	(1,593)	(958)
	\$ 1,644	\$ 1,048	\$ 630

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 11. Intangible Assets

Intangible assets consist of the following:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
<b>Cost</b>			
License fees	\$ 827	\$ 3,165	\$ 1,903
Trademarks, service marks and domain name	208	468	281
Acquired customer list	7,137	8,669	5,214
	8,172	12,302	7,398
<b>Accumulated Amortization</b>			
License fees	\$ (681)	\$ (854)	\$ (513)
Trademarks, service marks and domain name	(64)	(71)	(43)
Acquired customer list	(6,866)	(6,987)	(4,202)
	(7,611)	(7,912)	(4,758)
<b>Net Carrying Value</b>			
License fees	\$ 146	\$ 2,311	\$ 1,390
Trademarks, service marks and domain name	144	397	238
Acquired customer list	271	1,682	1,012
	\$ 561	\$ 4,390	\$ 2,640

The amortization expense for the year ended December 31, 2005 was S\$425 (US\$255). The estimated amortization expense for the next five years is as follows:

	S\$	US\$
For the year ending December 31,		
2006	\$ 766	\$ 461
2007	760	457
2008	662	398
2009	560	337
2010	254	153

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 12. Goodwill

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Goodwill	\$ 51,757	\$ 55,350	\$ 33,287
Less : accumulated amortization	(23,551)	(23,338)	(14,035)
	<u>\$ 28,206</u>	<u>\$ 32,012</u>	<u>\$ 19,252</u>

The Group reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142. The provisions of SFAS No.142 require that a two-step impairment test be performed on goodwill. In the first step, the fair value of each reporting unit is compared to its carrying value. The reporting units are consistent with the reportable segments identified in Note 27. Fair value of the reporting units is determined using the income approach. Under the income approach, the fair value of a reporting unit is calculated based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is required. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, the Group performs the second step, which is determining the implied fair value of the reporting unit's goodwill, and comparing it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded. The Group completed the annual impairment test and determined that goodwill is not impaired.

The changes in carrying amount of goodwill for the years then ended are as follows:

	December 31, 2005	
	Carrying Amount S\$	Carrying Amount US\$
Balance at January 1, 2005	\$ 28,206	\$ 16,963
Arising from acquisition of a subsidiary	4,063	2,443
Translation adjustment	(257)	(154)
Balance at December 31, 2005	<u>\$ 32,012</u>	<u>\$ 19,252</u>
	December 31, 2004	
	Carrying Amount S\$	
Balance at January 1, 2004		\$ 28,903
Arising from acquisition of shares from minority interest		(659)
Translation adjustment		(38)
Balance at December 31, 2004		<u>\$ 28,206</u>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 12. Goodwill (Continued)

Goodwill attributable to operating segments for the years ended December 31, 2004 and December 31, 2005 are as follows:

	December 31, 2005		
	Access	Travel	Consolidated
Balance at January 1, 2004	\$ 20,545	\$ 8,358	\$ 28,903
Arising from acquisition of shares from minority interest	–	(659)	(659)
Translation Adjustment	(38)	–	(38)
Balance at December 31, 2004	20,507	7,699	28,206
Arising from acquisition of a subsidiary	4,063	–	4,063
Translation Adjustment	(257)	–	(257)
Balance at December 31, 2005	\$ 24,313	\$ 7,699	\$ 32,012

### 13. Long Term Receivables and Loan Receivable from Unconsolidated Affiliates

Long term receivables and loan receivable from unconsolidated affiliates are unsecured, interest free and not expected to be repaid within one year, except for an amount of S\$2,173 (2004: S\$2,173) which bears interest at 2% (2004: 2.0% to 7.75%) and is not expected to be repaid within one year.

### 14. Banking Facilities

As of December 31, 2004 and 2005, the Group had uncommitted revolving credit facilities, representing short-term loan facilities, overdraft facilities and guarantees from various banks, of S\$25,821 and S\$26,276 (US\$15,802) respectively. The weighted average interest rate was 2.23% per annum. Total unused credit facilities available to the Group as of December 31, 2004 and 2005 were S\$16,996 and S\$16,772 (US\$10,087), respectively.

### 15. Bank Borrowings

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Secured	\$ 88	\$ 21	\$ 13
Unsecured	2,438	2,439	1,466
	\$ 2,526	\$ 2,460	\$ 1,479

As of December 31, 2005, bank borrowings of S\$21 (US\$13) were secured by leasehold improvements and motor vehicles of PDSI with net book values of S\$110 (US\$66) and S\$6 (US\$4) respectively. The weighted average interest rate was 9.78% (2004: 9.90%) per annum.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 16. Payables to Related Parties

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
<b>Payable to former intermediate parent company</b>			
SembCorp Industries Ltd	\$ 7	\$ –	\$ –
<b>Payable to former immediate parent company</b>			
SembCorp Ventures Pte Ltd	96	–	–
<b>Payable to affiliates</b>			
Others	848	910	547
	<b>\$ 951</b>	<b>\$ 910</b>	<b>\$ 547</b>

The amount payable to SembCorp Ventures Pte Ltd largely relates to payments made on behalf of a subsidiary. The amount payable to SembCorp Industries Ltd largely relates to payments made on behalf of a subsidiary.

Other payables above are non-trade in nature, interest-free and have no fixed terms of repayment.

### 17. Accrued Expenses and Other Liabilities

The components of accrued expenses and other liabilities are as follows:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Accrued payroll	\$ 5,567	\$ 5,726	\$ 3,444
Accrued operating expenses	16,752	17,605	10,588
Deposits received	2,930	2,814	1,692
Other payables	1,304	3,853	2,317
	<b>\$ 26,553</b>	<b>\$ 29,998</b>	<b>\$ 18,041</b>

Included in other payables of 2005 is an amount of S\$2,454 (US\$1,476) relating to the contingent consideration for T3. Please refer to Note 2 *Business Acquisitions – Australia*.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 18. Deferred Income

Deferred income consists of the following:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Deferred registration and activation fees	\$ 303	\$ 777	\$ 467
Advanced billings	5,291	6,607	3,974
	5,594	7,384	4,441

### 19. Income Taxes

The Group accounts for income taxes using the liability method under SFAS No. 109 – *Accounting for Income Taxes*. Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted rates when the differences are expected to reverse.

The components of deferred income taxes are as follows:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Deferred tax liabilities:			
Fixed assets	\$ 1,521	\$ 1,765	\$ 1,061
Others	33	–	–
	\$ 1,554	\$ 1,765	\$ 1,061
Deferred tax assets:			
Uncollectible accounts receivable	\$ 689	\$ 748	\$ 450
Fixed assets	63	61	37
Net operating loss and unabsorbed capital allowances carry forward	4,554	3,063	1,842
Others	1,359	1,457	876
	6,665	5,329	3,205
Valuation allowance	(4,664)	(2,825)	(1,699)
	\$ 2,001	\$ 2,504	\$ 1,506
Net deferred tax assets	\$ 447	\$ 739	\$ 445

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 19. Income Taxes (Continued)

The net change in the valuation allowance for the years ended December 31, 2003, 2004, and 2005, was an increase (decrease) of S\$336, S\$(875) and S\$(1,839) [US\$(1,106)], respectively.

Under Singapore tax law, net operating losses and unabsorbed capital allowances can be carried forward indefinitely to offset future taxable income from the entity that originally generated the loss, subject to the provisions of the Income Tax Act. Under both the Hong Kong and Australian tax laws, net operating losses and unabsorbed capital allowances can also be carried forward indefinitely to offset future taxable income from the entity that originally generated the loss, subject to the provisions of the Inland Revenue Ordinance and Income Tax Assessment Act, respectively. Singapore also has a loss-transfer system of group relief (group relief system). Under the group relief system, a company belonging to a group may transfer its current year unabsorbed trade losses and current year unabsorbed capital allowances to another company belonging to the same group, to be deducted against the assessable income of the latter company. Under the Philippines tax law, net operating losses can be carried forward to offset future taxable income from the entity that originally generated the loss for the three consecutive taxable years immediately following the year of loss, subject to the provision of the National Inland Revenue Code 1997 of the Philippines. Under Malaysia tax laws, net operating losses and unabsorbed capital allowances can also be carried forward indefinitely to offset future taxable income from the entity that originally generated the loss, subject to the provisions of the Malaysia Income Tax Act.

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Pre-tax income (loss)				
Singapore	\$ 7,864	\$ 10,288	\$ 8,143	\$ 4,897
Foreign :				
Australia	167	1,158	3,410	2,051
Hong Kong	681	805	719	432
The Philippines	643	210	395	237
Thailand	157	477	491	295
India	(401)	(171)	178	107
Malaysia	(91)	(140)	(87)	(52)
	<b>\$ 9,020</b>	<b>\$ 12,627</b>	<b>\$ 13,249</b>	<b>\$ 7,967</b>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 19. Income Taxes (Continued)

Income tax (expense) credit consists of the following:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Current:				
Singapore	\$ (4,262)	\$ (3,183)	\$ (1,919)	\$ (1,154)
Foreign	(106)	(83)	(147)	(88)
	(4,368)	(3,266)	(2,066)	(1,242)
Deferred:				
Singapore	\$ 718	\$ (2)	\$ (251)	\$ (151)
Foreign	-	125	234	140
	\$ 718	\$ 123	\$ (17)	\$ (11)
	\$ (3,650)	\$ (3,143)	\$ (2,083)	\$ (1,253)

The reconciliation of tax computed by applying the statutory income tax rate to pre-tax income is:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Tax at Singapore Statutory rate of 20.0% (2004: 20.0%, 2003: 22.0%)	\$ (1,984)	\$ (2,525)	\$ (2,650)	\$ (1,594)
Foreign tax rate differences	(32)	(124)	(330)	(198)
Expenses not deductible for tax purposes	(1,099)	(638)	(312)	(188)
Changes in valuation allowances	341	598	1,319	793
Changes in enacted tax rates	-	-	-	-
Underprovision of tax in prior years	(952)	-	-	-
Others	76	(454)	(110)	(66)
	\$ (3,650)	\$ (3,143)	\$ (2,083)	\$ (1,253)

The underprovision of tax in prior years of S\$952 in 2003 arose from expenses deducted in computing tax in prior years for which the tax authority of Singapore has taken the position in the current financial year that these expenses are not deductible.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 20. Fixed Deposits with Financial Institutions

Fixed deposits with financial institutions relate to fixed deposits with maturity more than 90 days that earn interest at the prevailing short-term deposit rates. The carrying value of bank deposits approximates net fair value due to their short term to maturity.

### 21. Cumulative Effect Adjustment – Net of Tax

Effective January 1, 2003, the Group adopted the method of accounting for asset retirement obligations in accordance with SFAS No. 143 – *Accounting for Asset Retirement Obligations*. The charge for the cumulative effect up to December 31, 2002 recognized by the Group was \$220. Further details on Accounting for Asset Retirement Obligation can be found in Note 24.

### 22. Leases

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Current portion of capital lease obligations	\$ 470	\$ 317	\$ 191
Non-current portion of capital lease obligations	524	297	179
	\$ 994	\$ 614	\$ 370

The Company leases its corporate offices under non-cancelable operating leases, which expire in 2006. The Company has the option to extend each of these leases for an additional three years.

Operating leases also include international leased lines with cancelable and non-cancelable leases expiring at various dates by 2007. The lease agreements do not include renewal options.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 22. Leases (Continued)

Future minimum lease payments for capital leases and operating leases with initial or remaining terms of one year or more are as follows as of December 31, 2005.

Year Ended December 31:	Capital Leases		Operating Leases	
	S\$	S\$	S\$	US\$
2006	\$ 344	\$ 207	\$ 6,987	\$ 4,202
2007	208	125	2,300	1,383
2008	104	63	1,509	908
2009	–	–	198	119
2010	–	–	–	–
Total minimum lease payments	656	395	\$ 10,994	\$ 6,612
Less amount representing interest	(42)	(25)		
Present value of net minimum lease payments	614	370		
Less non-current portion	(297)	(179)		
Current portion of capital lease obligation	\$ 317	\$ 191		

Supply contracts for satellite bandwidth of S\$2,785 (US\$1,675), payable within one year from December 31, 2005 were included in operating leases.

The operating leases expenses of the Group are as follows:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
International leased lines	\$ 10,573	\$ 7,195	\$ 6,397	\$ 3,847
Office and equipment rental	4,968	3,708	3,635	2,186
Broadband leases	11,751	17,194	17,160	10,320
Corporate trunk line leases	6,140	5,435	5,300	3,187
Other operating leases	1,939	1,682	1,028	618
	\$ 35,371	\$ 35,214	\$ 33,520	\$ 20,158

Rental payments under operating leases are expensed on a straight line basis over the periods of the respective lease.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 23. Valuation and Qualifying Accounts

Year Ended December,31	Balance at Beginning of Period S\$	Charged to Costs and Expenses S\$	Due to acquisition of subsidiary S\$	Deductions write-offs S\$	Translation Difference S\$	Balance at End of Period S\$	Balance at End of Period US\$
Allowance for doubtful accounts receivable							
2003	4,225	2,079	–	(2,561)	(63)	3,680	2,255
2004	3,680	1,506	–	(1,657)	(386)	3,143	1,926
2005	3,143	1,488	229	(1,360)	56	3,556	2,139

### 24. Asset Retirement Obligation

Effective January 1, 2003, the Group adopted the method of accounting for asset retirement obligations in accordance with SFAS No. 143 – *Accounting for Asset Retirement Obligations*. Previously, the Group had not been recognizing amounts related to asset retirement obligations. The Group recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. A reliable estimate of the market premium risk cannot be made, as this information is not readily available; as such this has been excluded in the computation of the estimate of the fair value of the asset retirement obligations.

The pro forma effects of the application of SFAS No. 143 as if the Statement had been adopted on January 1, 2001 (rather than January 1, 2003) are presented below:

	<b>2003 S\$</b>
Pro forma amounts assuming the accounting change is applied retroactively net-of-tax:	
Net income	\$ 5,045
EPS – basic	0.39
EPS – diluted	0.38

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 24. Asset Retirement Obligation (Continued)

The Group leases various operating facilities in Asia and has renovated the premises as well as installed various fixtures in the premises. According to the lease contract, the Group is legally required to restore the premises back to its original condition at the end of the lease. The Group recognized the fair value of liabilities for asset retirement obligation and capitalized that cost as part of the cost basis of leasehold improvements and depreciates it on a straight line basis over 2 – 5 years. The following table describes all changes to the Group's asset retirement obligation liability, recorded as part of accrued operating expenses:

	December 31,		
	2004 S\$	2005 S\$	2005 US\$
Balance at beginning of year	\$ 332	\$ 324	\$ 195
Liabilities incurred	–	49	29
Liabilities settled	(22)	(2)	(1)
Translation difference	(1)	–	–
Accretion expense	15	26	16
Balance at end of year	\$ 324	\$ 397	\$ 239

The pro forma asset retirement obligation liability balances as if SFAS No. 143 had been adopted on January 1, 2001 (rather than January 1, 2003) are as follows:

	December 31, 2003 S\$
Pro forma amounts of liability for asset retirement obligation at beginning of year:	\$ 327
Pro forma amounts of liability for asset retirement obligation at end of year:	\$ 332

### 25. Declaration of Dividends

In a general meeting, the Company may, by ordinary resolution, declare dividends but no dividend will be payable in excess of the amount recommended by the directors. Singapore law allows dividends to be paid only out of profits of the Company, determined in accordance with accounting principles generally accepted in Singapore. As the Company is incorporated in Singapore, all dividends declared will be denominated in Singapore currency. The Company has not declared any dividends to date. The amount of the Company's retained earnings available for distribution was approximately S\$9,663 (US\$5,811). The Group does not anticipate paying cash dividends in the foreseeable future.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 26. Related Party Transactions

Prior to May 1999, the Company was a 74.99% owned subsidiary of SembCorp Ventures Pte Ltd (formerly known as Sembawang Ventures Pte Ltd). The Company's intermediate parent companies at that point in time were Sembawang Corporation Ltd and SembCorp Industries Ltd.

In May 1999, the parent company, SembCorp Ventures Pte Ltd, diluted their shareholdings from 54.6% to 41.8%. Since then, SembCorp Ventures Pte Ltd and SembCorp Industries Ltd are considered as the former immediate parent company and former intermediate parent company, respectively. During the year ended December 31, 2003, SembCorp Ventures Pte Ltd further diluted their shareholdings in the Company from 41.8% to 30.8%. During the year ended December 31, 2004, SembCorp Ventures Pte Ltd further diluted their shareholdings in the Company from 30.8% to 29.2%.

In July 2005, Kingsville Capital Limited, completed its acquisition of SembCorp Ventures Pte Ltd's entire shareholding in the Company. Kingsville Capital Limited represents a group of investors put together by Titan Capital Pte Ltd, an investment and financial advisory firm incorporated in Singapore. On September 29, 2005, Vantage Corporation Limited announced that it had entered into a sale and purchase agreement with Kingsville Capital Limited to acquire its entire equity interest of 28.6% in the Company for an aggregate consideration of US\$30.5 million. As at December 31, 2005, completion of the transaction had not occurred.

For the year ended December 31, 2005, the Company provided a loan amounting to S\$210 to associated companies.

For the years ended December 31, 2003, 2004 and 2005, the Company provided Internet Access and related services amounting to S\$172, S\$45 and S\$ nil (US\$nil) respectively, to its former intermediate parent company.

For the years ended December 31, 2003, 2004 and 2005, Safe2Travel provided travel-related services amounting to S\$155, S\$159 and S\$149 (US\$89) respectively, to the Group's former intermediate parent company and other affiliated companies.

For the years ended December 31, 2003, 2004 and 2005, consultancy fees paid or payable by Safe2Travel amounted to S\$58, S\$72 and S\$27 (US\$16) respectively, to a Director-related company.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 27. Segment Reporting

In accordance with SFAS No. 131 – *Disclosures about Segments of an Enterprise and Related Information*, certain information should be disclosed based on the financial information management analyzes for making operating decisions and assessing performance. The Group operates in three reportable segments as each of these segments offer different products and services:

- Internet Access and Internet Services
- e-Commerce Services
- Travel-related Services

**Internet Access and Internet Services (“Access”).** This segment includes all Internet access services such as dial-up, leased lines, broadband, value added services and all other Internet access-related services.

**e-Commerce Services (“e-Commerce”).** This segment includes e-commerce services, website content and community related services as well as application development services.

**Travel-related Services (“Travel”).** This segment includes services provided by a “brick-and-mortar” travel agent, such as air ticketing, tours, hotels and other travel-related services.

December 31, 2003	Access	e-commerce	Travel	Reconciling items	Consolidated
Revenue					
Unaffiliated customers	\$ 158,970	\$ 1,715	\$ 6,808	\$ –	\$ 167,493
Intersegment	–	–	11	(11)	–
<b>Total revenues</b>	<b>158,970</b>	<b>1,715</b>	<b>6,819</b>	<b>(11)</b>	<b>167,493</b>
Depreciation & amortization	(9,967)	(442)	(224)	–	(10,633)
Other operating expenses	(140,753)	(2,162)	(5,743)	11	(148,647)
Interest income	316	2	49	–	367
Interest expense	(251)	–	–	–	(251)
Equity in (loss) profit of					
unconsolidated affiliates	(460)	216	–	–	(244)
Other non-operating income	602	55	278	–	935
Income tax expenses	(3,396)	–	(254)	–	(3,650)
Minority interest	(244)	(15)	(66)	–	(325)
Cumulative effect adjustment	(167)	(14)	(39)	–	(220)
<b>Segment P&amp;L</b>	<b>\$ 4,650</b>	<b>\$ (645)</b>	<b>\$ 820</b>	<b>\$ –</b>	<b>\$ 4,825</b>
<b>Total assets</b>	<b>\$ 100,169</b>	<b>\$ 5,047</b>	<b>\$ 27,524</b>	<b>\$ –</b>	<b>\$ 132,740</b>
<b>Expenditures for long-lived assets</b>	<b>\$ 6,021</b>	<b>\$ 16</b>	<b>\$ 39</b>	<b>\$ –</b>	<b>\$ 6,076</b>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

**27. Segment Reporting** (Continued)

December 31, 2004	Access	e-commerce	Travel	Reconciling items	Consolidated
Revenue					
Unaffiliated customers	\$ 162,172	\$ 1,050	\$ 6,537	\$ -	\$ 169,759
Intersegment	-	-	13	(13)	-
<b>Total revenues</b>	<b>162,172</b>	<b>1,050</b>	<b>6,550</b>	<b>(13)</b>	<b>169,759</b>
Depreciation & amortization	(8,517)	(309)	(73)	-	(8,899)
Other operating expenses	(141,256)	(1,703)	(5,801)	13	(148,747)
Interest income	358	5	64	-	427
Interest expense	(134)	(7)	-	-	(141)
Equity in profit of unconsolidated affiliates	306	-	-	-	306
Other non-operating (expense) income	(77)	(97)	96	-	(78)
Income tax expenses	(3,004)	(2)	(137)	-	(3,143)
Minority interest	(50)	(47)	-	-	(97)
Extraordinary item	743	-	-	-	743
<b>Segment P&amp;L</b>	<b>\$ 10,541</b>	<b>\$ (1,110)</b>	<b>\$ 699</b>	<b>\$ -</b>	<b>\$ 10,130</b>
<b>Total assets</b>	<b>\$ 113,830</b>	<b>\$ 4,420</b>	<b>\$ 26,174</b>	<b>\$ -</b>	<b>\$ 144,424</b>
<b>Expenditures for long-lived assets</b>	<b>\$ 8,134</b>	<b>\$ -</b>	<b>\$ 37</b>	<b>\$ -</b>	<b>\$ 8,171</b>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 27. Segment Reporting (Continued)

December 31, 2005	Access	e-commerce	Travel	Reconciling items	Consolidated
Revenue					
Unaffiliated customers	\$ 164,285	\$ 10	\$ 6,122	\$ –	\$ 170,417
Intersegment	–	–	25	(25)	–
<b>Total revenues</b>	<b>164,285</b>	<b>10</b>	<b>6,147</b>	<b>(25)</b>	<b>170,417</b>
Depreciation & amortization	(7,889)	(161)	(50)	–	(8,100)
Other operating expenses	(145,501)	(392)	(6,219)	25	(152,087)
Interest income	1,024	9	126	–	1,159
Interest expense	(136)	(11)	–	–	(147)
Equity in loss of unconsolidated affiliates	669	–	–	–	669
Other non-operating income	1,089	32	217	–	1,338
Income tax expenses	(1,931)	–	(152)	–	(2,083)
Cumulative effect adjustments	(4)	–	–	–	(4)
Minority interest	(338)	(4)	–	–	(342)
<b>Segment P&amp;L</b>	<b>\$ 11,268</b>	<b>\$ (517)</b>	<b>\$ 69</b>	<b>\$ –</b>	<b>\$ 10,820</b>
<b>Total assets</b>	<b>\$ 129,274</b>	<b>\$ 3,685</b>	<b>\$ 28,782</b>	<b>\$ –</b>	<b>\$ 161,741</b>
<b>Expenditures for long-lived assets</b>	<b>\$ 16,144</b>	<b>\$ 363</b>	<b>\$ 36</b>	<b>\$ –</b>	<b>\$ 16,543</b>

Inter segment sales and transfers were accounted as if the sales or transfers were to third parties, that is, at current market prices.

The e-commerce and travel segment relate solely to the geographical area of Singapore.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

**27. Segment Reporting** (Continued)

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Geographical area</b>				
<b>Net revenues :</b>				
Singapore <sup>(a)</sup> :				
Unaffiliated customers	\$ 87,979	\$ 81,184	\$ 72,038	\$ 43,323
Intercompany	1,386	1,003	458	275
Hong Kong <sup>(b)</sup> :				
Unaffiliated customers	34,012	33,797	35,910	21,596
Intercompany	59	51	40	24
Australia <sup>(b)</sup> :				
Unaffiliated customers	31,921	41,881	50,380	30,298
Intercompany	-	45	140	84
Philippines <sup>(b)</sup> :				
Unaffiliated customers	12,649	11,896	10,864	6,534
Intercompany	102	16	64	38
Malaysia <sup>(b)</sup> :				
Unaffiliated customers	932	1,001	1,225	737
Intercompany	-	-	40	24
	169,040	170,874	171,159	102,933
Elimination	(1,547)	(1,115)	(742)	(445)
	\$ 167,493	\$ 169,759	\$ 170,417	\$ 102,488

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 27. Segment Reporting (Continued)

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
<b>Long-lived Assets</b>				
Singapore				
- Fixed assets, net	\$ 7,606	\$ 7,784	\$ 6,958	\$ 4,185
- Intangibles and goodwill, net	8,654	7,845	10,009	6,019
Hong Kong				
- Fixed assets, net	3,498	3,907	5,395	3,245
- Intangibles and goodwill, net	8,160	8,160	8,160	4,908
Australia				
- Fixed assets, net	5,130	4,337	4,282	2,575
- Intangibles and goodwill, net	12,327	12,213	17,410	10,470
Philippines				
- Fixed assets, net	2,339	1,713	1,307	786
- Intangibles and goodwill, net	565	549	823	495
Malaysia				
- Fixed assets, net	171	119	98	58
	\$ 48,450	\$ 46,627	\$ 54,442	\$ 32,741

#### Net (liabilities)/assets of significant operations outside Singapore

Hong Kong	300	1,073	1,868	1,123
Australia	16,836	18,283	21,008	12,634
Philippines	(945)	(763)	69	41

- (a) Reportable segments of the geographical area of Singapore include Access, Travel and E-commerce segments. Travel and E-commerce segment information have been disclosed in the above table by Reportable Segment. Access segment net revenues for the Singapore geographical area is as follows:

	December 31,			
	2003 S\$	2004 S\$	2005 S\$	2005 US\$
Unaffiliated customers	\$ 79,456	\$ 73,597	\$ 65,906	\$ 39,636
Intercompany	1,386	1,003	458	275

- (b) Reportable segment of geographic areas of Hong Kong, Australia, Philippines and Malaysia is Access segment.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### **28. Licenses**

The Group has obtained authorization to use the products of each licensor of software that the Group bundles in its front-end software product provided to subscribers. The particular applications included in the Company's start-up packages have, when necessary, been licensed, including Microsoft Internet Explorer from Microsoft Corporation (the license is automatically renewed for successive one-year terms), Netscape Navigator from Netscape Communications Corporation (the license is automatically renewed annually), the evaluation version of WinZip from NicoMak Computing, Inc., Adobe Acrobat Reader from Adobe Systems Incorporated (the license is valid unless terminated by licensor), mIRC by MIRC Co. Ltd and WS\_FTP from Ipswitch, Inc. (the license is automatically renewed annually).

Historically, any license fees charged to the Group upon enrollment of additional subscribers were generally passed through to subscribers in their start-up fees. However, the Group has increasingly waived start-up fees in Singapore due to competitive pressures and has absorbed the cost of license fees. Microsoft currently does not charge the Group a license fee with respect to the Group's distribution of Microsoft Internet Explorer; however, there can be no assurance that such arrangement will continue in the future. The Group currently intends to maintain or negotiate renewals of all relevant existing software licenses and authorizations as necessary. The Group may also want or need to license other applications in the future. Other applications included in the Group's start-up package are shareware that the Group has obtained permission to distribute or that are from the public domain and are freely distributable.

### **29. Common Stock**

The Company completed its first and second offerings (collectively known as the "offerings") of common stock on February 5, 1999 and May 20, 1999, respectively. The Company sold an aggregate of 2,500,000 shares in the offerings and received net proceeds after offerings expenses amounting to approximately S\$76,300.

### **30. Stock Option Plan**

The Group has three fixed stock option plans under which it may grant options to certain employees, directors, officers and consultants of the Group to subscribe for shares within the Group.

The 1998 Employees' Share Option Plan was established by the Company in November 1998 and became effective upon the Company's initial public offering. Options to purchase up to 1,500,000 shares were granted, of which 1,498,500 were accepted, at an exercise price equal to the initial public offering price of US\$17.00 per share and no amounts applicable thereto are reflected in the Consolidated Statement of Operations. Options under the plan fully expired in financial year 2004.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 30. Stock Option Plan (Continued)

In November 1999, the Company established the 1999 Share Option Plan. As of December 31, 2005, a total of seven tranches were granted under the aforesaid plan, namely, on November 10, 1999, April 25, 2000, January 10, 2001, April 10, 2001, August 18, 2003, March 25, 2004 and November 7, 2005 respectively. The exercise price is the average of the officially quoted closing price of the Company's shares on the NASDAQ's National Market System for the five trading days immediately preceding the date of grant, which was determined to be US\$32.48, US\$25.60, US\$3.60, US\$3.09, S\$11.22, S\$16.92 and S\$10.69 (US\$6.43) per share for the respective seven tranches. As of December 31, 2005, options to subscribe for an aggregate of 4,059,100 shares have been granted under this plan, of which 3,813,150 were accepted.

As at December 31, 2005, options to subscribe for 768,681 shares under the 1999 Share Option Plan have been exercised by employees. An aggregate of 1,035,729 stock options remains outstanding as of the aforesaid date.

The first and second tranche of options expired during financial year 2004 and 2005, respectively.

The vesting schedule for 1998, 1999 (1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> tranche) is as follows:

- (i) 25% of the Options vested and became exercisable on the first anniversary of the date of grant;
- (ii) an additional 25% of the Options vested and became exercisable on the second anniversary of the date of grant; and
- (iii) the remaining 50% of the Options vested and became exercisable on the third anniversary of the date of grant.

The vesting schedule for 1999 (5<sup>th</sup> and 6<sup>th</sup> tranche) is as follows:

- (i) 33% of the Options vested and became exercisable on the first anniversary of the date of grant;
- (ii) an additional 33% of the Options vested and became exercisable on the second anniversary of the date of grant; and
- (iii) the remaining 34% of the Options vested and became exercisable on the third anniversary of the date of grant.

During the year, the CAC approved and authorized the acceleration of the vesting date of 5<sup>th</sup> and 6<sup>th</sup> tranche to November 8, 2005. The remaining 34% (5<sup>th</sup> tranche) and 67% (6<sup>th</sup> tranche) of the Options vested and became exercisable on November 8, 2005.

The vesting schedule for 1999 (7<sup>th</sup> tranche) is as follows:

- (iv) 33% of the Options vested and became exercisable on the date of grant;
- (v) an additional 33% of the Options will vest and become exercisable on the first anniversary of the date of grant; and
- (vi) the remaining 34% of the Options will vest and become exercisable on the second anniversary of the date of grant.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 30. Stock Option Plan (Continued)

In August 2000, Pacfusion established the 2000 Equity Incentive Plan. Options to subscribe for up to 4,471,800 shares were granted, of which 4,227,000 were accepted, at an exercise price of US\$0.59 per share. Options to subscribe for up to 295,800 shares were granted, of which 230,800 were accepted, at an exercise price of US\$0.59 per share.

The vesting schedule is as follows:

- (i) 25% of the options vested and became exercisable on the earlier of the date which is five years after the grant date and the first date upon which the shares of Pacfusion are listed or approved for listing (the earlier of such dates being the 'Initial Vesting Date') of Pacfusion's shares;
- (ii) an additional 25% of the options vested and became exercisable on the first anniversary of the Initial Vesting Date; and
- (iii) the remaining 50% of the options vested and became exercisable on the second anniversary of the Initial Vesting Date.

During the year, the Board and the CAC authorized the termination of the EIP, with effect March 7, 2005.

Presented below is a summary of the Group's stock option activity:

	Shares	Exercise Price Range	Weighted- Average Exercise Price
Balance, January 1, 2003	1,461,775	US\$3.09 – \$32.48	US\$15.38
Granted and Accepted	707,800	S\$11.22	S\$11.22
Exercised	(219,625)	US\$3.09–\$3.60	US\$3.48
Forfeited / Cancelled / Expired	(120,425)	US\$3.09 – \$32.48	US\$13.39
Balance, December 31, 2003	1,829,525	US\$3.09 – \$32.48	US\$13.47
Granted and Accepted	766,000	S\$16.92	S\$16.92
Exercised	(259,487)	US\$3.09–\$6.40	US\$3.66
Forfeited / Cancelled / Expired	(870,560)	US\$3.60 – \$32.48	US\$20.91
Balance, December 31, 2004	1,465,478	US\$3.09 – \$32.48	US\$8.98
Granted and Accepted	279,100	S\$10.69	S\$10.69
Exercised	(118,069)	US\$3.09 – \$6.40	US\$3.31
Forfeited / Cancelled / Expired	(590,780)	US\$3.60 – \$25.60	US\$11.18
<b>Balance, December 31, 2005</b>	<b>1,035,729</b>	<b>US\$3.09 – \$10.01</b>	<b>US\$7.68</b>

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 30. Stock Option Plan (Continued)

Presented below is a summary of the Group's outstanding stock options as of December 31, 2005:

Range of Exercise Prices	Options outstanding			Options exercisable	
	Number Outstanding at Dec 31, 2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at Dec 31, 2005	Weighted-Average Exercise Price
US\$3.60	36,600	0.03	US\$3.60	36,600	US\$3.60
US\$3.09	1,025	0.27	US\$3.09	1,025	US\$3.09
S\$11.22	324,504	2.63	S\$11.22	324,504	S\$11.22
S\$16.92	394,500	3.23	S\$16.92	394,500	S\$16.92
S\$10.69	279,100	4.84	S\$10.69	92,103	S\$10.69
	<b>1,035,729</b>			<b>848,732</b>	

The Group has elected to use the intrinsic value method prescribed in APB No. 25 to account for options issued to employees under its stock-based compensation plans. Accordingly, the difference between the option exercise price and the quoted market price or unquoted valuation price of the Group's shares on grant date is recognized as compensation cost over the options' vesting period. Such compensation cost recognized (written back) by the Group in 2003, 2004 and 2005 relating to both the 1999 Share Option Plan and 2000 Equity Incentive Plan was S\$2,192, S\$616 and (S\$154) [US\$93].

During the year ended December 31, 2003, two members resigned from the Board of Directors of the Company. For one of the Directors, in accordance with the terms of the relevant share option plans and his share option agreements, the Compensation & Administrative Committee passed the resolution on May 29, 2003 extending the exercise periods of his unexercised share options for a period of 24 months from his resignation date. During the year ended December 31, 2004, one member resigned from the Board of Directors of the Company. In accordance with the terms of the relevant share option plans and his share option agreements, the Compensation & Administrative Committee passed a resolution on February 19, 2004 extending the exercise periods of his unexercised share options for a period of 24 months from his resignation date.

The Group has accounted for this modification in accordance with FIN 44 – *Accounting for Certain Transactions Involving Stock Compensation*. Under FIN 44, compensation cost shall be measured as if the outstanding award was newly granted at the date of the change in status and the pro-rated deferred compensation expense arising at the new grant date based on intrinsic value method is recognized.

During the years ended December 31, 2003, 2004 and 2005, 56,000, 59,000 and 27,800 options were granted to non-employees of which 56,000, 59,000 and 27,800 were accepted. In accordance with SFAS No. 123's fair value method, for the years ended December 31, 2003, 2004 and 2005, compensation cost of S\$183, S\$226 and S\$45 (US\$27) were recognized (written back). Fair value was computed using the Black-Scholes Option Pricing Model.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 30. Stock Option Plan (Continued)

The total stock-based compensation cost recognized (written back) by the Group for the years ended December 31, 2003, 2004 and 2005 were S\$2,375, S\$842 and (S\$109) [(US\$66)], respectively.

Stock option awards granted after January 18, 2001 are variable accounted for in accordance with EITF 00-23 – *Issues Relating to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44, Issue 31*. The total compensation expense recognized (written back) in 2003, 2004 and 2005 in relation to these outstanding options are S\$2,129, S\$240 and (S\$127) [(US\$76)].

### 31. Legal Proceedings

Except as mentioned below, the Company is not involved in any material pending legal proceedings.

On December 6, 2001, a class action lawsuit (“IPO Allocation Suit”) was instituted in the United States District Court for the Southern District of New York against the Company and several of the Company’s former directors and officers as well as against the underwriters who handled the Company’s February 5, 1999 initial public offering (“IPO”). The complaint filed with respect to the IPO Allocation Suit alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 and is based primarily on the assertion that there were undisclosed commissions received by the underwriter defendants and agreements or arrangements entered into by the underwriters for additional purchases of the Company’s securities in the aftermarket by selected investors at pre-determined prices. The action seeks damages in an unspecified amount. In April 2002, an amended complaint was filed against the Company. The amended complaint included, amongst others, allegations of price-manipulation in the Company’s IPO as well as its second offering conducted in May 1999.

The Company has been advised by its US counsel that similar class action suits have been filed against about 300 other companies that went public between 1998 and 2001 and that all such cases have been consolidated before a single judge for case management purposes. On July 15, 2002, the Company and the individual defendants, along with the other issuers and their related officer and director defendants, filed a joint motion to dismiss based on common issues. On February 19, 2003, the Court denied the motion to dismiss as to all claims brought against the Company and the individual defendants, except for claims brought against the individual defendants under Section 10(b) of the Securities Exchange Act of 1934, which were dismissed.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 31. Legal Proceedings (Continued)

On July 30, 2003, the Litigation Committee of the Board of Directors of the Company approved a Memorandum of Understanding (the "MOU") reflecting a settlement in which the plaintiffs agreed to dismiss the case against the Company with prejudice in return for the assignment by the Company of claims that the Company might have against its underwriters. No payment to the plaintiffs by the Company was required under the MOU. After further negotiations, the essential terms of the MOU were formalized in a Stipulation and Agreement of Settlement ("Settlement"), which has been executed on behalf of the Company. The settling parties presented the Settlement papers to the Court on June 14, 2004 and filed briefs formally seeking preliminary approval of the proposed Settlement on June 25, 2004. The underwriter defendants, who are not parties to the proposed Settlement, filed a brief objecting to the Settlement's terms on July 14, 2004. On February 15, 2005, the Court granted preliminary approval of the Settlement conditioned on agreement by the parties to narrow one of a number of provisions in the Settlement intended to protect the issuers against possible future claims by the underwriters. The Litigation Committee of the Board of Directors of the Company re-approved the Settlement with the proposed modifications that were outlined by the Court in its February 15, 2005 Order granting preliminary approval. Approval of any settlement involves a three step process in the district court: (i) a preliminary approval, (ii) determination of the appropriate notice of the settlement to be provided to the settlement class, and (iii) a final fairness hearing. On August 31, 2005, the Court resolved the open issues and entered an order of preliminary approval of the Settlement and set deadlines for mailing of the class notice, publication of the advertisements in various U.S. newspapers and for the class members to exclude themselves from the settlement and to file objections or comments on the settlement. The final fairness hearing for approval of the Settlement has been scheduled for April 24, 2006. Despite the preliminary approval, there can be no assurance that the Court will provide final approval of the Settlement.

The proposed Settlement does not resolve the claims that the plaintiffs have against the underwriter defendants and the litigation between those parties is proceeding. Due to the large number of cases consolidated into the IPO litigation, the Court, as a case management device, ordered the plaintiffs and underwriters to select from the approximately 300 consolidated cases "focus cases" intended to present a representative sample of parties and issues. Six focus cases were chosen for the class certification stage. On October 13, 2004, the Court certified classes in each of the six class certification focus cases. The underwriter defendants have sought review of that decision.

The plaintiffs and underwriters have chosen additional focus cases for purposes of the discovery phase. The underwriter defendants selected the Company as a merits focus case. As a result, among other things, the Company has been, and will be, subject to discovery obligations that non-focus case issuers are not be subject to. However, the selection of the Company as a focus case will not impact its ability to participate in the proposed Settlement.

The Company believes that it and the individual defendants have meritorious defenses to the claims made in the complaints and, if the Settlement is not approved by the Court, intends to contest the lawsuit vigorously. However, the litigation remains at a preliminary stage. Due to the inherent uncertainties of the lawsuit, the Company cannot accurately predict the ultimate outcome of the lawsuit. An unfavorable outcome could have a material adverse effect on the business, financial condition and results of operation of the Company in the period in which the lawsuit is resolved.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 31. Legal Proceedings (Continued)

The Group is or may be potentially involved in other litigation incidental to its business. Although the outcome of any such litigation is not presently determinable, the resolution of such litigation is not expected to have a material adverse effect on its business. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

### 32. Guarantees

As of December 31, 2005, the Company has issued the following guarantees to third parties on behalf of its subsidiaries and believes that the risk involved is minimal.

- (i) A corporate guarantee of S\$8,300 (US\$4,992) (2004: S\$8,300) to a bank in respect of banking facilities extended to Safe2Travel amounting to S\$8,000 (US\$4,811) (2004: S\$8,000) of which S\$3,273 (US\$1,968) (2004: S\$3,050) has been utilized.
- (ii) A corporate guarantee of S\$1,290 (US\$776) to a bank in respect of banking facilities extended to PI HK amounting to S\$1,290 (US\$776) of which S\$645 (US\$388) has been utilized.

### 33. Extraordinary Item

This relates to a gain arising from the acquisition of the balance of 7.89% shareholding in Pacfusion from the minority shareholder in January 2004 whereby the fair value of the attributable tangible assets acquired is in excess of the cost of acquisition.

### 34. Subsequent Events

On January 11, 2006, the Securities And Exchange Commission, the Philippines, approved of the increase of the authorized capital of PDSI from Sixty Million Pesos (P60,000,000) to One Hundred and Thirty One Million Pesos (P131,000,000). Of the additional authorized capital, a total of Seventeen Million Seven Hundred Fifty Thousand Pesos (P17,750,000) consisting of Seventeen Million Seven Hundred Fifty Thousand (17,750,000) shares were subscribed to and paid-up as follows:

	No. of Shares Subscribed	Amount Subscribed	Amount Paid-Up
Pacific Internet Limited	12,440,800	P12,440,800	P3,110,200
PW Holding Corporation	5,309,200	P5,309,200	P1,327,300

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 34. Subsequent Events (Continued)

As a result, the Company increased its equity interest in PDSI from 31.1% to 40% whereas the equity interest of PW Holding Corporation in PDSI decreased from 56.67% to 50.56%.

On January 25, 2006, Pacfusion Limited was placed into liquidation by way of written resolution of members.

On February 7, 2006, PI Services completed the acquisition of a 7.50% direct equity interest in Safe2Travel Pte Ltd from Asia-Pacific Retail Concepts Pte Ltd for a total consideration of S\$972. After the acquisition, PI Services' total direct equity interest in Safe2Travel Pte Ltd is 99.99%.

The Group is currently evaluating the effects of the above events.

### 35. Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) – *Share-Based Payment* (“SFAS No. 123R”), which is a revision of SFAS No. 123. SFAS No. 123R supercedes APB No. 25 and amends FASB Statement No. 95 – *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R must be adopted no later than the beginning of the first fiscal year beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS No. 123R on January 1, 2006.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods:

- (i) A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remained unvested on the effective date.
- (ii) A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

## Notes to Consolidated Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore and U.S. Dollar except Share Data or unless otherwise indicated)

### 35. Recent Accounting Pronouncements (Continued)

The Group is currently evaluating the above methods of adoption.

As permitted by SFAS No. 123, the Group currently accounts for share-based payments to employees using APB No. 25's intrinsic value method. Accordingly, the adoption of SFAS No. 123R's fair value method will have a significant impact on the Group's results of operations, although it will have no impact on the Group's overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Group adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 3.

In March 2005, the FASB issued Interpretation, or FIN, No. 47, *Accounting for Conditional Asset Retirement Obligations*—an interpretation of FASB SFAS No. 143, *Accounting for Asset Retirement Obligations*, which clarifies the term “conditional asset retirement obligations” and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of FIN No. 47 were effective on December 15, 2005. The adoption of FIN No. 47 did not have a material effect on our consolidated results of operations or financial condition.

In May 2005, the FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections* (“SFAS No. 154”). SFAS 154 replaces APB Opinion No. 20 (“APB 20”), *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Charges in Interim Financial Statements*. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that a correction of errors in previously issued financial statements should be termed a “restatement.” APB 20 previously required most voluntary changes in accounting principle to be recognized by including in net income at the period of change the cumulative effect of changing to the new accounting principle. In addition, SFAS No. 154 carries forward without change the guidance contained in APB 20 for reporting a correction of an error in previously issued financial statements and a change in accounting estimate. The new standard is effective for accounting changes and correction of errors made after January 1, 2006. The Group does not expect the adoption of SFAS No. 154 to have a material impact on its consolidated financial statements.

## Report of the Auditors

to the Members of Pacific Internet Limited

We have audited the accompanying financial statements of Pacific Internet Limited for the year ended December 31, 2005 set out on pages 120 to 168. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the Act) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at December 31, 2005 and the results, changes in equity and cash flows of the Company for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

As explained in note 2, the financial statements for the financial year ended December 31, 2005 have been separately prepared for the Group, comprising the Company and its subsidiaries, in accordance with accounting principles generally accepted in the United States of America. On February 15, 2006, we reported separately on the consolidated financial statements of the Group.

Furthermore, in respect of the requirements of the Act as modified by waivers granted by the Chief Executive, Accounting & Corporate Regulatory Authority as they pertain to the consolidated financial statements, in our opinion, the consolidated financial statements are properly drawn up as to give a true and fair view of the matters required by section 201 of the Act to be dealt with in the consolidated financial statements.

### **ERNST & YOUNG**

Certified Public Accountants

Singapore

February 15, 2006

## Profit and Loss Accounts

for the financial year ended December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

	Note	2005 \$'000	2004 \$'000
<b>Revenues</b>			
Dial-up access		13,268	17,881
Leased line access		11,326	11,607
Broadband access		31,490	33,599
Value added services		8,776	9,083
Other revenues		1,335	2,019
Total revenues		66,195	74,189
<b>Operating costs and expenses</b>			
Cost of sales		29,537	31,042
Staff costs		19,394	19,566
Depreciation of property, plant and equipment		2,536	2,649
Amortization of intangible assets		55	168
Advertising and promotion expenses		1,609	1,750
Foreign currency (gains)/losses		(38)	198
Other operating expenses		6,804	8,310
Total operating costs and expenses		59,897	63,683
<b>Operating profit</b>	4	6,298	10,506
<b>Other (expenses)/income</b>			
Interest income	5	753	234
Finance costs	6	(117)	(98)
Other income	27	2,212	1,582
		2,848	1,718
<b>Profit before taxation and exceptional item</b>		9,146	12,224
Exceptional item	28	-	(31,607)
<b>Profit/(Loss) before taxation</b>		9,146	(19,383)
Income tax	7	(1,788)	(3,279)
<b>Profit/(Loss) for the financial year transferred to revenue reserves</b>		7,358	(22,662)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Balance Sheets

as at December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

	Note	2005 \$'000	2004 \$'000
<b>ASSETS LESS LIABILITIES</b>			
<b>Non-current assets</b>			
Deferred expenditure	8	–	–
Property, plant and equipment, net	9	5,574	6,868
Intangible assets	10	90	145
Long term receivables and loan receivables from related companies	11	28,327	13,503
Investments in subsidiaries	12	59,811	59,811
Investments in associates	13	5,453	5,453
Other investments	14	–	–
<b>Total non-current assets</b>		<b>99,255</b>	<b>85,780</b>
<b>Current assets</b>			
Inventories	15	103	64
Short term loan receivables from related companies	11	754	–
Amounts due from related companies and parties	11	538	12,055
Trade receivables, net	16	8,089	8,320
Other receivables	17	974	1,740
Fixed deposits	25	37,847	38,476
Cash and bank balances	25	5,400	3,534
		<b>53,705</b>	<b>64,189</b>
<b>Current liabilities</b>			
Bank borrowings	18	2,300	2,300
Amounts due to related companies and parties	11	1,899	6,922
Trade payables		3,061	2,902
Provision and other payables	19	13,503	17,545
Deferred income	20	3,541	3,293
Hire purchase creditors	21	317	470
Provision for income tax		3,395	4,302
		<b>28,016</b>	<b>37,734</b>
<b>Net current assets</b>		<b>25,689</b>	<b>26,455</b>
<b>Non-current liabilities</b>			
Long term payables to related companies	11	4,851	–
Hire purchase creditors	21	297	524
Deferred tax liability	23	73	–
<b>Net assets</b>		<b>119,723</b>	<b>111,711</b>
<b>Equity</b>			
Share capital	22	26,824	26,588
Share premium	22	83,236	82,818
Revenue reserves		9,663	2,305
<b>Total equity</b>		<b>119,723</b>	<b>111,711</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Changes in Equity

for the financial year ended December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

	2005 \$'000	2004 \$'000
<b>Issued share capital</b>		
Balance at beginning of the financial year	26,588	26,069
Issuance of ordinary shares	236	519
Balance at end of the financial year	26,824	26,588
<b>Share premium</b>		
Balance at beginning of the financial year	82,818	81,719
Premium on issuance of ordinary shares	418	1,099
Balance at end of the financial year	83,236	82,818
<b>Revenue reserves</b>		
Balance at beginning of the financial year	2,305	24,967
Profit/(loss) for the financial year	7,358	(22,662)
Balance at end of the financial year	9,663	2,305
<b>Total shareholder's equity</b>	<b>119,723</b>	<b>111,711</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Cash Flows

for the financial year ended December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities :</b>		
Profit/(Loss) before taxation and exceptional item	9,146	(19,383)
Adjustments for :		
Exceptional item	–	31,607
Write off of property, plant and equipment	6	22
Depreciation of property, plant and equipment	2,536	2,649
Impairment loss of property, plant and equipment	112	–
Amortization of intangible assets	55	168
Loss on disposal of property, plant and equipment	26	24
(Write-back)/Allowance for doubtful debts		
– Other receivables	(229)	–
– Trade receivables	1,020	968
– Receivables from related companies	(30)	–
Interest expense	117	98
Interest income	(753)	(234)
<b>Operating income before reinvestment in working capital</b>	<b>12,006</b>	<b>15,919</b>
Decrease/(increase) in trade and other receivables	206	(1,601)
(Decrease)/increase in trade and other payables	(3,635)	3,596
Increase in inventories	(39)	(21)
Decrease in net trade-related amounts due to related parties and companies	(461)	(60)
<b>Cash generated from operations</b>	<b>8,077</b>	<b>17,833</b>
Interest paid	(117)	(98)
Interest income received	753	234
Income tax paid	(2,622)	(2,778)
<b>Net cash provided by operating activities</b>	<b>6,091</b>	<b>15,191</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Cash Flows (continued)

for the financial year ended December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

	2005 \$'000	2004 \$'000
<b>Cash flows from investing activities :</b>		
Purchase of property, plant and equipment	(2,310)	(2,962)
Purchase of intangible assets	–	(15)
Proceeds from sale of property, plant and equipment	–	839
Repayment of loan receivable	–	(48)
Increase in net non-trade amounts due from related parties and companies	(1,831)	(221)
Issuance of loans to related companies	(987)	–
Increase in investment in subsidiary and associated companies	–	(942)
<b>Net cash used in investing activities</b>	<b>(5,128)</b>	<b>(3,349)</b>
<b>Cash flows from financing activities :</b>		
Repayment of hire purchase creditors	(380)	(429)
Issuance of ordinary shares	654	1,618
<b>Net cash provided by financing activities</b>	<b>274</b>	<b>1,189</b>
Net increase in cash and cash equivalents	1,237	13,031
Cash and cash equivalents at beginning of the financial year (Note 25)	42,010	28,979
<b>Cash and cash equivalents at end of the financial year (Note 25)</b>	<b>43,247</b>	<b>42,010</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Notes to Financial Statements

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 1. General

The Company which is incorporated in Singapore is an associated company of Kingsville Capital Limited (“Kingsville”), incorporated under the laws of the British Virgin Islands. Kingsville is a special purpose vehicle established specifically for the acquisition of shares held by SembCorp Ventures Pte Ltd in the Company in July 2005. Kingsville represents a group of investors put together by Titan Capital Pte Ltd, an investment and financial advisory firm incorporated in Singapore. On September 29, 2005, Vantage Corporation announced that it had entered into a sale and purchase agreement with Kingsville Capital Limited to acquire its entire equity interest of 28.6% in the Company for an aggregate consideration of US\$30.5 million. As at December 31, 2005, completion of the transaction had not occurred.

The registered office and principal place of business of the Company is located at 89 Science Park Drive, #01-07, The Rutherford, Singapore 118261.

The principal activities of the Company are the provision of Internet access services and communications services, sale of network configuration equipment and the design and maintenance of websites.

The principal activities of the subsidiaries are those of e-commerce, content and community online services, website and application development services and operation of web portals in various segments, internet access services, provision of services relating to corporate ticketing and hotel reservation and investment holding.

The Company employed 309 (2004: 324) employees as at December 31, 2005.

Details of subsidiaries and associates at December 31, 2005 are :

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Effective equity interest held	
		2005 \$'000	2004 \$'000	2005 %	2004 %
<b>Subsidiaries Held by the Company</b>					
* Pacific Internet Corporation Pte Ltd (Singapore)	Internet service provider (Singapore)	4,597	4,597	100	100
* Pacific Internet (Hong Kong) Limited (formerly known as Pacific Supernet Limited) (Hong Kong)	Internet access service provider (Hong Kong)	20,957	20,957	100	100

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

**1. General** (Continued)

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Effective equity interest held	
		2005 \$'000	2004 \$'000	2005 %	2004 %
<b>Subsidiaries Held by the Company</b> (Continued)					
* Pacific Internet (Australia) Pty. Limited (Australia)	Investment holding and internet access service provider (Australia)	33,606	33,606	100	100
* Pacific Internet Corporation (Hong Kong) Limited (formerly known as Pacific Internet (Hong Kong) Limited) (Hong Kong)	Inactive (Hong Kong)	— <sup>(1)</sup>	— <sup>(1)</sup>	100	100
* Pacific Internet (Malaysia) Sdn. Bhd. (Malaysia)	Internet access service provider (Malaysia)	550	550	61 <sup>(a)</sup>	100 <sup>(a)</sup>
* Pacfusion Limited (Bermuda)	In Members' Voluntary Liquidation (Singapore)	31,607	31,607	100	100
* Primeworld Digital Systems, Inc. (formerly known as Pacific Internet Philippines, Inc. (The Philippines)	Internet access service provider (The Philippines)	920	920	53.8 <sup>(b)</sup>	53.8 <sup>(b)</sup>
* Pacific Internet Services Pte Ltd (Singapore)	Inactive (Singapore)	— <sup>(1)</sup>	— <sup>(1)</sup>	100	100
		<b>92,237</b>	<b>92,237</b>		

<sup>(a)</sup> During the year, the Company disposed of 39% of shares in Pacific Internet (Malaysia) Sdn. Bhd.

<sup>(b)</sup> 53.8% (2004 : 53.8%) represents the effective interest of the Company in Primeworld Digital Systems, Inc. This includes a direct interest of 31.1% (2004 : 31.1%) and an indirect interest of 22.7% (2004 : 22.7%).

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 1. General (Continued)

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Effective equity interest held	
		2005 \$'000	2004 \$'000	2005 %	2004 %
<b>Held by Pacific Internet (Australia) Pty. Limited</b>					
* Zip World Pty Ltd (Australia)	Internet access service provider (Australia)	1,396	1,396	100	100
* Hunterlink Pty Limited (Australia)	Internet access service provider (Australia)	5,915	5,915	100	100
* T3 Communications Partners Pty Ltd (Australia)	Investment holding (Australia)	6,517	–	100	–
<b>Held by T3 Communications Partners Pty Ltd</b>					
* T3 Communications Pty Ltd (Australia)	Carriage service provider of voice and data services (Australia)	6,321	–	100	–
* T3 Technology Solutions Pty Ltd (Australia)	Provider of equipment and phone systems (Australia)	196	–	100	–
* T3 Rewards Pty Ltd (Australia)	Inactive (Australia)	–	–	100	–
<b>Held by Pacific Internet Services Pte Ltd</b>					
* TravelFusion.com Limited (Officially dissolve on October 14, 2005) (Bermuda)	Inactive (Singapore)	–	– <sup>(1)</sup>	–	100
* Safe2Travel Pte Ltd (Singapore)	Provision of corporate and retail ticketing and hotel reservation services (Singapore)	18,462	18,462	92.5	92.5

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

**1. General** (Continued)

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Effective equity interest held	
		2005 \$'000	2004 \$'000	2005 %	2004 %
<b>Associated companies Held by the Company</b>					
* Pacific Internet India Private Limited (India)	Internet access service provider (India)	92	92	49	49
+ Pacific Digiway Limited (Thailand)	Investment holding (Thailand)	2	2	49	49
* Pacific Internet (Thailand) Limited (Thailand)	Investment holding (Thailand)	5,140	5,140	74.0 <sup>(c)</sup>	74.0 <sup>(c)</sup>
* PW Holding Corporation (The Philippines)	Investment holding (The Philippines)	764	764	40	40
		<u>5,998</u>	<u>5,998</u>		

**Associated Companies Held by Pacific Internet Services Pte Ltd**

* Pacfusion.com (Thailand) Limited (In Members' Voluntary Liquidation) (Thailand)	Inactive (Thailand)	2	2	74	74
---	---------------------	---	---	----	----

**Held by Pacific Internet (Thailand) Limited**

* World Net & Services Co., Ltd. (Thailand)	Internet access service provider (Thailand)	23	23	49.8	49.8
---	---	----	----	------	------

<sup>(c)</sup> 74.0% (2004 : 74.0%) represents the effective interest of the Company in Pacific Internet (Thailand) Limited ("PITH"). This includes a direct interest of 49% (2004 : 49%) and an indirect interest of 25.0% (2004 : 25.0%) held through another associate company, Pacific Digiway Limited. The Company views PITH as an associate as PITH has agreement with the minority shareholder of its subsidiary, World Net & Services Co., Ltd. ("WNS") granting the minority shareholder significant veto rights. WNS accounts for a substantial portion of the revenues of PITH.

<sup>(1)</sup> Cost of investments lesser than S\$500.

\* Audited by Ernst & Young, Singapore or member firms of Ernst & Young Global in the respective countries.

+ Audited by other Certified Public Accounting firm.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 2. Requirements of the Singapore Companies Act

The Company presents these financial statements to comply with the requirements of the Singapore Companies Act, to the extent that such requirements have not been waived by the Chief Executive, Accounting & Corporate Regulatory Authority.

Financial statements have been separately prepared for the Group, comprising the Company and its subsidiaries, in accordance with accounting principles generally accepted in the United States of America which are set out in pages 64 to 118 attached to these financial statements.

### 3. Summary of Significant Accounting Policies

#### 3.1 Basis of Preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Companies Act.

The financial statements have been prepared on a historical cost basis except for derivative financial instruments, held for trading and available-for-sale financial assets that have been measured at their fair values.

The financial statements of the Company are expressed in Singapore dollars (S\$ or SGD). Except for share data or where otherwise indicated, the dollar amounts are presented in thousands of Singapore dollars (\$'000).

#### 3.2 Changes in Accounting Policies

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year, except for changes made in accounting policies as discussed below.

(a) *Adoption of new FRS*

On January 1, 2005, the Company adopted the following standards mandatory for annual financial periods beginning on or after January 1, 2005.

- FRS 39, Financial Instruments: Recognition and Measurement
- FRS 103, Business Combinations, including amendments to FRS 36 (Revised), Impairment of Assets and FRS 38 (Revised), Intangible Assets.
- FRS 105, Non-Current Assets Held for Sale and Discontinued Operations

Except for the adoption of FRS 39 as discussed below, the adoption of the above standards have no significant impact on the financial statements of the Company.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.2 Changes in Accounting Policies (Continued)

##### (a) Adoption of new FRS (Continued)

The Company had adopted FRS 39 prospectively on January 1, 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held-to-maturity investments were measured at amortized cost using the effective interest rate method. At January 1, 2005, differences between the carrying value and fair values of financial assets at fair value through profit or loss were recognized in accumulated profits while the differences between carrying values and fair values of available-for-sale financial assets were recognized in the fair value adjustment reserve. For investments carried at amortized cost, any differences between the carrying values and amortized costs as at January 1, 2005 were recognized in accumulated profits.

At January 1, 2005, financial liabilities (other than derivative financial instruments) within the scope of FRS 39 were measured at amortized costs using the effective interest rate method. Any difference between the carrying values and amortized costs as at January 1, 2005 were recognized in accumulated profits.

The adoption of FRS39 had no material effect on the Company's financial statements.

##### (b) Adoption of revised FRS

The Company adopted the following revised standards mandatory for annual financial periods, beginning on or after January 1, 2005. The adoption of the standards did not result in significant change in accounting policies or does not apply to the activities of the Company:

- FRS 1 (*revised*), Presentation of Financial Statements
- FRS 2 (*revised*), Inventories
- FRS 8 (*revised*), Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 10 (*revised*), Events after the Balance Sheet Date
- FRS 16 (*revised*), Property, Plant and Equipment
- FRS 17 (*revised*), Leases
- FRS 21 (*revised*), The Effects of Changes in Foreign Exchange Rates
- FRS 24 (*revised*), Related Party Disclosures
- FRS 27 (*revised*), Consolidated and Separate Financial Statements
- FRS 28 (*revised*), Investments in Associates
- FRS 31 (*revised*), Interests in Joint Ventures
- FRS 32 (*revised*), Financial Instruments: Disclosure and Presentation

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.2 Changes in Accounting Policies (Continued)

(c) *FRS and INT FRS not yet effective*

The Company has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning

(i) On or after January 1, 2006

- FRS 102, Share-based payment

The standard deals with recognition of share-based payments as expenses, measured at the fair value of the equity instruments issued, or the goods or services received, determined at the date of grant, or receipt of goods or services. The main impact of FRS 102 on the Company is the recognition of an expense and a corresponding entry to equity for share options granted to directors, senior executives and general employees. Further details of the equity compensation benefits are disclosed in Note 24. The Company is in the midst of evaluating the impact on the initial adoption of the standard.

The following interpretations and standards below are not expected to be relevant to the activities of the Company. The Company expects that the adoption of these pronouncements will have no impact on the financial statements in the period of initial application.

- FRS 40, Investment Property
- FRS 19 (*revised*), Employee Benefits
- FRS 106, Exploration for and Evaluation of Mineral Resources
- INT FRS 104, Determining Whether an Arrangement Contains a Lease
- INT FRS 105, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

ii) On or after January 1, 2007

- FRS 107, Financial Instruments: Disclosure

This standard, effective for annual financial periods beginning on or after January 1, 2007, requires quantitative disclosures of nature and extent of risks arising from financial instruments in addition to the disclosures currently required under FRS 32. Adoption of this standard will result in additional disclosures in the financial statements.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.2 Changes in Accounting Policies (Continued)

(c) *FRS and INT FRS not yet effective* (Continued)

iii) On or after December 1, 2005

- INT FRS 106, Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

This interpretation, effective for annual financial periods beginning on or after December 1, 2005, does not apply to the activities of the Company.

iv) On or after March 1, 2006

- INT FRS 107, Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies

This interpretation, effective for annual financial periods beginning on or after March 1, 2006, does not apply to the activities of the company.

#### 3.3 Significant Accounting Estimates and Assumptions

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.3 Significant Accounting Estimates and Assumptions (Continued)

##### (a) *Key sources of estimation uncertainty* (Continued)

##### i) Depreciation of property, plant and equipment and amortization of intangibles

The cost of plant, property and equipment and intangibles for the operations are depreciated on a straight-line basis over the assets' useful lives.

Management estimates the useful lives of these property, plant and equipment and intangibles to be within 2 to 6 years. These are common life expectancies applied in the internet service provider industry. The carrying amount of the Company's property, plant and equipment and intangible assets as at December 31, 2005 was \$5,574 and \$90 respectively (2004: \$6,868 and \$145). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

##### ii) Income taxes

The Company has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Company's tax payables at December 31, 2005 was \$3,395 (2004: \$4,302).

In addition, the management assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company would recognize a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient tax profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.3 Significant Accounting Estimates and Assumptions (Continued)

(a) *Key sources of estimation uncertainty* (Continued)

ii) Income taxes (Continued)

The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the above. In the event that the management was to determine that it would be able to realize the deferred tax benefit in the future in excess of its recorded amount, an adjustment to the deferred tax asset would increase income for the period such determination was made. Likewise, should management determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged in the period such determination was made.

iii) Legal contingencies

The Company is involved in material legal proceedings as disclosed in Note 31 to the Financial Statements. The Company is also involved in legal proceedings that it considers normal to its business and has accrued estimates of the probable costs of defending these proceedings as incurred. The estimate has been developed in consultation with outside counsel handling the Company's defence in these matters and is based on analysis of potential results, assuming a combination of litigation and settlement strategies.

Save as disclosed in the financial statements, the Company does not believe these proceedings will have a material adverse effect on its financial position. It is possible, however, the results of operations can be materially affected by changes in assumptions of the effectiveness of the strategies relating to these proceedings.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.3 Significant Accounting Estimates and Assumptions (Continued)

##### (b) *Critical judgements made in applying accounting policies*

The following are the judgements made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

##### i) Revenue recognition

The Company has recognized revenue amounting to \$66,195 (2004: \$74,189) arising from services provided to its customers. In evaluating the recognition of revenue, the management made judgments regarding the nature of the fee charged for services rendered and products delivered and the collectibility of these fees.

The Company's sales arrangement includes provision of internet access services as well as multiple-element arrangements where access services, activation fees and equipment are provided together. Where arrangement provide for multiple elements, elements are either combined into one single unit of accounting or treated as separate units of accounting depending on whether certain criteria are met. Revenue is allocated to each unit of accounting based on fair value, determined by reference to price of services and products sold on a standalone basis.

Should changes in conditions cause management to determine that criteria for revenue recognition are not met or that fair value in the case of multiple element arrangements cannot be ascertained, revenue recognized for any reporting period could be affected.

##### ii) Cost of sales

Access to internet for customers outside the base of owned POP is provided through capacity leased from a number of third-party telecom providers. The Company is, in effect, buying capacity in bulk at a discount, and providing access to its customer base at the normal rates. The network service costs represent a significant portion of its costs of sales and the related liabilities represent a significant portion of accrued expenses. Network service costs accruals are frequently based on best estimates due to delayed or late billing by telecom companies, the complexity of the Company's arrangements with telecom companies and the frequency of disputes.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.3 Significant Accounting Estimates and Assumptions (Continued)

(b) *Critical judgements made in applying accounting policies* (Continued)

iii) Allowance for doubtful debts

The Company maintains allowances for doubtful debts for estimated losses arising from inability of customers to make required payments. If the financial position of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

iv) Impairment of financial assets and non-financial assets

The Company maintains allowances for financial assets and non-financial assets for estimated impairment losses. These estimates require the management to make assessments of the future cash flows of the financial assets and assumptions relating to the risk-free rates associated with these assets.

#### 3.4 Revenue Recognition

The Company's sales arrangement includes provision of internet access services as well as multiple-element arrangements where access services, activation fees and equipment are provided together. Where arrangement provide for multiple elements, elements are either combined into one single unit of accounting or treated as separate units of accounting depending on whether certain criteria are met. Revenue is allocated to each unit of accounting based on fair value, determined by reference to price of services and products sold on a standalone basis.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured on the following basis:

- (i) Revenue from the provision of Internet access services, design and maintenance of websites and value added services like web hosting, data hosting services, roaming services and anti-virus solution services are recognized when the services are rendered;
- (ii) Revenue from the sale of network configuration equipment are recognized upon the passage of title which normally coincides with delivery and acceptance of the equipment; and
- (iii) Interest and management fee income are recognized on an accrual basis unless collectibility is in doubt.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.5 Intangible Assets

Intangible assets which consist of purchased telecommunications access codes and software license are measured on initial recognition at cost.

Following initial recognition, the intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. The intangible assets of the Company are assessed to be finite lives assets. These intangible assets are amortized on a straight line basis over the estimated economic useful lives as follows.

Telecommunications access codes	–	5 years
Internet service provider license	–	5 years
Software license	–	5 years
Acquired customer list	–	2 years

The intangible assets are assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortization expense on intangible assets with finite lives is recognized in the profit and loss account through the “Amortization of intangible assets” line item.

#### 3.6 Investments in Subsidiaries

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The company generally has such powers when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

Investments in subsidiary companies are accounted for at cost less any impairment losses.

#### 3.7 Investments in Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Company has significant influence. This generally coincides with the Company having 20% or more of the voting power, or has representation on the board of directors. Investments in associated companies are accounted for at cost less impairment loss on an individual associated company basis.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.8 Property, Plant and Equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions and improvements are capitalized and expenditure for repairs and maintenance are charged to the profit and loss account. When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

The carrying values of property, plant and equipment are reviewed impairment when events or changes in circumstances indicate that carrying value may not be recoverable.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognized.

#### 3.9 Depreciation

Depreciation of an asset begins when it is available for use and is calculated on the straight-line method to write off the cost of the assets over their estimated useful lives. The estimated useful lives are as follows:

Renovation	– 3 years
Furniture and fittings	– 5 years
Computers and software	– 3 to 5 years
Office equipment	– 5 years
Motor vehicles	– 6 years
Telecommunication equipment	– 9 months

No depreciation is charged on construction-in-progress until the construction is completed and available for use and the property, plant and equipment is transferred to its appropriate category.

The residual values, useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the previous estimates and the expected pattern of economic benefits from items of property, plant and equipment.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for based on the acquisition costs of products and equipment parts for resale on a first-in, first-out basis. Net realisable value represents the estimated selling price in the ordinary course of business, less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

#### 3.11 Trade Receivables, Other Receivables and Amounts Due from Related Companies and Parties

Receivables, including amounts due from subsidiaries, associates, related companies and loans to related companies are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 3.21.

For long-term receivables from related companies and related parties, the Company estimates the repayment terms of such receivables on initial recognition, where practicable. For amounts that have no repayment terms and is repayable only when the cash flows of the borrower permits, the fair value of such receivables may not be determinable as the timing of the future cash flows arising from the receivables cannot be estimated reliably. Such receivables are stated at cost.

An allowance is made for uncollectible amounts when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off as incurred. Further details on the accounting policy for impairment of financial assets are stated in Note 3.22.

#### 3.12 Bank Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, bank borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the profit and loss account when the liabilities are derecognized as well as through the amortization process.

#### 3.13 Trade Payables, Other Payables and Amounts Due to Related Companies and Parties

Liabilities for trade and other payables, including amounts due to related companies and related parties, which are settled on 30–90 day terms, and payables to related parties are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the profit and loss account when the liabilities are derecognized as well as through the amortization process.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.14 Income Taxes

(a) *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) *Deferred tax*

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilized.

At each balance sheet date, the Company re-assesses unrecognized tax assets and the carrying amount of deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.14 Income Taxes (Continued)

(c) *Sales tax*

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

#### 3.15 Functional and Foreign Currencies

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

Foreign currency transactions are measured in Singapore dollars and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at transaction dates. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange difference arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognized in the profit and loss account.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.16 Leases

(a) *Finance lease*

Finance leases, which effectively transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at amounts equal, at the inception of the lease, to the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalized. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability for each period. Finance charges are charged directly to the profit and loss account.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

(b) *Operating lease*

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

#### 3.17 Cash and Cash Equivalents

Cash and cash equivalents consist of unpledged fixed deposits, cash at bank and in hand less bank overdrafts but exclude secured bank overdrafts which are used for financing activities.

Cash and short term deposits carried in the balance sheets are classified and accounted for as loan and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 3.21.

#### 3.18 Employee Benefits

(a) *Defined contribution plans*

As required by the law, the Company makes contributions to the state pension scheme, the Central Provident Fund (CPF). CPF contributions are recognized as compensation expense in the period in which the related service is performed.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.18 Employee Benefits (Continued)

##### (b) *Accumulated compensation absences*

The Company has accumulated compensated absences in the form of annual leave that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulated compensated absences are recognized as a liability when they accrue to employees. The estimated liability for leave is recognized for services rendered by employees up to balance sheet date.

##### (c) *Equity compensation benefits*

The Company has employee share option plans for the granting of non-transferable options. No compensation cost is recognized upon the grant or exercise of options. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium accordingly.

#### 3.19 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

#### 3.20 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred.

#### 3.21 Financial Assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognized on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.21 Financial Assets (Continued)

When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(a) *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the profit and loss account.

(b) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost using the effective interest method. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the profit and loss account when the investments are derecognized or impaired, as well as through the amortization process.

(c) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit and loss account when the loans and receivables are derecognized or impaired, as well as through the amortization process.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.21 Financial Assets (Continued)

##### (d) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized in the fair value adjustment reserve until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organized financial markets is determined by reference to the relevant Exchange's quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less any accumulated impairment loss.

#### 3.22 Impairment of Assets

##### (a) *Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

##### (i) *Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the profit and loss account.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.22 Impairment of Assets (Continued)

(a) *Impairment of financial assets* (Continued)

(i) Assets carried at amortized cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the profit and loss account, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the profit and loss account.

(b) *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.22 Impairment of Assets (Continued)

##### (b) *Impairment of non-financial Assets* (Continued)

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the profit and loss account as 'impairment losses' or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Reversal of an impairment loss is recognized in the profit and loss account unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognized through the profit and loss account is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 3. Summary of Significant Accounting Policies (Continued)

#### 3.23 Derecognition of Financial Assets and Liabilities

##### (a) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The contractual rights to receive cash flows from the asset have expired;
- The Company retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognized directly in equity, is recognized in the profit and loss account.

##### (b) *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit and loss account.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 4. Operating Profit

	2005 \$'000	2004 \$'000
Operating profit is stated after charging/(crediting) :		
Amortization of intangible assets	55	168
Depreciation of property, plant and equipment	2,536	2,649
Impairment loss of property, plant and equipment	112	–
Directors' fee	334	281
Exchange (gain)/loss	(38)	198
Write off of property, plant and equipment	6	22
Allowance / (write-back) for doubtful debts		
– trade receivables	1,020	968
– receivables from related companies	(30)	–
– other receivables	(229)	–
Staff costs		
– Central Provident Fund	1,515	1,852
– Salaries, wages, bonuses and other cost	17,005	17,099
– Directors' Central Provident Fund	12	12
– Directors' remuneration	862	603

Included in staff costs above are remuneration of key management/executive officers amounting to \$1,090 (2004 : \$836).

### 5. Interest Income

	2005 \$'000	2004 \$'000
Interest income from :		
Related company	69	42
Fixed deposit and bank balances	684	192
	753	234

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 6. Finance Costs

	2005 \$'000	2004 \$'000
Interest expense on :		
Term loan	62	37
Hire purchase creditors	55	61
	117	98

### 7. Taxation

	2005 \$'000	2004 \$'000
Current taxation :		
Current year	1,715	3,279
Deferred taxation :		
Current year (Note 23)	73	-
	1,788	3,279

Reconciliations between the applicable statutory tax rate and effective tax rate for the years ended December 31 were as follows :

	2005 %	2004 %
Applicable statutory tax rate	20.0	20.0
Effect of expenses that are not deductible	1.7	2.5
Others	(2.2)	4.3
Effective tax rate	19.5	26.8

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 8. Deferred Expenditure

	2005 \$'000	2004 \$'000
Cost		
Balance at beginning of the financial year	379	379
Write-off	(379)	-
Balance at end of the year	-	379
Amortization		
Balance at beginning of the financial year	379	358
Charge for the financial year	-	21
Write-off	(379)	-
Balance at end of the financial year	-	379
Net book value at end of the financial year	-	-

### 9. Property, Plant and Equipment

	Renovation	Furniture and fittings	Computers and software	Office equipment	Motor vehicles	Construction- in-progress	Telecom- munication equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost								
At January 1, 2004	2,913	673	25,150	2,107	130	786	2,561	34,320
Additions	111	122	1,963	48	-	1,091	-	3,335
Disposals	-	(13)	(2,143)	(13)	-	-	-	(2,169)
Write offs	(216)	(38)	(522)	(38)	(130)	-	-	(944)
Reclassifications	-	4	235	-	-	(239)	-	-
At December 31, 2004 and January 1, 2005	2,808	748	24,683	2,104	-	1,638	2,561	34,542
Additions	389	107	1,685	129	-	-	-	2,310
Disposals	(7)	-	(97)	-	-	(924)	-	(1,028)
Write offs	(7)	(3)	(221)	(19)	-	-	-	(250)
Reclassifications	-	-	217	-	-	(217)	-	-
At December 31, 2005	3,183	852	26,267	2,214	-	497	2,561	35,574

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 9. Property, Plant and Equipment (Continued)

	Renovation	Furniture and fittings	Computers and software	Office equipment	Motor vehicles	Construction- in-progress	Telecom- munication equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accumulated depreciation and impairment								
At January 1, 2004	2,752	499	19,248	1,571	125	497	2,561	27,253
Charge for the financial year	127	93	2,182	242	5	–	–	2,649
Disposals	–	(5)	(1,290)	(11)	–	–	–	(1,306)
Write offs	(215)	(32)	(507)	(38)	(130)	–	–	(922)
At December 31, 2004 and January 1, 2005	2,664	555	19,633	1,764	–	497	2,561	27,674
Charge for the financial year	165	86	2,075	210	–	–	–	2,536
Impairment loss	112	–	–	–	–	–	–	112
Disposals	(7)	–	(71)	–	–	–	–	(78)
Write offs	(6)	(2)	(218)	(18)	–	–	–	(244)
At December 31, 2005	2,928	639	21,419	1,956	–	497	2,561	30,000
Net book value								
At December 31, 2005	255	213	4,848	258	–	–	–	5,574
At December 31, 2004	144	193	5,050	340	–	1,141	–	6,868

During the year, the Company acquired plant and equipment with an aggregate fair value of \$121 (2004 : \$302) by means of finance leases.

As at December 31, 2005, certain property, plant and equipment with a total net book value of \$1,048 (2004 : \$1,644) were acquired under hire purchase contracts.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 10. Intangible Assets

	Licence fee \$'000	Others \$'000	Total \$'000
Cost			
At January 1, 2004	813	229	1,042
Additions	14	1	15
At December 31, 2004, January 1, 2005 & December 31, 2005	827	230	1,057
Accumulated amortization			
At January 1, 2004	629	115	744
Charge for the financial year	53	115	168
At December 31, 2004 and January 1, 2005	682	230	912
Charge for the financial year	55	–	55
At December 31, 2005	737	230	967
Net carrying amount			
At December 31, 2004	145	–	145
At December 31, 2005	90	–	90

### 11. Amounts Due From/(To) Related Companies and Related Parties

	2005 \$'000	2004 \$'000
Long term receivables and loan receivables from related companies	28,327	13,503

The long term receivables and loan receivables from related companies are unsecured, and have no fixed repayment period and are repayable only when the cash flows of the borrower permits. The long term receivables and loan receivables are interest-free except for an amount of \$2,173 which bear interest of 2% per annum. Long term receivables and loan receivables from related companies are stated after deducting allowance for doubtful debts of \$1,060 (2004 : \$1,041).

	2005 \$'000	2004 \$'000
Short term loan receivable from related company	754	–

The short term loan receivable from related company is unsecured, repayable within one year and bears interests of 7.65% per annum.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

**11. Amounts Due From/(To) Related Companies and Related Parties** (Continued)

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Current amount due from :		
Related companies		
– trade	538	1,083
– non-trade	–	10,607
Related parties		
– trade	–	160
– non-trade	–	205
	<u>538</u>	<u>12,055</u>

Amounts due from related companies and related parties are stated after deducting allowance for doubtful debts as follows :

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Allowance for doubtful debts	–	448
Long term payables to related companies	<u>(4,851)</u>	–

The amounts due to related companies and parties are unsecured, interest-free and have no repayment terms.

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Current amount due to :		
Related companies		
– trade	(1,899)	(1,657)
– non-trade	–	(5,198)
Related parties		
– non-trade	–	(67)
	<u>(1,899)</u>	<u>(6,922)</u>

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 12. Investments in Subsidiaries

	2005 \$'000	2004 \$'000
Unquoted shares, at cost	92,237	92,237
Less : Impairment loss	(32,426)	(32,426)
	59,811	59,811

### 13 Investments in Associates

	2005 \$'000	2004 \$'000
Unquoted shares, at cost	5,998	5,998
Less : Impairment loss	(545)	(545)
	5,453	5,453

The summarized financial information of the associates are as follows:

	2005 \$'000	2004 \$'000
<b>Assets and liabilities:</b>		
Current assets	7,919	5,826
Non-current assets	2,600	2,147
Total assets	10,519	7,973
Current liabilities	23,754	22,206
Non-current liabilities	2	16
Total liabilities	23,756	22,222
<b>Results:</b>		
Revenue	18,184	13,698
Profit for the year	1,012	284

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 14. Other Investments

	2005 \$'000	2004 \$'000
Unquoted shares, at cost	1,454	1,454
Less : Impairment loss	(1,454)	(1,454)
	—	—

### 15. Inventories

	2005 \$'000	2004 \$'000
Finished goods at cost	103	64

### 16. Trade Receivables, Net

Trade receivables are non-interest bearing and are recognized at their original invoice amounts which represent fair values on initial recognition.

Trade receivables are stated after deducting allowance for doubtful debts as follows:

	2005 \$'000	2004 \$'000
Allowance for doubtful debts	1,733	1,329

### 17. Other Receivables

	2005 \$'000	2004 \$'000
Deposits	209	176
Prepayments	685	1,437
Sundry receivables	80	127
	974	1,740

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 17. Other Receivables (Continued)

Sundry receivables is stated after deducting allowance for doubtful debts as follows:

	2005 \$'000	2004 \$'000
Allowance for doubtful debts	40	267

### 18. Bank Borrowings

The bank borrowings are unsecured, bear interest between 2.30% to 3.92% (2004 : 1.33% to 2.04%) per annum and are payable on demand.

### 19. Provision and Other Payables

	2005 \$'000	2004 \$'000
Provision for employee benefits	4,687	4,838
Provision for advertising and promotion	579	1,379
Accrued expenses	7,216	10,181
Sundry creditors :		
On purchase of fixed assets	115	71
On advertising expenses	39	87
Others	867	987
Deposits received	-	2
	13,503	17,545

### 20. Deferred Income

Deferred income relates to advanced billings to customers.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 21. Hire Purchase Creditors

The present value of minimum lease payments are as follows:

	2005 \$'000	2004 \$'000
Repayable within 1 year	317	470
Repayable within 2 to 5 years	297	524
	614	994
The future lease payments under hire purchase creditors are as follows:		
Within 1 year	344	518
Within 2 to 5 years	312	558
Total minimum lease payments	656	1,076
Less : Amounts representing interest	(42)	(82)
Present value of minimum lease payments	614	994

The average discount rate implicit in the leases is 6.05% (2004 : 6.23%).

### 22. Share Capital and Share Premium

	2005 \$'000	2004 \$'000
Authorized:		
Balance at beginning and at end of the financial year 25,000,000 ordinary shares of \$2 each	50,000	50,000
Issued and fully paid:		
At beginning of year 13,294,178 (2004 : 13,034,691) ordinary shares of \$2 each	26,588	26,069
Issued during the financial year: 118,069 (2004 : 259,487) ordinary shares of \$2 each	236	519
At end of the financial year: 13,412,247 (2004 : 13,294,178) ordinary shares of \$2 each	26,824	26,588
Share premium:		
At beginning of the financial year	82,818	81,719
Premium on issuance of ordinary shares	418	1,099
At end of the financial year	83,236	82,818

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 22. Share Capital and Share Premium (Continued)

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

Shares issued during the financial year relates to the exercising of share options under the Company's share options plans as disclosed in Note 24.

There are outstanding options to subscribe to the Company's shares granted under the share option plans as disclosed in Note 24.

### 23. Deferred Taxation

	2005 \$'000	2004 \$'000
Balance at beginning of the financial year	–	–
Movement in temporary differences (Note 7)	73	–
	73	–
<b>Deferred income tax assets and liabilities</b>		
Deferred tax liabilities:		
Differences in depreciation and capital allowance claimed	1,063	1,068
Deferred tax assets:		
Allowance for doubtful debts	347	266
Provision for unutilized leave	83	85
Other provisions	560	717
	990	1,068
Net deferred tax	73	–

### 24. Equity Compensation Benefits

#### (a) 1999 Stock Option Plan (the "1999 SOP")

On November 10, 1999, the Directors approved the 1999 SOP for certain eligible persons to subscribe for ordinary shares in the Company. The maximum number of shares which may be granted under the 1999 SOP shall be the number together with the total number of options granted under the 1998 ESOP equals 20% of the Company then issued share capital on a fully diluted basis. The exercise price is the average of the officially quoted closing price of the Company's shares on the NASDAQ's National Market System for the five trading days immediately preceding the date of grant.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 24. Equity Compensation Benefits (Continued)

#### Statutory and other information regarding the Options

- (i) The 1999 SOP are administered by the Compensation & Administrative Committee (“CAC”) which is the reconstitution and merger of the Compensation Committee and the Administrative Committee on May 30, 2002. It is a committee comprised of the Board of Directors of the Company.
- (ii) The Bank of New York has been appointed as the Stock Administrator for both Option Plans.
- (iii) Pursuant to the resolutions passed by the CAC on February 19, 2004, one former Director was authorized to exercise his options in full (including in respect of unvested shares) under the option agreements signed with the Company dated November 10, 1999, April 25, 2000, January 10, 2001 and August 18, 2003 in respect of some or all of the shares at any time prior to or on February 18, 2006, with effect from February 19, 2004.
- (iv) The Options for 1999 (2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> tranche) generally became exercisable as follows:
  - (a) 25% of the Options vested and became exercisable on the first anniversary of the date of grant;
  - (b) an additional 25% of the Options vested and became exercisable on the second anniversary of the date of grant; and
  - (c) the remaining 50% of the Options vested and became exercisable on the third anniversary of the date of grant.

The Options for 1999 (5<sup>th</sup> and 6<sup>th</sup> tranche) became exercisable as follows :

- (a) 33% of the Options vested and became exercisable on the first anniversary of the date of grant;
- (b) an additional 33% of the Options vested and became exercisable on the second anniversary of the date of grant; and
- (c) the remaining 34% of the Options vested and became exercisable on the third anniversary of the date of grant.

During the year, the CAC approved and authorized the acceleration of the vesting date of 5<sup>th</sup> and 6<sup>th</sup> tranche to November 8, 2005. The remaining 34% (5<sup>th</sup> tranche) and 67% (6<sup>th</sup> tranche) of the Options vested and became exercisable on November 8, 2005.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 24. Equity Compensation Benefits (Continued)

#### Statutory and other information regarding the Options (Continued)

The Options for 1999 (7<sup>th</sup> tranche) become exercisable as follows :

- (a) 33% of the Options vested and became exercisable on the date of grant;
- (b) an additional 33% of the Options will vest and become exercisable on the first anniversary of the date of grant; and
- (c) the remaining 34% of the Options will vest and become exercisable on the second anniversary of the date of grant.

As at the end of the financial year, details of the options granted under the 1999 SOP on the unissued ordinary shares at S\$2 each of the Company were as follows :

Movements of share options outstanding :

Date of grant of options	Exercise price per share	Number of options outstanding 1.1.2005	Options granted and accepted	Options exercised	Options cancelled/lapsed	Number of options outstanding 31.12.2005	Market price of shares at date of issue pursuant to the scheme	Exercise period	Weighted average remaining contractual life
25.4.2000	US\$25.60	94,600	-	-	94,600	-	US\$27.22	25.4.2001 to 24.4.2005	-
10.1.2001	US\$3.60	71,014	-	27,964	6,450	36,600	US\$3.59	10.1.2002 to 9.1.2006	0.03
10.4.2001	US\$3.09	87,500	-	86,475	-	1,025	US\$3.01	10.4.2002 to 9.4.2006	0.27
18.8.2003	S\$11.22	534,364	-	3,630	206,230	324,504	S\$10.66	18.8.2004 to 17.8.2008	2.63
25.3.2004	S\$16.92	678,000	-	-	283,500	394,500	S\$16.80	25.3.2005 to 24.3.2009	3.23
7.11.2005	S\$10.69	-	279,100	-	-	279,100	S\$10.66	7.11.2005 to 6.11.2010	4.84
		1,465,478	279,100	118,069	590,780	1,035,729			

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 24. Equity Compensation Benefits (Continued)

Movements of share options vested :

Date of grant of options	Number of options vested 1.1.2005	Number of options vested in 2005	Number of options exercised in 2005	Number of options cancelled/lapsed	Number of options vested 31.12.2005	Exercise period
25.4.2000	94,600	–	–	94,600	–	25.4.2001 to 24.4.2005
10.1.2001	71,014	–	27,964	6,450	36,600	10.1.2002 to 9.1.2006
10.4.2001	87,500	–	86,475	–	1,025	10.4.2002 to 9.4.2006
18.8.2003	170,152	233,117	3,630	75,135	324,504	18.8.2004 to 17.8.2008
25.3.2004	–	477,720	–	83,220	394,500	25.3.2005 to 24.3.2009
7.11.2005	–	92,103	–	–	92,103	7.11.2005 to 6.11.2010
	423,266	802,940	118,069	259,405	848,732	

### 25. Cash and Cash Equivalents

Cash and cash equivalents included in the statement of cash flow comprise the following balance sheet amounts:

	2005 \$'000	2004 \$'000
Cash and bank balances	5,400	3,534
Unpledged fixed deposits	37,847	38,476
	43,247	42,010

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short-term deposits are made for varying periods of between one day and three months depending on immediate cash equivalents of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rate of short-term deposits is 2.81%.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 26. Operating Leases

Rental expense (principally for offices and equipment) was \$1,141 and \$1,107 for the financial years ended December 31, 2005 and 2004, respectively.

The future minimum lease payments under non-cancellable operating leases are as follows:

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Amount payable :		
Within 1 year	2,597	2,056
Within 2 to 5 years	202	931
	<u>2,799</u>	<u>2,987</u>

### 27. Other Income

Other income comprises of the following:

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Management fee income	974	913
Others	1,238	669
	<u>2,212</u>	<u>1,582</u>

### 28. Exceptional Item

This relates to impairment loss on a subsidiary company in 2004.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 29. Related Party Transactions

Sales of goods to related companies and related parties were made at the Company's usual list prices. Purchases were made at the market price. The Company had the following significant related party transactions and the effect of these transactions on the basis determined between the parties are reflected in the financial statements:

	2005 \$'000	2004 \$'000
Management fees receivable from related companies	(974)	(913)
Sale of fixed assets to subsidiary companies	–	(822)
Sales to subsidiary companies	(174)	(202)
Sales to associated companies	(14)	(15)
Sales to related parties	(366)	(444)
Purchase of goods and services from subsidiary companies	497	880
Purchase of goods and services from associated companies	105	20
Interest income from subsidiary companies	(26)	–
Interest income from associated companies	(43)	(42)
Loan to associated companies	210	–
Loan to subsidiary companies	4,082	800
Repayment of loan from subsidiary companies	(3,305)	–
Service fee charged to subsidiary companies	(447)	–
Transfer of fixed assets to subsidiary company	924	–

### 30. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise short term bank borrowings, finance leases and hire purchase contracts, cash and short term deposits.

It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### Interest Rate Risk

The Company's exposure in market risk for changes in interest rates relate primarily to its short-term bank borrowings, long term loans receivable from related companies and cash deposits placed with financial institutions. Information relating to the Company's interest rate exposure is disclosed in the notes on bank borrowings, loans due from related parties and related companies and finance lease obligations. For interest from cash deposits, the Company manages the interest rate risks by placing surplus funds with reputable banks.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 30. Financial Risk Management Objectives and Policies (Continued)

#### Liquidity Risk

The Company manages its liquidity risk by placing its cash and cash equivalents with reputable banks and obtaining its short-term funding from bank borrowings.

#### Foreign Currency Risk

Certain of the Company's international transmission capacity charges are denominated in U.S. dollars, and purchase orders for certain equipment may from time to time be denominated in U.S. dollars. The non-current amounts due from an associated company and some parts of the long term loans to related companies are denominated in Philippine Pesos, Thai Baht and U.S. dollars. The Company's exposure to foreign currencies is primarily managed by natural hedges of matching assets and liabilities denominated in currencies. The Company closely monitors and ensures that the remaining net foreign exchange exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates to address short-term imbalances.

The Company does not use any hedging instruments to protect against the volatility associated with foreign currency purchase of products and other assets and liabilities created in the normal course of business.

#### Credit Risk

The Company's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of December 31, 2005 in relation to trade and other receivables, current amounts due from/to related companies and parties and cash and cash equivalents, is the carrying amount of those assets as indicated in the balance sheet, and is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company.

No other financial assets carry a significant exposure to credit risk. The Company has no significant concentrations of credit risk. Cash is placed with substantial financial institutions.

#### Fair Values

- (i) Bank balances, short term borrowings, short term receivables and payables

The carrying amounts of trade and other receivables, cash, fixed deposits, bank borrowings, trade payables, deferred income, provisions and other payables, short term related companies and parties payables and receivables, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 30. Financial Risk Management Objectives and Policies (Continued)

#### Fair values (Continued)

(ii) Hire purchase liabilities

The aggregate net fair value of hire purchase liabilities of the Company which are not carried at fair value in the balance sheet is \$635 (2004 : \$1,142). The fair values of these hire purchase liabilities are estimated using discounted cash flow analysis, based on their effective interest rates.

(iii) Unquoted investments

For unquoted investments, it is not practicable to determine the fair values because of the lack of market prices and the assumptions used in valuation models to value these investments cannot be reasonably determined.

(iv) Long term receivable and loan receivables from related companies

The fair values of long term receivable and loan receivables are not determinable as the timing of the future cash flows arising from the loan cannot be estimated reliably.

### 31. Contingent Liabilities

- (a) On December 6, 2001, a class action lawsuit ("IPO Allocation Suit") was instituted in the United States District Court for the Southern District of New York against the Company and several of the Company's former directors and officers as well as against the underwriters who handled the Company's February 5, 1999 initial public offering ("IPO"). The complaint filed with respect to the IPO Allocation Suit alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 and is based primarily on the assertion that there were undisclosed commissions received by the underwriter defendants and agreements or arrangements entered into by the underwriters for additional purchases of the Company's securities in the aftermarket by selected investors at pre-determined prices. The action seeks damages in an unspecified amount. In April 2002, an amended complaint was filed against the Company. The amended complaint included, amongst others, allegations of price-manipulation in the Company's IPO as well as its second offering conducted in May 1999.

The Company has been advised by its US counsel that similar class action suits have been filed against about 300 other companies that went public between 1998 and 2001 and that all such cases have been consolidated before a single judge for case management purposes. On July 15, 2002, the Company and the individual defendants, along with the other issuers and their related officer and director defendants, filed a joint motion to dismiss based on common issues. On February 19, 2003, the Court denied the motion to dismiss as to all claims brought against the Company and the individual defendants, except for claims brought against the individual defendants under Section 10(b) of the Securities Exchange Act of 1934, which were dismissed.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 31. Contingent Liabilities (Continued)

On July 30, 2003, the Litigation Committee of the Board of Directors of the Company approved a Memorandum of Understanding (the "MOU") reflecting a settlement in which the plaintiffs agreed to dismiss the case against the Company with prejudice in return for the assignment by the Company of claims that the Company might have against its underwriters. No payment to the plaintiffs by the Company was required under the MOU. After further negotiations, the essential terms of the MOU were formalized in a Stipulation and Agreement of Settlement ("Settlement"), which has been executed on behalf of the Company. The settling parties presented the Settlement papers to the Court on June 14, 2004 and filed briefs formally seeking preliminary approval of the proposed Settlement on June 25, 2004. The underwriter defendants, who are not parties to the proposed Settlement, filed a brief objecting to the Settlement's terms on July 14, 2004. On February 15, 2005, the Court granted preliminary approval of the Settlement conditioned on agreement by the parties to narrow one of a number of provisions in the Settlement intended to protect the issuers against possible future claims by the underwriters. The Litigation Committee of the Board of Directors of the Company re-approved the Settlement with the proposed modifications that were outlined by the Court in its February 15, 2005 Order granting preliminary approval. Approval of any settlement involves a three step process in the district court: (i) a preliminary approval, (ii) determination of the appropriate notice of the settlement to be provided to the settlement class, and (iii) a final fairness hearing. On August 31, 2005, the Court resolved the open issues and entered an order of preliminary approval of the Settlement and set deadlines for mailing of the class notice, publication of the advertisements in various U.S. newspapers and for the class members to exclude themselves from the settlement and to file objections or comments on the settlement. The final fairness hearing for approval of the Settlement has been scheduled for April 24, 2006. Despite the preliminary approval, there can be no assurance that the Court will provide final approval of the Settlement.

The proposed Settlement does not resolve the claims that the plaintiffs have against the underwriter defendants and the litigation between those parties is proceeding. Due to the large number of cases consolidated into the IPO litigation, the Court, as a case management device, ordered the plaintiffs and underwriters to select from the approximately 300 consolidated cases "focus cases" intended to present a representative sample of parties and issues. Six focus cases were chosen for the class certification stage. On October 13, 2004, the Court certified classes in each of the six class certification focus cases. The underwriter defendants have sought review of that decision.

The plaintiffs and underwriters have chosen additional focus cases for purposes of the discovery phase. The underwriter defendants selected the Company as a merits focus case. As a result, among other things, the Company has been, and will be, subject to discovery obligations that non-focus case issuers are not be subject to. However, the selection of the Company as a focus case will not impact its ability to participate in the proposed Settlement.

## Notes to Financial Statements (continued)

December 31, 2005

(Amounts presented in thousands of Singapore Dollar unless otherwise indicated)

### 31. Contingent Liabilities (Continued)

The Company believes that it and the individual defendants have meritorious defenses to the claims made in the complaints and, if the Settlement is not approved by the Court, intends to contest the lawsuit vigorously. However, the litigation remains at a preliminary stage. Due to the inherent uncertainties of the lawsuit, the Company cannot accurately predict the ultimate outcome of the lawsuit. An unfavorable outcome could have a material adverse effect on the business, financial condition and results of operation of the Company in the period in which the lawsuit is resolved.

The Company is or may be potentially involved in other litigation incidental to its business. Although the outcome of any such litigation is not presently determinable, the resolution of such litigation is not expected to have a material adverse effect on its business. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

- (b) The Company has given corporate guarantees of S\$9,590 (2004 : S\$9,566) to banks in respect of banking facilities extended to subsidiary companies amounting to S\$9,590 (2004 : S\$9,566) of which the amount utilized was S\$3,918 (2004 : S\$3,683).

### 32. Subsequent Event

As at year end, the Company has raised purchase requisition amounting to S\$225 to lease the DS3-45M link by PCCW Global (Singapore) Pte Ltd to serve as the International Private Leased Circuit (IPLC) between the Company in Singapore and Pacific Internet in Australia. This is part of the Company's strategy to implement good PI network. This contract is valid for 18 months effective January 2006.

On January 11, 2006, the Securities And Exchange Commission, the Philippines, approved of the increase of the authorized capital of Primeworld Digital Systems, Inc. ("PDSI") from Sixty Million Pesos (P60,000,000) to One Hundred and Thirty One Million Pesos (P131,000,000). Of the additional authorized capital, a total of Seventeen Million Seven Hundred Fifty Thousand Pesos (P17,750,000) consisting of Seventeen Million Seven Hundred Fifty Thousand (17,750,000) shares were subscribed to and paid-up as follows:

	No. of Shares Subscribed	Amount Subscribed	Amount Paid-Up
Pacific Internet Limited	12,440,800	P12,440,800	P3,110,200
PW Holding Corporation	5,309,200	P5,309,200	P1,327,300

As a result, the Company increased its equity interest in PDSI from 31.1% to 40%, whereas the equity interest of PW Holding Corporation in PDSI decreased from 56.67% to 50.56%.

### 33. Authorization of financial statements

The financial statements for the year ended December 31, 2005 were authorized for issue in accordance with a resolution of the Directors on February 15, 2006.



**Pacific Internet Limited**

89, Science Park Drive  
#01-07, The Rutherford  
Singapore 118261  
Tel: 65-6872 0322  
Fax: 65-6872 2126  
[www.pacnet.com](http://www.pacnet.com)