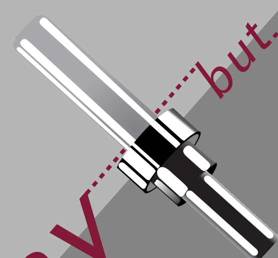
INTCERA High Tech Group Limited

It's tiny



but... BIG

2001 Annual Report

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

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

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

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


Intcera High Tech Group Limited is principally engaged in the manufacture and sale of optical communications passive components. Our principal products are ceramic blanks and ferrules.
BRIDGING THE GLOBE

Contents

Corporate Information

Board of Directors

Executive Directors
TUNG Tai Yung *(Chairman & CEO)*
KING Chun Kong, Karl
HU Shiang-Chi
SHIH Wen Hao

Non-Executive Directors
CHENG Cheng Pin
KOH Tat Lee

Independent Non-Executive Directors
CHEN Domingo
GOLDSTEIN Henry R.

Company Secretary
CHEUK Wa Pang *FCCA, AHKSA*

Compliance Officer
SHIH Wen Hao

Qualified Accountant
CHEUK Wa Pang *FCCA, AHKSA*

Audit Committee
CHEN Domingo
GOLDSTEIN Henry R.

Authorised Representatives
TUNG Tai Yung
CHEUK Wa Pang *FCCA, AHKSA*

Registered Office
Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

Head Office and Principal Place of Business
Unit F, 19th Floor, CNT Tower
338 Hennessy Road, Hong Kong

Plants & Operations
No. 21 Wu-Chuan Road II, Wugu Industrial Park
Taipei 248, Taiwan

No. 2, 2nd Donghuang Road
10th Yousong Industrial District, Longhua Town
Bao An, Shenzhen, Guangdong, China
Postal Code: 518109

Legal Advisers
As to Hong Kong Law
Robertsons

As to Taiwan Law
Lee and Li

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

Auditors
PricewaterhouseCoopers
Certified Public Accountants, Hong Kong

Sponsor
Post-Listing:
Shenyin Wanguo Capital (H.K.) Limited

Principal Share Registrar and Transfer Office
Bank of Butterfield International (Cayman) Ltd.
Butterfield House, Fort Street, P.O.Box 705,
George Town, Grand Cayman, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Abacus Share Registrars Limited
5th Floor, Wing On Centre,
111 Connaught Road, Central, Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
KBC Bank N.V.
Chiao Tung Bank
Chinfon Bank
EnTie Commercial Bank
The Chinese Bank
The International Commercial Bank of China

Stock Code
8041

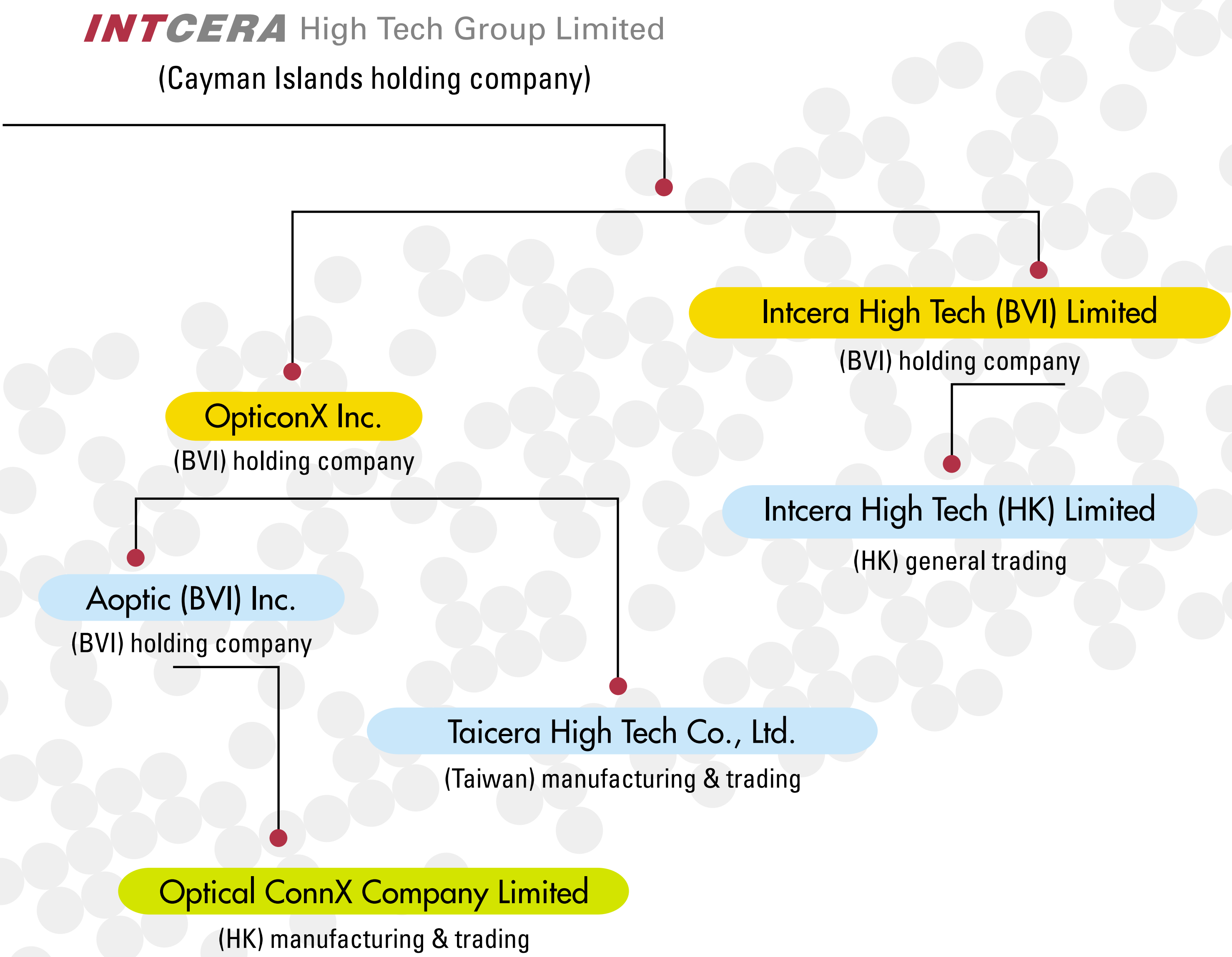
Website
www.intcera.com

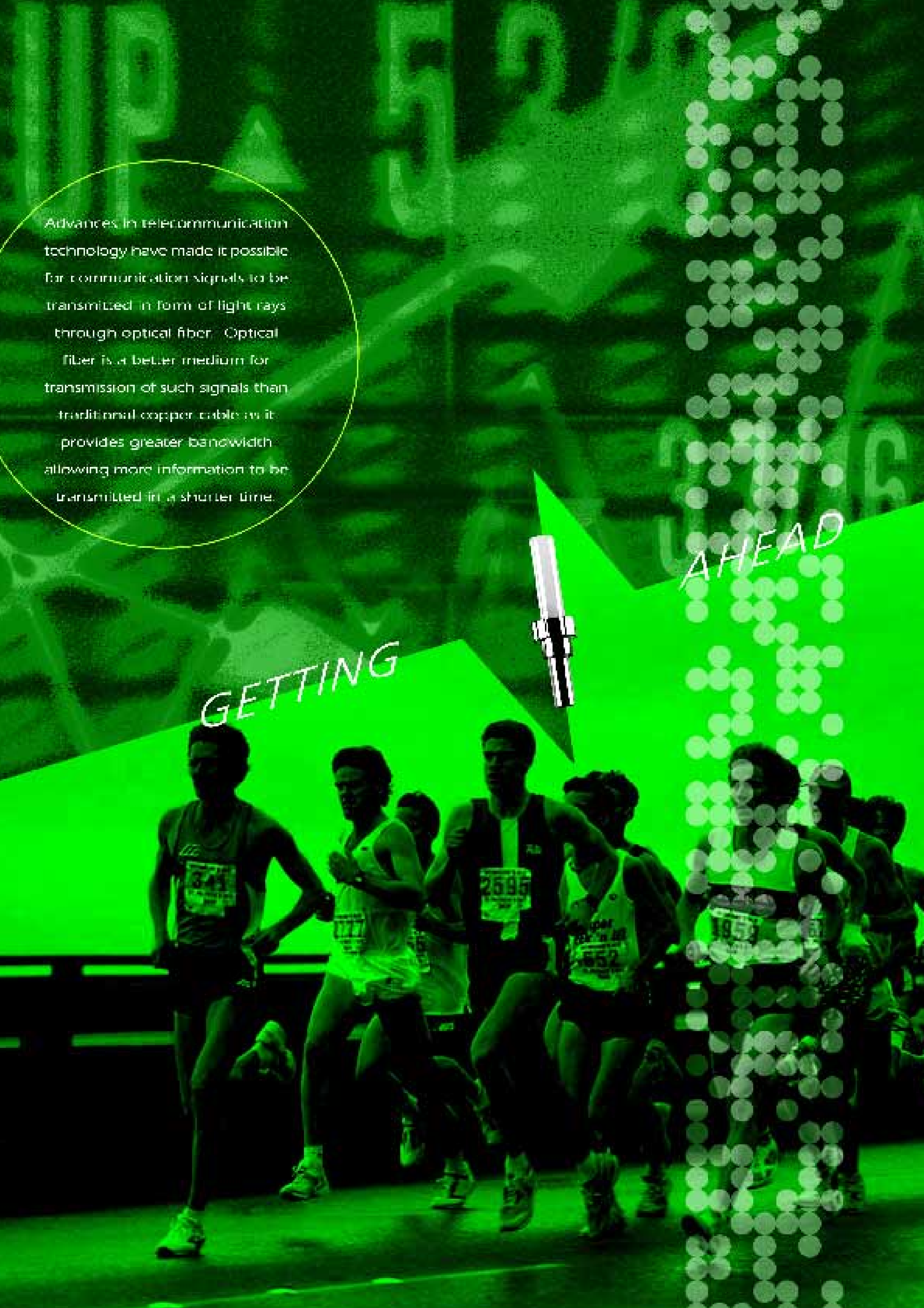
Financial Highlights

For the year ended 31st December 2001

	2001	2000
	HK$'000	HK$'000
Turnover	**27,551**	37,006
Cost of sales	**(23,249)**	(33,490)
Gross profit	**4,302**	3,516
Selling and distribution expenses	**(1,759)**	(724)
Administrative expenses	**(38,154)**	(28,565)
Other operating expenses	**(24,669)**	(3,738)
Provisions for impairment of assets	**(101,273)**	–
Loss before other income, interest and tax	**(161,553)**	(29,511)
Other income	**244**	429
Net interest (expense)/income	**(2,295)**	2,717
Tax and minority interests	**9**	48
Loss attributable to shareholders	**(163,595)**	(26,317)
Basic loss per share	**(40.72 cents)**	(7.58 cents)

Intcera High Tech Group Limited
Corporate Structure
(Group's principal subsidiaries)

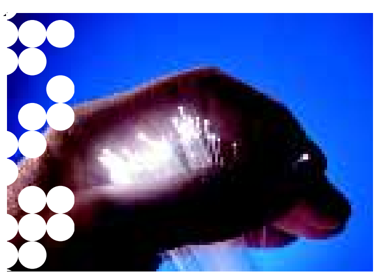



Advances in telecommunication technology have made it possible for communication signals to be transmitted in form of light rays through optical fiber. Optical fiber is a better medium for transmission of such signals than traditional copper cable as it provides greater bandwidth allowing more information to be transmitted in a shorter time.
GETTING
AHEAD

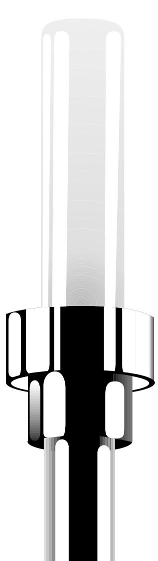
Corporate Profile

CORPORATE PROFILE

Intcera High Tech Group Limited ("Intcera" or "the Company") was incorporated on 1st September 1999 and was listed in Hong Kong in July 2000. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of optical communications passive components. Its principal products are ceramic blanks and ferrules.



Ferrules are a key and indispensable component of fiber optic connectors that are widely used in telecommunication systems, data transmission networks, local area networks and cable television networks. The Group is one of the nine main manufacturers in the world and the only manufacturer in Taiwan who is capable of producing ceramic blanks and ferrules from ceramic powder.



Chairman's Statement

General business overview

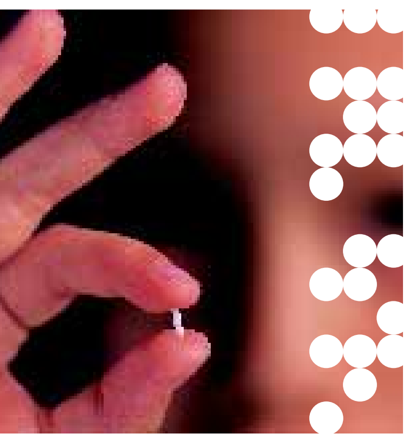
After an impressive year 2000, 2001 was a lot more difficult for the Group. Sales in the first few months of the year appeared to justify Management's high expectations for 2001 but the impact of the slowdown in telecommunications spending began to be felt in the second quarter of the year. The remainder of the year was characterized by sales order cancellations and quality issues that required the Group to undergo extensive re-tooling, hence resulting in sluggish performance and large inventory provisions in the second half of 2001 when compared with the year 2000.

The financial results for the year show the impact of a clear slowdown in demand. Gross turnover was marginally up in 2001 but returned goods totaling HK$10.6 million resulted in net turnover of HK$27.6 million for 2001, down 26% on the turnover achieved in 2000. With high levels of fixed costs at both the Taiwan and Mainland China facilities in addition to large write-offs of stock and other assets (totaling HK$101.3 million), the net loss for the year increased from HK$26.3 million in 2000 to HK$163.6 million in 2001.

The Group is currently negotiating with various parties to raise working capital for the Group's future R&D and production. The Group will make appropriate announcement once the arrangement is fixed.

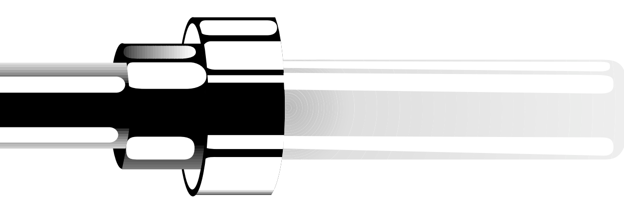
The prospects for 2002 are, at the moment, still unclear. Our customers report little visibility and there are as yet no concrete signs of a sustained pickup in the market. However, it appears that the worst of the inventory correction is now over and that prices have stabilized. As such, we anticipate that the market will see signs of improvement in the second half of the year with the potential for ferrule price increases. Given that mass production should have recommenced in the second quarter of 2002, Management believes that the prospects for the second half of 2002 and for 2003 are good.

Demand and market slowdown



Demand continued to be strong during the first two quarters of 2001. However, by the end of the second quarter, in June, the Group observed a marked slowdown in demand for ferrules and, as noted in the interim report, demand for ferrules for the remainder of the year was increasingly uncertain.

The situation in the third and fourth quarters of 2001 worsened. Not only were sales cancelled, existing customers, now faced with an abundance of supply, became much more focused on quality issues,



demanding higher acceptable tolerance levels. The latter required the Group to completely re-examine its manufacturing process to ensure that its production

methods and quality control processes were sufficiently stringent to meet these new levels. Whilst huge strides have been made in these areas, this will continue to be an on-going process to satisfy customers' demands.

Production fell in the second half

Blank production was restricted to Taiwan in 2001 as Mainland China blank production, due to commence in the second half of 2001, was ceased when the market slowdown became clear. In addition, Taiwan production was scaled back in the second half due to the temporary dropping of demand and the re-assessment of quality in the manufacturing process. Total blank production in 2001 was 8.5 million pieces, of which 6.4 million pieces were produced in the first half.

Ferrule production likewise slowed down dramatically in the second half. In the first half of 2001, the Group produced 3.5 million ferrules. In the second half the total fell to 1.2 million pieces.

The Mainland China facility came on line just as the extent of the slowdown was becoming apparent. Therefore, for the second half of 2001, the facility was mainly involved in training activities. Monthly production was limited to 50,000 ferrules, with blanks sourced from Taiwan plant and external sources.

Research and development

The Group began production of the miniature (or "small form factor") ceramic ferrule in the second quarter of 2001. Market research continues to indicate that this will be the next generation of optical components. However, demand for this kind of product has also been affected by the slowdown in demand for optical network rollouts. Consequently, sales in 2001 of this product did not yet take off.

Prospects

The outlook for the telecommunications market, especially the part concerning fiber optic networks, remains uncertain. While it appears that the worst of the inventory correction has passed and the market for ferrules has stabilised, there is little sign of a quick recovery. Mainland China remains one of the few bright spots worldwide. However, since the market in Mainland China is still in development stage, orders from Mainland China tend to be fluctuating and therefore, it is difficult to predict and plan for future demand.

In the United States, there appears to be some confidence that the market will begin to grow again during the second half of 2002. However, the Group's customers have yet to reflect this with any firm orders. Nevertheless, the Group believes that it is only a matter of time before the replacement of the older copper networks begins again. When this happens, demand for ceramic ferrules should increase sharply.

Investor relations

Management appreciates the relationship between corporate transparency and investors' confidence. Therefore the Group is committed to establishing a close relationship with our investors through the provision of comprehensive and timely information and regular access to senior management. In 2001 we have held investor forums, interviews and press briefings in addition to the regular quarterly financial statements which were well received.

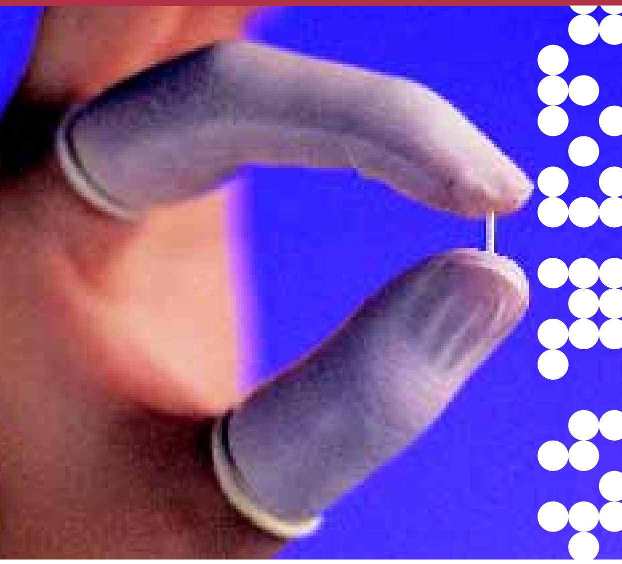
And thanks once again...

...to all those who have stuck by Intcera in these difficult times. Shareholders have continued to support the Group despite the extremely tough operating environment and I would like to express my appreciation and grateful thanks. Special thanks should go to our employees who have worked extremely hard in overcoming the changing nature of the market and refining our production processes.

Tung Tai Yung
Chairman
22nd March 2002

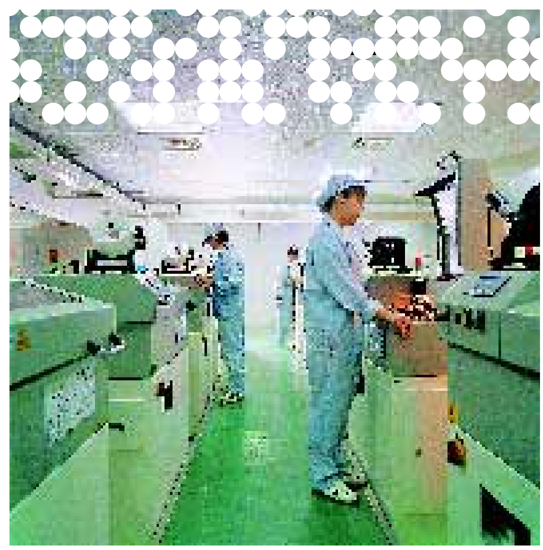

POWER OF CONNECTION
Ceramic ferrules are currently regarded as the best type of connector compared to plastic, stainless steel and aluminium connectors since ceramic ferrules are durable, environmentally stable, and easy to bond with optical fiber.

Management Discussion & Analysis



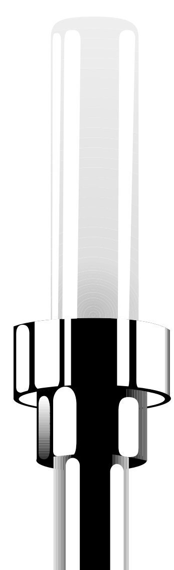
Ceramic ferrules are currently regarded as the best type of connector compared to plastic, stainless steel and aluminium connectors since ceramic ferrules are durable, environmentally stable, and easy to bond with optical fiber. They also have the highest degree of precision in the transmission of optical signals and can closely match the degree of expansion and contraction of optical fibers as a result of temperature change.

The Products



Advances in telecommunications technology have made it possible for communication signals to be transmitted in form of light rays through optical fiber. Optical fiber is a better medium for transmission of such signals than traditional copper cable as it provides greater bandwidth allowing more information to be transmitted in a shorter time. These advantages have enabled the rapid development of global communication networks, multi-media communication and mass information transmission systems.

Fiber optic connectors are used to connect an optical fiber to a transmitter for sending signals, to a receiver for receiving signals, or as a linkage to another optical fiber. The ferrule is the key component of these connectors. It is a hollow tube which confines and aligns the stripped end of an optical fiber for easy and accurate connection to a transmitter, a receiver or another optical fiber.



Industry Review

The boom in demand for telecommunications equipment, especially equipment associated with fiber optic networks, slowed drastically in 2001, catching most suppliers unawares. Predictions of compound annual growth rates of over 20% per annum for the fiber optic communication industry were regularly forecast in early 2001.

The picture for the market for connectors was similar. In late 2000, KMI forecast that the United States market for fiber optic connectors would grow by an annual compound rate of 36% over the following five years.

However, as the year progressed, it became increasingly obvious that, regardless of the long term potential for the industry, the short term was going to suffer from the over-expansion created by easy money available to new telecommunications service providers over the preceding couple of years, especially in the United States.

The slowdown began in the long haul equipment providers where, especially in the United States but also in Europe, a range of new providers had been heavily investing in long haul capacity. The

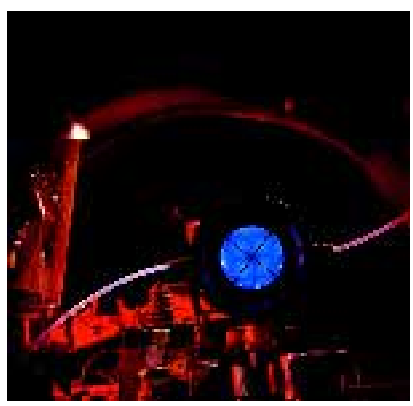
consequences of these investments were that prices fell rapidly (Band-X, a bandwidth trading exchange, estimated that the average price of a T-1 circuit fell by 87% between the end of 1998 and the end of 2001). This fall in price meant that service providers could no longer finance further network expansion and so long haul providers have drastically cut back their capital expenditure budgets.

For a time being it appeared that short haul and metro networks would remain strong in the year and this gave the Group hope that it would be able to ride out the general slowdown in the fiber market. However, while demand was stronger in the metro area, it did not expand nearly as fast as previously forecast. Therefore, the Group saw a sharp slowdown in interest and orders during the late second quarter of 2001.

The longer term forecasts for the various fiber markets are still relatively bullish, but most forecasters are being a lot more selective in which sub-markets will recover first (metro still remains a favourite for a rapid recovery) and over what time periods. The consensus appears to be that the market will see a modest turnaround in 2002.

Business Review

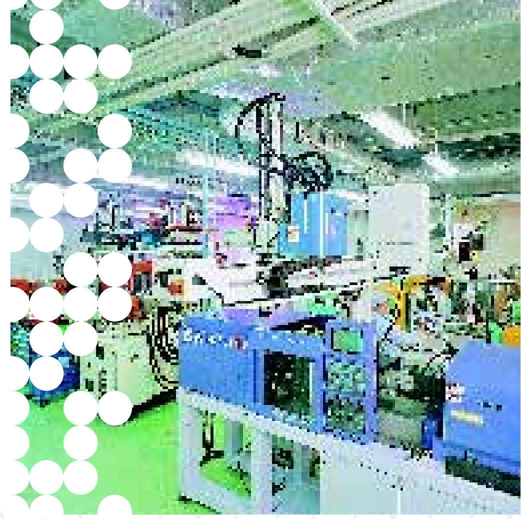
The sharp slowdown in demand for the Group's product, especially when it hit the metro space, threw the Group's plans for 2001 into turmoil. Instead of facing increasing demand with a stable production process, the demand for product fell away in the second half of 2001.



Customers, faced with excess supply, became much more focused on quality. Demand for lower specification product (such as multi-mode ferrules) dried up with prices falling by over 50%. Even for higher quality products (single-mode ferrules), quality became much more of an issue. New specifications demanded by customers were not being satisfied by the Group's existing production process. Therefore, Management took the decision to hold up part of the production until the new specifications could be achieved.

This has been a time-consuming and difficult process. The Group has been working closely with both customers and also outside consultants in an effort to hone the manufacturing process so as to meet the new specifications whilst still achieving yields that are commercially viable. Huge strides have been made and the director believes that the Group should once again begin mass production of ferrules in the second quarter of 2002 in Taiwan.

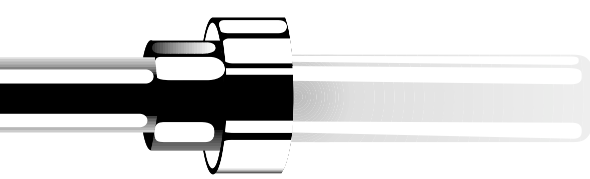
However, the increasingly stringent specifications mean that the majority of the finished goods at the year end are unlikely to be sold in 2002. As a result, the Group has made a provision against this stock of HK$26.6 million. In addition, a further HK$50.4 million provision has been made for machinery that is currently idle and in Management's opinion is unlikely to be commercially utilized in the near future. However, Management will still try to recover as much value as possible from this idle machinery. Total other provisions in 2001 amounted to HK$24.2 million which included a write down of intangible assets, a provision for bad and doubtful debts and various other write-offs.



Development on Mainland China Facility

The Mainland China plant came on-line in June 2001, just as the extent of the slowdown was starting to be recognized. While the production processes were within the specifications as used by the Taiwan plant, the increasing emphasis on newer standards meant that the equipment in Mainland China had to be recalibrated in the same manner as the machinery in the Taiwan plant.

As the majority of the development expertise was located at the Taiwan plant, the Group decided that blank production in Mainland China should be delayed until early 2003 while ferrule production will begin mass production in the second half of 2002.



Cost cutting and savings

Given the on-going production re-tooling, and the fact that both facilities are operating well below design specifications, the Group instituted deep cutbacks during 2001. Total staff numbers were reduced from the highest of 600 in July 2001 to 160 employees as at the end of 2001. In addition, savings were also made through relocation of offices and other cost cutting schemes. Overall costs have been reduced by around 35%.

Hon Hai

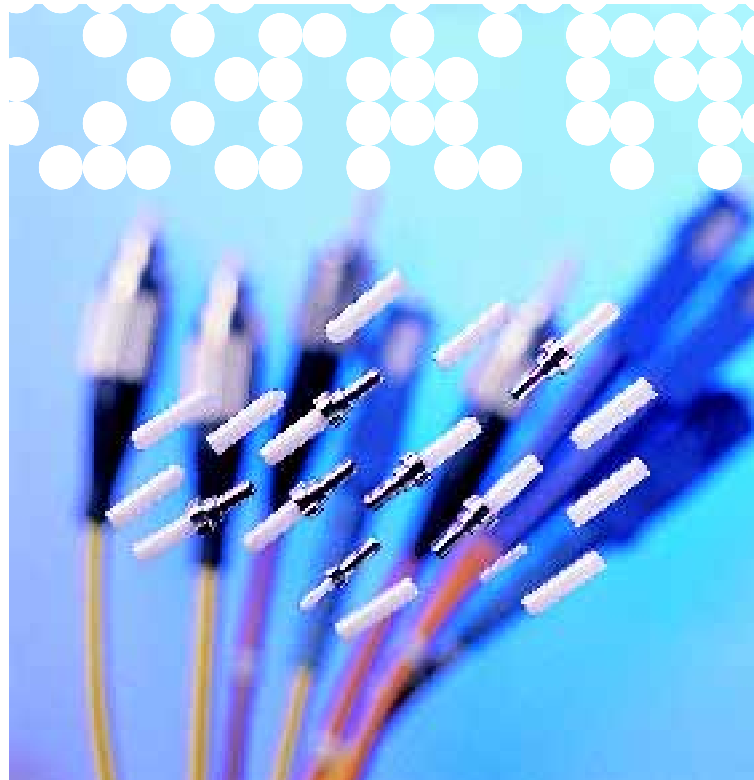
Hon Hai Precision Industry Group ("Hon Hai Group") had enthusiastically embraced the emerging fiber optic market in 2000 and the Group had signed a license agreement with Goodfield Limited ("Goodfield"), an associated company of the Hon Hai Group, to produce ceramic ferrules.

However, once the extent of the slowdown in the fiber optic market became apparent, Hon Hai Group announced a 90% reduction in its proposed investment in the fiber optic market. Production from Goodfield's lines has therefore been delayed and, as a result, royalty revenues from the licensing agreement have been minimal.

Competition

The Group's main competitors are a number of Japanese firms that account for over 85% of the total market for ferrules worldwide. As at the end of 2000, all of these companies were looking at aggressive expansion plans so as to supply the booming market. Like Intcera, these companies were caught unawared of the sharp slowdown in demand. The Group understands that these new facilities have currently been mothballed.

Intcera still possesses the advantages claimed in the 2000 annual report: the Group is located close to the Taiwanese and Chinese manufacturers of fiber optic connectors; and labour costs are substantially cheaper in Taiwan and Mainland China. In addition, the Group has a proprietary production process which again will reduce labour costs once the Group is operating at mass production levels. However, benefits from these advantages will only be realized once mass production has begun.



Geographical market

In 2000, the majority of the Groups' products were sold to Taiwan connector manufacturers with the second largest market being Switzerland. However, Management believes that the majority of the finished connectors produced at the time were destined for the market in the United States. In the first half of 2001 a similar pattern emerged.

With the rapid slowdown in demand in the second half of the year, most of the new demand was coming from Mainland China where fiber rollouts continued apace. The Group made some sales into Mainland China and indeed these represented 24% of total sales in the year.

Management believes that Mainland China will also be the dominant market, at least for the first half of 2002.

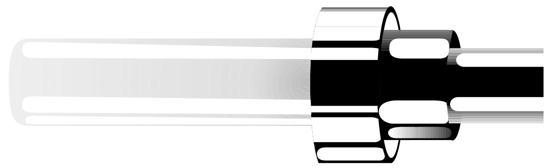
Research and Development

The research and development program resulted in the production of the small form factor ferrule in the second quarter of 2001. During the second half of the year, the research and development effort was re-focused to concentrate on the quality issues. In total, HK$793,000 was spent in research and development in 2001.

Finance and liquidity

As at 31st December, 2001, the Group had total assets of approximately HK$249.5 million (2000: HK$371.3 million). The cash and cash equivalents balances ran down to HK$1.6 million from HK$100 million as at 31st December, 2000. The decrease was mainly attributed to the setting up of China plant and expansion of Taiwan production, retooling and examination of the manufacturing process to meet increasingly stringent customer requirements due to temporary market downturn, and operating losses incurred in the current year. Besides getting a standby loan facility of HK$16 million granted by a shareholder, the Group is discussing with certain investment banks for various means of funds raising. The directors expect certain arrangement will be announced very soon.

As at 31st December, 2001, the Group had bank loans and other borrowings (inclusive of long-term and short-term bank and other borrowings) totaling HK$115 million and the gearing ratio (i.e. total external borrowing/total assets) of 46%. Bank facilities of HK$184 million was granted to the Group as at 31st December, 2001. To secure such facilities, fixed assets of HK$39 million and bank deposits of HK$75 million of the Group were charged to the banks.



Prospects

Given the status of the worldwide demand for fiber optic systems, it is still difficult to accurately forecast the overall market for 2002. However, Management believes that the market for ferrules has bottomed and may begin improving in the second half of 2002.

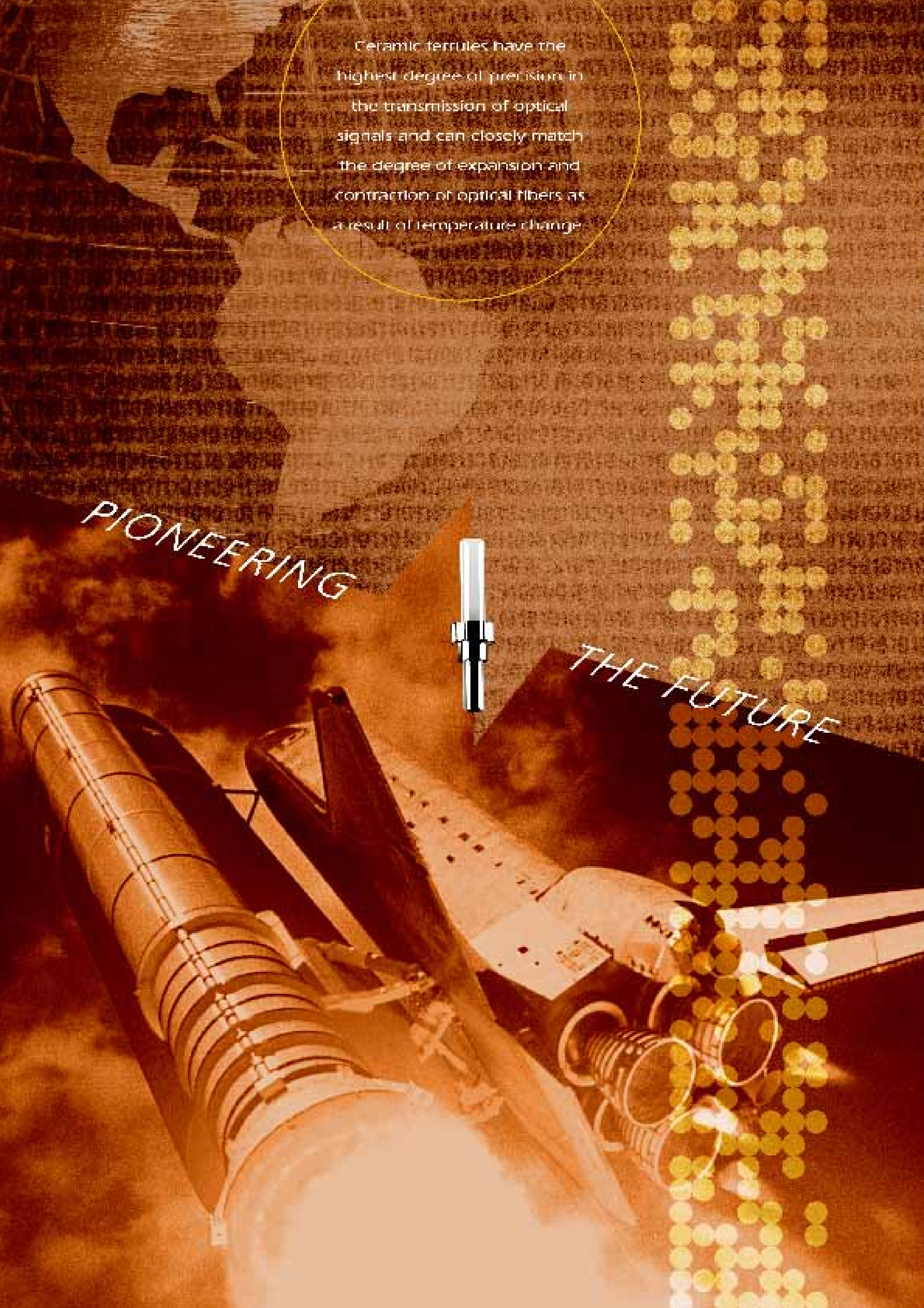
After spending much of the second half of 2001 revising the production technology so as to meet the more stringent demands of customers, the test production results are showing marked improvements in quality. Previous customers are testing the new products and are satisfied with the progress the Group has made. The Group therefore anticipates that it will begin mass production once again during the second quarter of 2002 of the improved product range.

From a demand standpoint, Management considers that the inventory correction is mostly over and that prices for ferrules have stabilized. In addition, the Group is still receiving interest in acquiring products from a number of companies, notably in China.

With an increase in production and reasonable demand for product, Management believes that the turnover in the second half of 2002 will show a significant improvement over the first half of the year.

With costs falling due to the cost reduction program already mostly completed, the Group should also see a much-improved position in the latter half of 2002 on a net basis. However, the Group believes that the full impact of returning demand and ongoing cost cutting measures will only be fully felt in 2003.

In the longer term, the prospects for the ferrule market remain extremely good. Telecommunication companies still need to replace the copper legacy networks that still account for over 90% of all network infrastructure worldwide. The replacement will, for the most part, be fiber solutions. These replacements will require a massive number of fiber connectors, the number increasing with the complexity of the network. Therefore, Management remain convinced in the attractive long-term nature of the ferrule business.

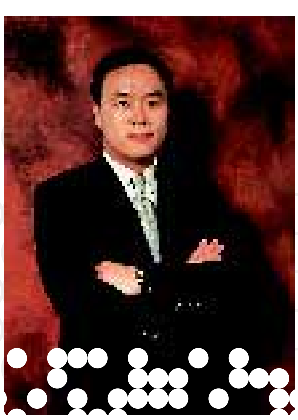

Ceramic ferrules have the highest degree of precision in the transmission of optical signals and can closely match the degree of expansion and contraction of optical fibers as a result of temperature change.
PIONEERING
THE FUTURE

Biographical Information of Directors & Senior Management

Executive Directors

Mr. **TUNG Tai Yung**, aged 36, is the Chairman and Chief Executive Officer of the Group. He joined the Group in February 1998. Mr. Tung is responsible for corporate planning, business development and strategy of the Group. Mr. Tung graduated from California Santa Clara University in the United States with a bachelor degree in electrical engineering. Mr. Tung has also been a director of Taiping Enterprises Co., Ltd., the Group's substantial shareholder, since June 1985.

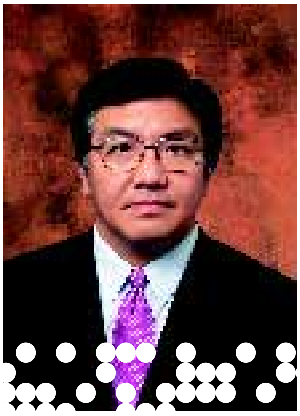
Mr. **KING Chun Kong, Karl**, aged 35, is a Director and the Vice Chairman of the Group. He joined the Group as a member of the supervisory board of Taicera High Tech Co., Ltd. ("Taicera") in July 1999. Mr. King is responsible for raising finance for the expansion of the Company's production facilities. He was formerly a manager of the Taipei branch of the Bank of Nova Scotia. His principal responsibilities were in developing the branch's Taiwan syndication business and developing and marketing the bank's retail banking services. Mr. King has over ten years of experience in banking and finance. Mr. King graduated from the New York University in the United States with a master degree in business administration specialising in finance and international business.



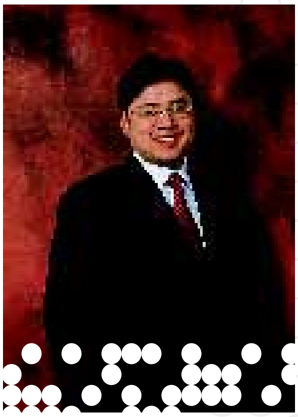
Mr. **Hu Shiang-Chi**, aged 41, is a Director and the President of the Group. He joined the Group in October 2001. Mr. Hu is responsible for overseeing the general management and formulating the strategic plans of the Group. Mr. Hu is also the Chairman of ChipCera Technology Co., Ltd., which is an electronic components manufacturer, and NetBiz Software Co., Ltd., which provides application software for E-commerce and ERP (Enterprise Resources Planning). Prior to joining the Group, he was the President of KPT Industries Ltd., a listed company in Taiwan, and had worked with IBM for six years. Mr. Hu holds a bachelor degree in electrical engineering and a master degree of Business Administration majored in International Business from National Taiwan University in Taiwan.

Mr. **SHIH Wen Hao**, aged 47, is a Director and the Vice President of the Group. He joined the Group in July 1998. Mr. Shih is responsible for overseeing all matters related to administration, human resources, finance and accounting and information systems. Mr. Shih holds a bachelor degree in accounting and statistics from National Cheng Kung University in Taiwan. Mr. Shih has over 20 years of experience in accounting and finance. Prior to joining the Company, Mr. Shih had worked with Pacific Wire and Cable and the Tuntex group in Taiwan.

Non-executive Directors



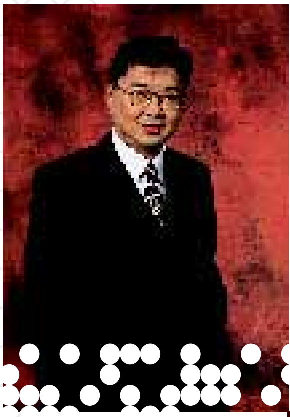
Mr. **CHENG Cheng-Pin**, aged 50, joined the Group as a Director of Taicera in March 2000. He is also the Non-Executive Director of Hotung Investment Holdings Limited, an associated company of one of the venture capital investors, and the chairman of Energy Shipping Company Limited, a company that operated specialised oil and gas tankers in Taiwan. Mr. Cheng joined Energy Shipping Company Limited as a Finance Manager in 1980 and was promoted to the current position in 1995. He holds a Bachelor of Science degree from National Taiwan Marine College.

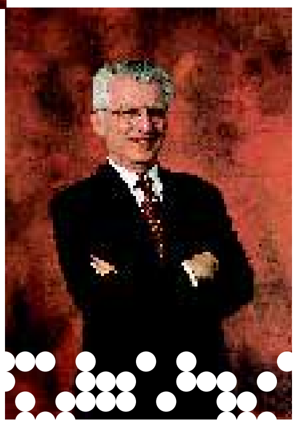


Mr. **KOH Tat Lee**, aged 35, is a Non-Executive Director of the Group. He joined the Group in February 1998 and was appointed as Executive Director in September 1999. He resigned from the executive directorship in October 2001 and was appointed as a Non-executive Director in November 2001. Mr. Koh is also the Executive Director of Welback Holdings Limited. Mr. Koh possesses more than ten years of experience in the telecommunications industry and worked at Bell South and AT&T in the United States and was promoted to Technical Director before he left AT&T. In addition, Mr. Koh was the Vice President of First Pacific Company Limited, a listed company in Hong Kong, in which he was primarily responsible for telecommunications business. During his tenure at First Pacific, Mr. Koh founded Tuntex Telecom in Taiwan and assumed the post of President. Mr. Koh holds a double master degree in electrical engineering and industrial engineering from Columbia University in the United States.

Independent Non-executive Directors

Mr. **CHEN Domingo**, aged 46, was appointed Independent Non-Executive Director in June 2000. Mr. Chen brings extensive experience in operational, marketing and financial management of fast growing industries. He was Chief Operating Officer of Peoples Telephone Co. Ltd. with overall responsibilities for the mobile phone company's business, marketing and financial operations. Between 1989 and 1998, he served as Chief Financial Officer and Chief Operating Officer of Pacific Link Communications. Mr. Chen received his M.B.A. degree from the Kellogg School of Management at Northwestern University. He was also awarded a Diploma in the Program for Management Development by the Harvard Business School.





Mr. **GOLDSTEIN Henry R.**, aged 71, was appointed Independent Non-Executive Director in June 2000. He is also the Managing Director of the international department of Daniels & Associates L. P., which is a global financial services company specialising in the telecommunications industry and engages in capital funding, mergers and acquisitions as well as the provision of financial advisory services. In addition, Mr. Goldstein is a member of the Board of Advisors of the School of Business at University of Colorado and a member of the Board of Advisors of the School of Internationalization, Denver University, Denver, Colorado. Mr. Goldstein graduated from Upsala College in the United States with a bachelor degree and later obtained a doctoral degree in law from Georgetown University Law Center. Mr. Goldstein has over 35 years of experience in the communications field.

Audit Committee

The Group established an Audit Committee in June 2000 consisting of Mr. Chen Domingo and Mr. Goldstein Henry R. to assist the Board in fulfilling its duties by providing an independent and objective review of the financial reporting process, internal controls, audit function and responding to specific management needs with specific emphasis in:

(i) Appraising the quality of the audit effort of the Group's internal and external auditors;

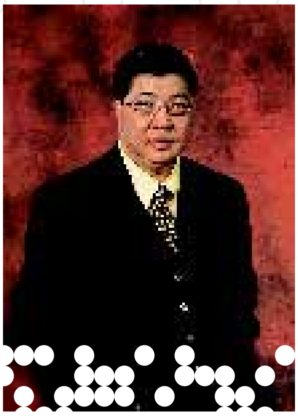
(ii) Serving as an independent and objective party to review the financial information presented by management to shareholders, regulators and the general public;

(iii) Ascertaining the adequacy of the Group's system of internal controls which management and the Board have established; and

(iv) Serving as an useful channel of communication between the Board and the external and internal auditors on matters relating to and arising out of the external and internal audit.

The Group would like to take this opportunity to express its gratitude towards the advice, time and commitment offered by the Audit Committee Members.

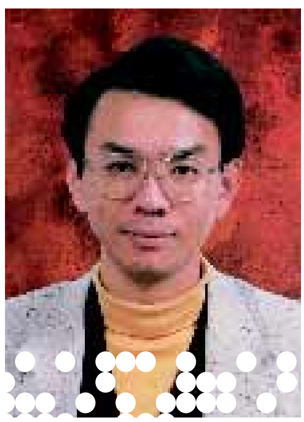
Senior Management



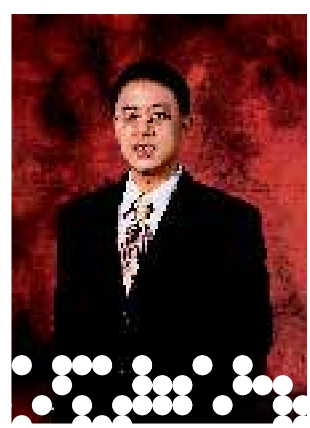
Mr. **HOON Siang Book**, aged 51, is the Chief Operating Officer of the Group and is responsible for the performance of all ferrule manufacturing business units. He joined the Group in May 1998 and has extensive experience and in-depth knowledge in the manufacturing field. Mr. Hoon completed the technical, logistics and management programs provided by General Electric (USA) Co., Ltd. in Crotonville University in the United States. Prior to joining the Group, Mr. Hoon worked with an American Multinational company for 17 years. Mr. Hoon started as a management trainee and has undergone their internal structured training with credits in technical and management disciplines. With 12 years in various management positions in the company, he was promoted to the position of President at one of their offshore factories in Malaysia. Mr. Hoon has extensive experience in the region, setting up and operating new manufacturing facilities in Penang, Malaysia, Bangkok Thailand, and Wuxi, Jiangsu Province in the People's Republic of China. Mr. Hoon was key in spearheading the team for the set up of the existing Taicera manufacturing facility located in Taiwan. Mr. Hoon's past involvement with products and components ranges from consumer home entertainment components to cordless and corded telephones and to high definition pick and place operations for chips on PC board assemblies used in computer disk drives industries. During the span of his career, Mr. Hoon has also participated in independent consulting assignments to assist in evaluating manufacturing technology for merger and acquisition activities.

Ms **UNG Monin**, aged 32, is the Vice President and Legal Counsel of Intcera. She is responsible for the legal affairs of the Group. She has been involved with the Group's venture capital financing and subsequent IPO on the GEM Board of the Stock Exchange since late 1999. Ms Ung obtained her law degree in England and later a diploma in PRC law from the Chinese Science & Political University in Beijing. In addition, she has obtained her LLM in Chinese Comparative Law from City University of Hong Kong. She is qualified as a Barrister of the Supreme Court of England and Wales, Solicitor of the Supreme Court of Singapore, Solicitor of the High Court of Hong Kong as well as being a Member of the Chartered Institute of Arbitrators. Her experience before joining the Group includes private practice in corporate finance law with well-known city firms. Ms Ung has about eight years of experience in legal practice.

Mr. **CHIANG Wan Lan**, aged 39, is the Vice President of the Group in Research and Development Department in addition to his position as Deputy General Manager of Taicera. Besides product development his responsibilities include the day-to-day technical operations of the Taiwan facility as well as coordinating administrative activities. Mr. Chiang holds a PhD in Ceramic Science and Engineering from Rutgers University, United States of America. Mr. Chiang has more than eight years of experience working in the catalyst and ceramic industry. This knowledge in ceramic science is an asset to the Group in specialised areas such as ceramic sintering, machining and characterisation, metallisation/joining, powder processing, thick film technology, material characterisation and catalyst manufacture and application. Prior to being promoted to Vice President and Deputy General Manager of Operations, Mr. Chiang was a Director of Technical Development. He was responsible for receiving as well as improving on the details of the technical transfer and facilitating a smooth start up for Taicera. In his previous role, he was also responsible for implementing the QA/QC system as well as leading the team in fulfilling all the necessary logistics to obtain the ISO qualification. His previous work experience was with Dupont in Taiwan where his role was to assist companies within the region to develop new applications in photopolymer and thick film materials. Before Dupont, he was with Catalyst Research Center in Taiwan performing catalyst research for applications including VOC combustion and hydrofurocarbon synthesis.

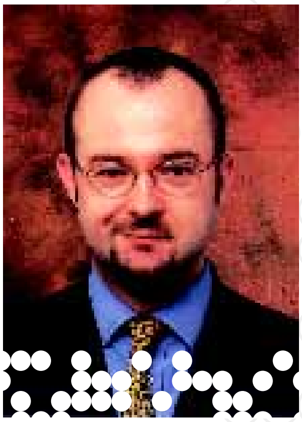


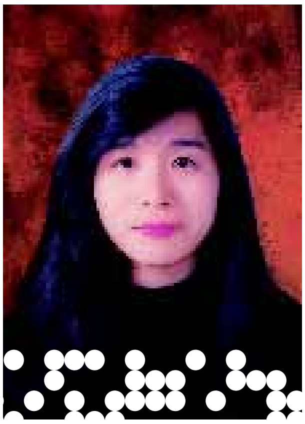
Mr. **LIANG Chin Hsien**, aged 43, is the Vice President of the Group and General Manager designate of Optical ConnX Company Limited (one of the subsidiaries of the Group) based in Shenzhen, PRC. He joined the Group in January 2000 as a manager of the quality control responsible for setting up product criteria and internal procedures in the manufacturing process. Mr. Liang holds a PhD in Polymer Science and Plastic Engineering from the University of Massachusetts. Mr. Liang has a total of ten years experience in related product research and development. He started his career as Assistant Researcher of Academia of Sinic and subsequently as Production Manager for six years with the Tuntex Group based in both Taiwan and Thailand prior to joining the Group.



Mr. **CHEUK Wa Pang**, aged 37, is the Financial Controller, Company Secretary and Qualified Accountant of the Group and joined the Group in April 2000. Prior to joining, Mr. Cheuk worked as a Business Consultant to a company that uses Internet technology to provide facilities management, and as a Financial Controller of a Sino-Italian joint venture. He has over nine years of experience in accounting and auditing. Mr. Cheuk holds a master degree in Applied Finance from Macquarie University in Australia and another master degree in business administration from Macquarie Graduate School of Management in Australia. Mr. Cheuk is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Society of Accountants.

Mr. **PERKINS Andy**, aged 37, is the Senior Financial Consultant of Intcera and joined the Group in February 2001. Mr. Perkins is in charge of providing investors and the press with timely information about the Group and generally raising the Group's profile. Prior to joining the Group, Mr. Perkins was head of Asian Telecommunications Research at Prudential-Bache Securities and has had over six years experience analyzing telecommunications companies in the Asia-Pacific region. Mr. Perkins has also worked for five years in the corporate finance arm of Ernst & Young, based in the United Kingdom.





Ms. **YANG Ling Ling**, aged 38, is a Manager of the Administration Department of Taicera. Ms Yang joined Taicera in May 1998. She is responsible for the overall administration and human resources management of Taicera. She graduated from Shih Chien University in Taiwan and has about ten years of experience in administration and human resources.

Comparison of Business Objectives with actual business progress

Set out below is a comparison between the Group's actual business progress as at 31st December 2001 and business objectives as set out in its prospectus dated 27th June 2000 (the "Prospectus"):

Business objectives as set out in the prospectus:	Actual business progress as at 31st December 2001:
Research and development	
1. Commence and complete the research and development for the production of ceramic sleeves;	The sleeve project was cancelled due to the low market price. It is not profitable to invest additional equipment for the production of sleeves. The Group will focus on both standard and special application ferrules.
2. Continue search for new types of ceramic powder mixtures from different suppliers;	Samples from several new powder suppliers have been tested and one of them is ready for production pilot run. However, the work is slow down in the 4th quarter of 2001 as the ceramic powder price dropped due to the low market. The Group decided to concentrate most efforts on recalibrating the production lines and to improve the yield rates to meet the new tighter market criteria.
3. Decrease the production cost by reducing the material wastage, which in turn, will reduce the amount of ceramic powder mixture used in the manufacture of ceramic ferrules; and	A recent work result has reduced the I.D. polishing workload by 50%. Besides, it is also expected that the project will improve the overall yield rate to over 85% in year 2002. Therefore a production cost reduction would happen as a result of the above improvement.
4. Improve the yield rates of ceramic blanks and ferrules produced by the Group's production facilities in the People's Republic of China.	The yield rate has already reached 70% level for the ferrule production in the Group's Mainland China facilities.

Production facilities

1. Commence the commercial production of miniature ferrules in the Group's production facilities in Taiwan;	The commercial production plan has been strategically postponed due to current sluggish market. While the production is running at a relatively small scale, the Group is focusing on the further improvement and stabilization of the production yield rate.
2. Commence the installation of machinery and equipment and the sample production of miniature ceramic ferrules at the Group's production facilities in the People's Republic of China; and	This plan has also been postponed strategically due to the market recession.
3. Increase the total production capacity of the Group's production facilities in the People's Republic of China to 1.1 million ceramic ferrules per month.	The production capacity of the Group's PRC facilities is currently staying at 750,000 ceramic ferrules per month. The 2nd line installation schedule will be determined later depending on the market situation.

Sales and marketing

1. Enlarge the sales and marketing team;	The Group did not plan to enlarge the sales and marketing team under current market situation.
2. Appoint one distributor for the North American market;	The Group has not yet appointed any distributor for the North American market due to the lack of demand in the United States.
3. Participate in professional trade shows and conferences such as International Conference on Integrated Optics and Optics Fibre Communication;	The Group's representatives have attended the Optical Fiber Conference in Anaheim, United States in March 2001 and is planning to attend the International Optoelectronics Exposition in Taiwan (OPTO Taiwan 2002) in August 2002.
4. Continue to advertise the Group's products on selective e-commerce websites and publications related to the fibre optics industry; and	The Group continues to advertise on selective websites and in industry publications.
5. Visit existing and potential customers and understand their requirements so as to secure more contracts with them.	The Group has been working hard with customers to understand their requirements on more stringent specifications and get feedback from them about our products.

Report of the directors

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the accounts.

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and sale of ceramic blanks and ferrules, an analysis of the consolidated trading results of the Group by business segments is not presented.

An analysis of the Group's performance for the year by geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 38.

The directors do not recommend the payment of a dividend for the year ended 31st December 2001 (2000: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$6,500.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 14 to the accounts.

BORROWINGS

Details of the Group's borrowings are set out in note 25 and 29 to the accounts.

Report of the directors

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, the share premium of the Company is distributable to the shareholders, subject to a solvency test and the provisions of the Company's Articles of Association. At 31st December 2001, in the opinion of the directors, the Company did not have any reserves available for distribution to shareholders. (distributable reserves as at 31st December 2000: HK$124,866,000).

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is as follows:

	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**27,551**	37,006	205	–
Loss attributable to shareholders	**(163,595)**	(26,317)	(18,508)	(5,879)
Total assets	**249,502**	371,279	156,881	84,413
Total liabilities	**(128,577)**	(85,668)	(45,797)	(27,371)
Minority interests	**–**	(9)	(244)	(12)
Net assets	**120,925**	285,602	110,840	57,030

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

The Employee Share Option Scheme (the "Scheme") was approved by the shareholders at an Extraordinary General Meeting on 21st June 2000. The share options are exercisable at any time during a period of ten years from the date of grant. During the year no options had been exercised by the directors.

Report of the directors

SHARE OPTIONS (continued)

Details of the scheme are as follows:

1.	Purpose of the Scheme	As incentive to employees
2.	Participants of the Scheme	Full employees of the Group including executive directors
3.	Total number of shares available for issue under the Scheme and their percentage on issued share capital at 31st December 2001	60,323,718 shares (15.02%)
4.	Maximum entitlement of each participant under the Scheme	25% of the aggregate of all shares subject to the Scheme and any other Share Option Scheme
5.	The period within which the shares must be taken up under an option	From date of grant to 20th June 2010
6.	The minmium period for which an option must be held before it can be exercised	N/A
7.	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	HK$1.00 per grant is required to be paid within 3 business days of the date of offer
8.	The basis of determining the exercise price	The exercise price is determined by the directors and being not less than the greater of: (a) closing price of the existing share on the date of offer; (b) the average closing price of existing shares on the five business days immediately preceding the date of offer of such option; and (c) the nominal value thereof
9.	The remaining life of the Scheme	The Scheme period will end on 20th June 2010

Report of the directors

SHARE OPTIONS (continued)

Details of the share options outstanding as at 31st December 2001 which have been granted under the scheme are as follows:

	Options held at 1st January 2001	Options granted during year *(Note 1)*	Options lapsed during year	Options held at 31st December 2001	Exercise price *HK$*	Grant date
Executive directors						
Mr. Shih Wen Hao	2,000,000	–	–	2,000,000	1.130	20th July 2000
	–	1,500,000	–	1,500,000	0.696	10th July 2001
Mr. King Chun Kong, Karl	1,500,000	–	–	1,500,000	1.220	10th October 2000
	–	1,500,000	–	1,500,000	0.696	10th July 2001
Mr. Tung Tai Yung	400,000	–	–	400,000	1.130	20th July 2000
Non-executive director						
Mr. Koh Tat Lee *(Note 2)*	10,000,000	–	–	10,000,000	1.130	20th July 2000
	–	10,000,000	–	10,000,000	0.696	10th July 2001
Continuous contracted employees	17,250,000	–	2,680,000	14,570,000	1.130	20th July 2000
	7,695,000	–	635,000	7,060,000	1.220	10th October 2000
	–	1,762,488	98,744	1,663,744	1.140	22nd April 2001
	–	10,000,000	–	10,000,000	0.696	10th July 2001

Note 1: The closing price of the securities immediately before the date on which the options granted on 22nd April 2001 and 10th July 2001 was HK$0.97 and HK$0.56 per share respectively.

Report of the directors

SHARE OPTIONS (continued)

Note 2: Mr. Koh Tat Lee resigned as executive director of the Company on 31st October 2001 and was appointed as non-executive director on 1st November 2001. Pursuant to the rules of the Company's Share Option Scheme adopted on 21st June 2000, on 31st January 2002, all options held by Mr. Koh have been lapsed (i.e. 3 months immediately after his resignation).

The directors consider that it is not meaningful to disclose the value of options granted during the year as the market price of the Company's Shares as at 31st December 2001 was below the exercise prices of the options granted.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Tung Tai Yung
Mr. Shih Wen Hao
Mr. King Chun Kong, Karl
Mr. Hu Shiang-Chi (appointed on 30th November 2001)
Mr. Koh Tat Lee (resigned on 31st October 2001)

Non-executive directors

Mr. Cheng Cheng Pin
Mr. Koh Tat Lee (appointed on 1st November 2001)
Mr. Tam Ping Wah (resigned on 18th June 2001)

Independent non-executive directors

Mr. Chen Domingo
Mr. Goldstein Henry R.

In accordance with Article 87 of the Company's Articles of Association, Mr. King Chun Kong, Karl and Mr. Shih Wen Hao retire and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Tung Tai Yung's interests in contracts of significance in relation to the Group's business are set out in note 31 to the accounts.

Report of the directors

DIRECTORS' INTERESTS IN CONTRACTS (continued)

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 19 to 24.

CONNECTED TRANSACTIONS

Related party transactions as disclosed in note 31, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 20 of the Listing Rules, are as follows:

(i) Taiping Insurance Company Limited ("Taiping Insurance"), which is controlled by a director of the Company, Mr. Tung Tai Yung, has underwritten the insurance policy for the Group's assets during the year. The aggregate insurance premium paid by the Group to Taiping Insurance amounted to approximately HK$273,000 for the year ended 31st December 2001.

(ii) The Group has various loan facilities in Taiwan of approximately HK$67 million that are jointly and severally guaranteed by Taiping Enterprise Co., Ltd. ("Taiping"), Mr. Koh Tak Lee and Mr. Tung Tai Yung and/or Mr. Tung Hau Keung (Mr Tung Tai Yung's father) (the "Parties"). The directors confirm that no security over the assets of the Group has been granted to the Parties in relation to such financial assistance provided by them.

(iii) On 19th March 2002, the Company was granted a standby loan facility by a shareholder of the Company, Mr, Tung Tai Yung. The loan can be drawn down at any time upon the request by the Company up to a maximum sum of HK$16 million. The loan is interest bearing at 4.875% per annum and will not be required to be repaid by the Company earlier than 31st December 2002.

The independent non-executive directors confirm that the above transactions had been conducted on normal commercial terms during the ordinary and usual course of business, and are in accordance with the underlying agreements, the terms of which are fair and reasonable and for the interests of the shareholders of the Company.

Report of the directors

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31st December 2001, the interests of the directors and chief executives in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and GEM of the Stock Exchange were as follows:

(a) Ordinary shares of HK$0.5 each in the Company.

	Number of Shares				
Name	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total Interests**
Mr. Tung Tai Yung	20,225,000	–	104,506,625 *(Note 1)*	–	124,731,625
Mr. Shih Wen Hao	2,683,000	–	–	–	2,683,000
Mr. King Chun Kong, Karl	5,500,000	–	–	–	5,500,000
Mr. Koh Tat Lee	3,300,000	3,275,000 *(Note 2)*	–	–	6,575,000

Note 1:

These shares are held through Taiping and Mamcol. These shares are attributable to Mr. Tung Tai Yung under the SDI Ordinance, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung Tai Yung's directions or instructions and Taiping in turn holds more than one third of the issued shares in Mamcol.

Note 2:

These shares are held by the wife of Mr. Koh Tat Lee, Ms. Eva Wong.

(b) Share options in the Company

Share options are granted to directors under the Employee Share Option Scheme approved by the shareholders at an Extraordinary General Meeting on 21st June 2000. Please refer details under Share Options above.

Save as disclosed above, at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

Save as disclosed above, at no time during the year was the company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the directors

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2001, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name of shareholder	Number of ordinary shares	Percentage of issued shares
Taiping Enterprise Co., Ltd	104,506,625	26% *(Note)*

Note: These shares are held as to 104,011,625 directly by Taiping and as to 495,000 through Mamcol which is a subsidiary of Taiping.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

POST-LISTING SPONSOR'S INTERESTS

To the best knowledge of the Company's sponsor, Shenyin Wanguo Capital (H.K.) Ltd. ("Shenyin Wanguo Capital"), its directors, employees or associates, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December 2001.

Pursuant to the sponsorship agreement entered into between the Company and Shenyin Wanguo Capital on 11th September 2001, Shenyin Wanguo Capital has been appointed as sponsor of the Company for the period ending 31st December 2002 and the Company shall pay an agreed amount of fee to Shenyin Wanguo Capital for its provision of services.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	49%
– five largest suppliers combined	83%
Sales	
– the largest customer	17%
– five largest customers combined	57%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM of the Stock Exchange on 7th July 2000. Non-executive directors are subject to retirement and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Association. In the opinion of the directors, this meets the same objective as the Board Practices and Procedures.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The audit committee comprises two independent non-executive directors, namely Mr. Goldstein Henry R. and Mr. Chen Domingo. The audit committee has met four times during the year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

TUNG Tai Yung
Chairman

Hong Kong, 22nd March 2002

Report of the Auditors

TO THE SHAREHOLDERS OF
INTCERA HIGH TECH GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 38 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the adoption of the going concern basis for the preparation of the accounts. As explained in note 1 to the accounts, the accounts have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to overcome quality and technological difficulties and return to normal and profitable operational activity, the agreement of its bankers to extend the repayment dates of certain unsecured bank loans and the successful conclusion of various initiatives to secure new sources of funding. The accounts do not include any adjustments that would result from the failure to achieve the aforementioned. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Report of the Auditors

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2001 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22nd March 2002

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 HK$'000	2000 HK$'000
Turnover	3	**27,551**	37,006
Cost of sales		**(23,249)**	(33,490)
Gross profit		**4,302**	3,516
Other revenues	3	**5,095**	7,216
Selling and distribution expenses		**(1,759)**	(724)
Administrative expenses		**(38,154)**	(28,565)
Other operating expenses		**(24,669)**	(3,738)
Provisions for impairment of assets	4	**(101,273)**	–
Operating loss	5	**(156,458)**	(22,295)
Finance costs	6	**(7,146)**	(4,070)
Loss before minority interests		**(163,604)**	(26,365)
Minority interests		**9**	48
Loss for the year and attributable to shareholders	8 & 24	**(163,595)**	(26,317)
Basic loss per share	10	**(40.72 cents)**	(7.58 cents)

Consolidated Balance Sheet

AS AT 31ST DECEMBER 2001

	Note	2001 HK$'000	2000 HK$'000
Intangible assets	13	–	18,817
Fixed assets	14	134,718	122,357
Long-term investments	16	854	4,415
Long-term rental deposits		666	1,185
Long-term pledged bank deposits	20	3,971	6,149
Current assets			
Inventories	17	9,884	12,821
Trade and notes receivables	18	830	5,557
Other receivables, prepayments and deposits		11,691	34,448
Other short-term investments	19	7,702	4,720
Pledged bank deposits	20	71,030	44,378
Bank balances and cash	20	8,156	116,432
		109,293	218,356
Current liabilities			
Trade and notes payables	21	1,195	3,176
Other payables and accrued charges		5,591	11,202
Commercial paper	22	6,576	16,253
Obligations under finance leases	25	13,167	6,447
Current portion of long-term bank loans	25		
– unsecured		2,131	–
– secured		6,386	6,832
Short-term bank loans			
– unsecured		11,057	8,841
– secured	29	71,916	13,364
		118,019	66,115
Net current (liabilities)/assets		(8,726)	152,241
Total assets less current liabilities		131,483	305,164
Financed by:			
Share capital	23	200,862	200,862
Reserves	24	(79,937)	84,740
Shareholders' funds		120,925	285,602
Minority interests		–	9
Long-term liabilities	25	10,558	19,553
		131,483	305,164

Tung Tai Yung
Director

King Chun Kong, Karl
Director

Balance Sheet

AS AT 31ST DECEMBER 2001

	Note	2001 HK$'000	2000 HK$'000
Fixed assets	14	**617**	1,900
Long-term rental deposits		**–**	224
Investments in subsidiaries	15	**153,650**	248,278
Current assets			
Other receivables, prepayments and deposits		**168**	914
Bank balances and cash		**3,881**	75,373
		4,049	76,287
Current liabilities			
Other payables and accrued charges		**1,469**	961
Net current assets		**2,580**	75,326
Total assets less current liabilities		**156,847**	325,728
Financed by:			
Share capital	23	**200,862**	200,862
Reserves	24	**(44,015)**	124,866
		156,847	325,728

Tung Tai Yung
Director

King Chun Kong, Karl
Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 HK$'000	2000 HK$'000
Net cash outflow from operating activities	26(a)	**(46,866)**	(33,824)
Returns on investments and servicing of finance			
Interest received		**5,458**	6,180
Interest paid		**(5,446)**	(2,893)
Interest element of finance lease rental payments		**(1,878)**	(999)
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(1,866)**	2,288
Investing activities			
Purchase of fixed assets		**(68,298)**	(57,358)
Sale of fixed assets		**1,571**	5,819
Increase of shareholdings in a subsidiary		**–**	(676)
Purchase of long-term investments		**(854)**	(4,415)
Purchase of other short-term investments		**(3,385)**	(4,720)
Repayment of notes receivable		**–**	7,744
Sale of investment securities		**–**	8,712
Sale of other short-term investments		**5,235**	5,394
Net cash outflow from investing activities		**(65,731)**	(39,500)
Net cash outflow before financing		**(114,463)**	(71,036)
Financing	26(b)		
Issue of ordinary shares		**–**	219,270
Share issue expenses		**–**	(15,267)
New bank loans borrowed		**90,495**	20,424
Repayment of bank loans		**(30,423)**	(5,473)
Capital element of finance leases payments		**(21,268)**	(13,064)
Net cash inflow from financing		**38,804**	205,890
Increase in pledged bank deposits		**(24,474)**	(33,466)
(Decrease)/increase in cash and cash equivalents		**(100,133)**	101,388
Cash and cash equivalents at 1st January		**100,179**	334
Effect of foreign exchange rate changes		**1,534**	(1,543)
Cash and cash equivalents at 31st December		**1,580**	100,179
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**8,156**	116,432
Commercial paper		**(6,576)**	(16,253)
		1,580	100,179

Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	**2001** **HK$'000**	2000 HK$'000
Exchange differences arising on translation of subsidiaries	24	**(1,585)**	(2,421)
Loss for the year		**(163,595)**	(26,317)
Total recognised losses		**(165,180)**	(28,738)
Goodwill released from/(eliminated against) reserves	24	**503**	(503)
		(164,677)	(29,241)

Notes to the accounts

1 BASIS OF PREPARATION OF ACCOUNTS

During the year the Group incurred a loss of HK$163,595,000 and at 31st December 2001 its current liabilities exceeded its current assets by HK$8,726,000. The loss of the Group was principally attributable to the loss incurred by a subsidiary in Taiwan, Taicera High Tech Co., Limited as a result of the cancellation of sales orders by customers following quality problems and more generally the downturn of the telecommunications market. The Group was obliged to undertake extensive re-tooling and make changes to the manufacturing process to overcome certain technological problems. Impairment provisions totalling approximately HK$101 million were necessary against fixed assets, inventories, intangibles and trade receivables.

The directors believe that 2002 will be another difficult year for the Group. They foresee that the cash flow from operations may not be sufficient for working capital purposes and to meet the repayments of loans and other liabilities as they fall due.

Notwithstanding this, the directors have prepared the accounts on a going concern basis, having regard to the following:

(a) The necessary retooling and changes to the manufacturing process were largely completed by the end of 2001 and it is expected that remedial work on customer returns will be completed within the first six months of 2002. Normal production levels are expected to be resumed thereafter and, with a recovery in the market for the Group's products, the directors anticipate increased revenues. Additionally the Group's management plan to continue to focus on cost reductions, and anticipate that significantly improved cash flows from operations will be achieved by early 2003.

(b) On 19th March 2002, the Company was granted a standby loan facility by a shareholder of the Company, Mr. Tung Tai Yung. The loan can be drawn down at any time upon the request of the Company up to a maximum sum of HK$16 million. The loan will be interest bearing at 4.875% per annum and repayment will not be required earlier than 31st December 2002.

(c) The Company is currently discussing with investment banks various means of raising additional funds. Some of these plans are well advanced but cannot be disclosed currently. The intention is initially to raise approximately HK$20 million by the end of April 2002. The Company will make an appropriate announcement once plans are finalised although execution will be subject to the approval of the board, the shareholders of the Company, and The Stock Exchange of Hong Kong Limited.

Notes to the accounts

1. *BASIS OF PREPARATION OF ACCOUNTS (continued)*

(d) As at 31st December 2001, the Group had bank loans and finance leases of HK$121,791,000. These loans are secured by a charge over the Group's fixed assets with net book value of HK$39,148,000, bank deposits of HK$75,001,000 and personal and corporate guarantees granted by certain directors of the Company and a shareholder. The Group is currently negotiating with its bankers for deferrals of the repayment dates of some of the unsecured bank loans. Taking into account the adequacy of securities over the facilities and the Group's commitment to pay interest charges and settle matured loans, the directors are confident that the Group's bankers will agree to extend the repayment dates and continue to grant adequate facilities to the Group for the foreseeable future.

The directors are confident that these various initiatives will be successful and will enable the Group to continue as a going concern and meets its working capital and financing requirements for the foreseeable future. On this basis, the directors consider that it is appropriate to prepare the accounts on a going concern basis. The accounts however do not include any adjustments, for example to reclassify non-current assets as current assets, long-term liabilities as current liabilities, reduce the value of all assets to their recoverable amounts and provide for any future liabilities which might arise, that would result if these initiatives are not successful or insufficient.

2. *PRINCIPAL ACCOUNTING POLICIES*

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that certain short-term investments are stated at fair value.

Notes to the accounts

2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets

The effect of adopting these new standards is set out in the accounting policies below.

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Notes to the accounts

2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

(a) Group accounting *(continued)*

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Merger reserve

The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired pursuant to the group reorganisation on 29th February 2000 and the nominal value of the shares issued by the Company in exchange thereof and also an existing balance on the share premium account of a subsidiary.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the accounts

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, any impairment on such goodwill is accounted for in accordance with SSAP 31.

(ii) Technological know-how

Expenditure on acquired technological know-how is capitalised and amortised using the straight-line method over 5 years from the commencement of commercial exploitation of that know-how. Technological know-how is not revalued as there is no active market for these assets.

(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

Notes to the accounts

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	$33^{1}/_{3}\%$
Plant and machinery	9% to $16^{2}/_{3}\%$
Furniture, fixtures and office equipment	11% to $33^{1}/_{3}\%$
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Assets held under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Notes to the accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Assets held under leases *(continued)*

(i) Finance leases (continued)

Assets held under finance leases are depreciated over their estimated useful lives.

The gain or loss from the sale and subsequent lease back of an asset is amortised over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Investments

(i) Long-term investments

Long-term investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

Notes to the accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Investments *(continued)*

(ii) Held-to-maturity securities (continued)

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(iii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and commercial paper.

Notes to the accounts

2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

(i) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Revenue recognition

Revenue from the sale of goods, net of applicable business tax and discounts, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Retirement benefit costs

The Group has participated in the mandatory provident fund (the “fund”) for its employees in Hong Kong. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries. The retirement benefit cost charged to the profit and loss account represents contributions payable by the Company to the fund. The Group’s contributions to the fund are expensed as incurred and the Group’s voluntary contributions are reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. The assets of the fund are held separately from those of the Group in an independently administered fund.

Notes to the accounts

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Retirement benefit costs *(continued)*

The subsidiary in Taiwan operates a defined benefit scheme for all of its employees. Contributions are charged to the profit and loss account. The contributions are determined based on the value of the retirement scheme assets and estimates of the effect of future events on the actuarial present value of accrued pension obligations and are determined annually by a qualified actuary using the projected unit credit cost method. The assets of the scheme are held separately from those of the Group, being invested through a financial institution owned by the government of Taiwan.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Notes to the accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of ceramic blanks and ferrules. Revenues recognised during the year are as follows:

	2001 HK$'000	2000 HK$'000
Turnover		
Sales of goods, net of discounts and business tax	**38,173**	37,006
Sales returns	**(10,622)**	–
	27,551	37,006
Other revenues		
Interest income	**4,851**	6,787
Other income	**244**	429
	5,095	7,216
Total revenues	**32,646**	44,222

Primary reporting format – business segments

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and sale of ceramic blanks and ferrules, an analysis of the consolidated trading results of the Group by business segments is not presented.

Secondary reporting format – geographical segments

The Group operates in three main geographical areas – Taiwan, Mainland China and Hong Kong.

Notes to the accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments *(continued)*

An analysis of the Group's turnover, total assets and capital expenditure by geographical segments is as follows:

	Turnover		Total assets		Capital expenditure	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Taiwan	**14,294**	23,589	**100,711**	193,921	**30,165**	75,742
Mainland China	**6,576**	2,362	**58,692**	–	**62,849**	–
Hong Kong	**–**	–	**90,099**	177,358	**247**	2,228
Europe	**6,681**	11,055	**–**	–	**–**	–
	27,551	37,006	**249,502**	371,279	**93,261**	77,970

4. PROVISIONS FOR IMPAIRMENT OF ASSETS

	2001	2000
	HK$'000	*HK$'000*
Impairment of fixed assets *(note 14)*	**50,428**	–
Impairment of intangible assets *(note 13)*	**13,305**	–
Impairment of goodwill	**503**	–
Write-off of inventories	**26,631**	–
Provision for doubtful debts	**6,742**	–
Forfeiture of purchase deposit for fixed assets	**3,664**	–
	101,273	–

Notes to the accounts

5. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2001	2000
	HK$'000	HK$'000
Crediting		
Gains on sale of other short-term investments	122	345
Net exchange gain	–	150
Gain on disposal of fixed assets	–	54
Unrealised gain on other short-term investments	295	–
Charging		
Depreciation:		
Owned fixed assets	16,848	9,315
Leased fixed assets	4,347	1,852
Staff costs (including directors' remuneration)	32,446	23,105
Redundancy costs (including compensation for loss of office as director)	2,004	–
Operating leases in respect of land and buildings	2,867	2,480
Retirement benefit costs	808	338
Auditors' remuneration	585	698
Research and development costs	793	2,333
Amortisation of intangible assets (included in administrative expenses)	5,512	5,512
Loss on disposal of fixed assets	998	–
Net exchange loss	2,378	–

Notes to the accounts

6. FINANCE COSTS

	2001 HK$'000	2000 HK$'000
Interest on bank loans	**5,268**	3,071
Interest element of finance leases	**1,878**	999
	7,146	4,070

7. TAXATION

(i) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit in Hong Kong for the year. (2000: Nil)

(ii) No provision for overseas taxation has been made in the accounts as the Group has no assessable profit in Taiwan for the year. The subsidiary was granted a tax holiday since commencing operation from 1st November 1999 in which the profit from sales of its products are exempted from Taiwan income tax for the first five profit-making years. The Group has not yet utilised the tax holiday as the subsidiary has been loss making.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$168,881,000 (2000: HK$3,012,000).

9. DIVIDEND

No interim dividend was paid during the year and prior year. The directors do not recommend the payment of any final dividend for the year and prior year.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK$163,595,000 (2000: HK$26,317,000) and the number of 401,724,875 (2000: weighted average number of 347,101,924) ordinary shares in issue during the year. In determining the weighted average number of shares in issue in 2000, a total of 249,474,875 shares issued on the establishment of the Company and on the reorganisation of the Group were deemed to have been in issue since 1st January 2000.

No diluted loss per share has been presented because the exercise of the outstanding potential ordinary shares would have anti-dilutive effect for the year and prior year.

Notes to the accounts

11. RETIREMENT BENEFIT COSTS

The latest actuarial valuation for the Taiwan subsidiary's retirement scheme was performed by Majic Lin, FAIRC, A.S.A, using the projected unit credit cost method annually. The retirement scheme has been valued using the following principal assumptions: average annual investment return of 4% (2000: 6%) and average annual increase in compensation rate of 3% (2000: 4%). The latest actuarial valuation completed on 31st December 2001 indicated that the scheme's assets at market value and pension cost as at 31st December 2001 amounted to HK$915,000 (2000: HK$546,000) and HK$380,000 (2000: HK$282,000) respectively resulting in a funding surplus of HK$535,000 (2000: HK$264,000). The scheme's assets covered 241% (2000: 194%) of the benefits, allowing for future increases in earnings, which had been accrued to members.

The Group also contributes a defined contribution retirement scheme which is available to all employees in Hong Kong. The Group's voluntary contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. No forfeited contributions (2000: Nil) were utilized during the year leaving HK$219,000 (2000: Nil) available at the year-end to reduce future contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001	2000
	HK$'000	*HK$'000*
Fees	**998**	567
Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,068**	3,129
Compensation for loss of office as director paid by the company	**882**	–
	4,948	3,696

Each of the independent non-executive directors received a director fee of HK$195,000 for the year ended 31st December 2001 (2000: HK$126,000).

During the year, 13,000,000 options were granted to certain executive directors under the Employee Share Option Scheme approved by the shareholders at an Extraordinary General Meeting on 21st June 2000. Details of options granted and lapsed during the year are disclosed in the Directors' Report.

Notes to the accounts

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The executive and non-executive directors received individual emoluments for the year ended 31st December 2001 of approximately HK$2,510,000 (2000: HK$2,078,000), HK$680,000 (2000: HK$708,000), HK$815,000 (2000: HK$317,000), HK$247,000 (2000: HK$188,000), HK$137,000 (2000: not applicable), HK$113,000 (2000: HK$83,000) and HK$56,000 (2000: HK$70,000).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2000: two) whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (2000: three) individuals during the year are as follows:

	2001	2000
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,370**	2,204
Compensation for loss of office	**250**	–
	4,620	2,204

The emoluments fell within the following bands:

Emolument bands	**Number of individuals**	
	2001	2000
HK$nil – HK$1,000,000	**2**	3
HK$1,000,001 – HK$1,500,000	**2**	–

During the year, 10,327,500 options were granted to the above individuals under the Employee Share Option Scheme approved by the shareholders at an Extraordinary General Meeting on 21st June 2000. Details of options granted and lapsed during the year are disclosed in the Directors' Report.

Notes to the accounts

13. INTANGIBLE ASSETS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Technological know-how		
Cost		
At 1st January and 31st December	**25,168**	25,168
Accumulated amortisation		
At 1st January	**6,351**	839
Amortisation charge	**5,512**	5,512
Impairment charge	**13,305**	–
At 31st December	**25,168**	6,351
Net book value at 31st December	**–**	18,817

As at 31st December 2001, the directors considered that there was an impairment in the value of technological know-how taking into consideration its recoverable amount which was based on its value in use.

Notes to the accounts

14. FIXED ASSETS

	Group				
	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:					
At 1st January 2001	1,334	128,038	4,710	1,457	135,539
Exchange adjustment	–	(9,059)	(353)	(72)	(9,484)
Additions	–	89,405	3,856	–	93,261
Disposals	–	(3,113)	(67)	(771)	(3,951)
Transfers	(121)	(871)	992	–	–
At 31st December 2001	1,213	204,400	9,138	614	215,365
Accumulated depreciation:					
At 1st January 2001	240	11,574	1,159	209	13,182
Exchange adjustment	–	(2,669)	(92)	(15)	(2,776)
Charge for the year	994	19,258	743	200	21,195
Impairment charge	–	50,212	216	–	50,428
Disposals	–	(1,208)	(25)	(149)	(1,382)
Transfers	(21)	(475)	496	–	–
At 31st December 2001	1,213	76,692	2,497	245	80,647
Net book value:					
At 31st December 2001	**–**	**127,708**	**6,641**	**369**	**134,718**
At 31st December 2000	1,094	116,464	3,551	1,248	122,357

Notes to the accounts

14. FIXED ASSETS (continued)

	Company		
	Leasehold improvements *HK$'000*	**Furniture, fixtures and office equipment** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1st January 2001	**1,334**	**894**	**2,228**
Additions	–	246	246
Disposals	–	(16)	(16)
Transfers	(121)	121	–
At 31st December 2001	**1,213**	**1,245**	**2,458**
Accumulated depreciation:			
At 1st January 2001	240	88	328
Charge for the year	994	306	1,300
Impairment charge	–	216	216
Disposals	–	(3)	(3)
Transfers	(21)	21	–
At 31st December 2001	**1,213**	**628**	**1,841**
Net book value			
At 31st December 2001	**–**	**617**	**617**
At 31st December 2000	1,094	806	1,900

The directors considered that there was an impairment in the value of certain plant and machineries amounting to HK$50,212,000 which were left idle as at 31st December 2001 because the Group intended to scale down the production of the products that these plant and machineries produce. Both the net selling price and the value in use is assessed to be nil as there are no active players in the market and the directors consider the present value of estimated future cash flows expected to arise from the continuing use of the plant and machineries and from their disposal at the end of their useful life is nil.

Notes to the accounts

14. FIXED ASSETS (continued)

At 31st December 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK$29,077,000 (2000: HK$24,927,000).

The Group leases plant and machinery under finance leases expiring from one to three years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

At 31st December 2001, the net book value of fixed assets pledged as security for the Group's long-term bank loans and obligation under finance leases amounted to HK$39,148,000 (2000: HK$45,083,000).

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**124,754**	124,753
Amounts due from subsidiaries	**181,372**	123,525
	306,126	248,278
Provisions for diminution in value	**(152,476)**	–
	153,650	248,278

The amounts due from subsidiaries are interest free and have no fixed terms for repayment.

The following is a list of subsidiaries at 31st December 2001:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held 2001	Interest held 2000
Directly held by the Company					
OpticonX Inc.	British Virgin Islands	Investment holding in Hong Kong	249,474,875 Ordinary shares of HK$0.5 each	**100%**	100%
Optical Crystal (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	1,000 Ordinary shares of US$1 each	**100%**	100%

Notes to the accounts

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held 2001	Interest held 2000
Opcom Holdings (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	1,000 Ordinary shares of US$1 each	**100%**	100%
Intcera High Tech (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	100 Ordinary shares of US$1 each	**100%**	–
Indirectly held by the Company					
Aoptic (BVI) Inc.	British Virgin Islands	Investment holding in Hong Kong	10 Ordinary shares US$1 of Each	**100%**	100%
Taicera High Tech Co., Limited	Taiwan	Manufacturing and trading of ceramic blanks and ferrules in Taiwan	50,000,000 Ordinary shares of NT$10 each	**99.99%**	99.99%
Optical ConnX Company Limited	Hong Kong	Manufacturing and trading of ceramic blanks and ferrules in the People's Republic of China and Hong Kong	100 Ordinary shares of HK$1 each	**100%**	100%
Optical Crystal Hong Kong Company Limited	Hong Kong	Manufacturing	1,000 Ordinary shares of HK$1 each	**100%**	100%
Intcera High Tech (HK) Limited	Hong Kong	Management service	100 Ordinary shares of HK$1 each	**100%**	–
Opcom Company Limited	Hong Kong	Research and development	1,000 Ordinary shares of HK$1 each	**100%**	–

Notes to the accounts

16. LONG-TERM INVESTMENTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at cost	**24**	4,415
Club membership, at cost	**830**	–
	854	4,415
Market value of listed equity securities	**20**	3,568

17. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Finished goods	**1,884**	3,206
Raw materials	**5,824**	3,256
Work-in-progress	**2,176**	6,359
	9,884	12,821

At 31st December 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK$9,884,000 (2000: Nil).

18. TRADE AND NOTE RECEIVABLES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Trade receivables	**817**	4,827
Note receivables	**13**	730
	830	5,557

The Group's turnover are on open account terms, of which the settlement is generally expected to be repaid within 30 to 90 days of the date of sale.

Notes to the accounts

18. TRADE AND NOTE RECEIVABLES (continued)

At 31st December 2001, the ageing analysis of the trade receivables were as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Less than 30 days	**341**	4,228
30-60 days	**450**	599
61-90 days	**26**	–
	817	4,827

19. OTHER SHORT-TERM INVESTMENTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
At fair value		
Equity securities listed in Hong Kong	**7,702**	–
Unlisted short-term bond funds	**–**	4,720
	7,702	4,720

The Group has disposed all listed equity securities at a gain after the balance sheet date.

20. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Approximately HK$11,957,000 (2000: HK$17,082,000) of the Group's bank balances and deposits were denominated in New Taiwan dollars and placed with banks in Taiwan which are subject to foreign exchange controls.

Notes to the accounts

21. TRADE AND NOTE PAYABLES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Trade payables	**584**	622
Note payables	**611**	2,554
	1,195	3,176

At 31st December 2001, the ageing analysis of the trade payables were as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Less than 30 days	**372**	494
30-60 days	**111**	128
61-90 days	**101**	–
	584	622

22. COMMERCIAL PAPER

The commercial paper bears interest at 6.32% (2000: 5.3% to 8.5%) per annum. The commercial paper was secured by the Group's bank deposits of HK$1,985,440 (2000: HK$14,080,000).

23. SHARE CAPITAL

	2001	2000
	HK$'000	*HK$'000*
Authorised		
624,000,000 ordinary shares of HK$0.50 each	**312,000**	312,000
Issued and fully paid		
401,724,875 ordinary shares of HK$0.50 each	**200,862**	200,862

Notes to the accounts

23. SHARE CAPITAL (continued)

At an Extraordinary General Meeting of the Company held on 21st June 2000, the Executive Share Option Scheme was approved and adopted. Options to subscribe for 24,762,000 ordinary shares of the Company have been granted to certain executive directors and executives during the year. At 31st December 2001, there were 60,194,000 options outstanding which are exercisable at any time prior to 31st December 2001. Details of options granted and lapsed during the year are disclosed in the Directors' Report.

24. RESERVES

	Group				
	Share premium	**Exchange difference**	**Accumulated losses**	**Merger reserve**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Company and subsidiaries					
At 1st January 2000	–	(4,477)	(24,388)	14,968	(13,897)
Premium on issue of new shares	143,145	–	–	–	143,145
Share issue expenses	(15,267)	–	–	–	(15,267)
Goodwill written off	–	–	(503)	–	(503)
Exchange differences	–	(2,421)	–	–	(2,421)
Loss for the year	–	–	(26,317)	–	(26,317)
At 31st December 2000	**127,878**	**(6,898)**	**(51,208)**	**14,968**	**84,740**
Company and subsidiaries					
At 1st January 2001	127,878	(6,898)	(51,208)	14,968	84,740
Exchange differences	–	(1,585)	–	–	(1,585)
Impairment of goodwill	–	–	503	–	503
Loss for the year	–	–	(163,595)	–	(163,595)
At 31st December 2001	**127,878**	**(8,483)**	**(214,300)**	**14,968**	**(79,937)**

Notes to the accounts

24. RESERVES (continued)

	Company		
	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January 2000	–	–	–
Premium on issue of new shares	143,145	–	143,145
Share issue expenses	(15,267)	–	(15,267)
Loss for the year	–	(3,012)	(3,012)
At 31st December 2000	127,878	(3,012)	124,866
At 1st January 2001	127,878	(3,012)	124,866
Loss for the year	–	(168,881)	(168,881)
At 31st December 2001	**127,878**	**(171,893)**	**(44,015)**

(a) The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired pursuant to the group reorganisation and the nominal value of the shares issued by the Company in exchange thereof and also an existing balance on the share premium account of a subsidiary.

(b) Pursuant to the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders, subject to a solvency test and the provisions of the Company's Articles of Association. At 31st December 2001, in the opinion of the directors, the Company did not have any reserves available for distribution to shareholders (distributable reserve as at 31st December 2000: HK$124,866,000).

Notes to the accounts

25. LONG-TERM LIABILITIES

	Note	Group 2001 HK$'000	2000 HK$'000
Wholly repayable within five years			
Bank loans	*(a)*		
– unsecured		**4,242**	–
– secured		**12,772**	20,495
		17,014	20,495
Obligations under finance leases	*(b)*	**15,228**	12,337
		32,242	32,832
Current portion of long-term liabilities		**(21,684)**	(13,279)
		10,558	19,553

(a) At 31st December 2001, the Group's bank loans were repayable as follows:

	Group 2001 HK$'000	2000 HK$'000
Within one year	**8,517**	6,832
In the second year	**8,497**	6,832
In the third to fifth year	**–**	6,831
	17,014	20,495

Notes to the accounts

25. LONG-TERM LIABILITIES (continued)

(b) At 31st December 2001, the Group's finance lease liabilities were repayable as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**14,129**	7,375
In the second year	**2,123**	4,196
In the third to fifth year	**–**	1,968
	16,252	13,539
Future finance charges on finance leases	**(1,024)**	(1,202)
Present value of finance lease liabilities	**15,228**	12,337

	Group	
	2001	2000
	HK$'000	*HK$'000*
The present value of finance lease liabilities is as follows:		
Within one year	**13,167**	6,447
In the second year	**2,061**	4,006
In the third to fifth year	**–**	1,884
	15,228	12,337

Secured bank loans and obligations under finance leases were secured by the Group's fixed assets of HK$39,148,000 (2000 : HK$45,083,000) (note 14) and the bank deposits of HK$3,971,000 (2000: HK$6,149,000).

Notes to the accounts

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before minority interests to net cash outflow from operating activities

	2001	2000
	HK$'000	*HK$'000*
Loss before minority interests	**(163,604)**	(26,365)
Depreciation	**21,195**	11,167
Amortisation of intangible assets	**5,512**	5,512
Impairment of fixed assets	**50,428**	–
Impairment of intangible assets	**13,305**	–
Impairment of goodwill	**503**	–
Gain on sale of other short-term investments	**(122)**	(345)
Loss/(gain) on disposal of fixed assets	**998**	(54)
Unrealised gain on other short-term investments	**(295)**	–
Decrease in long-term rental deposits	**519**	734
Decrease/(increase) in inventories	**2,937**	(11,407)
Decrease/(increase) in trade and notes receivables	**4,727**	(5,300)
Decrease/(increase) in other receivables, prepayments and deposits	**22,150**	(12,624)
Decrease in trade and notes payable	**(1,981)**	(664)
(Decrease)/increase in other payables and accrued charges	**(5,433)**	8,239
Interest income	**(4,851)**	(6,787)
Interest expense	**7,146**	4,070
Net cash outflow from operating activities	**(46,866)**	(33,824)

Notes to the accounts

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loans and obligations under finances leases	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1st January	**328,740**	124,737	**9**	244	**55,037**	33,205
Exchange differences	**–**	–	**–**	2	**(3,589)**	(667)
Minority interests' in share of loss	**–**	–	**(9)**	(48)	**–**	–
Increase in 0.2% shareholding in a subsidiary	**–**	–	**–**	(189)	**–**	–
Issue of ordinary shares	**–**	219,270	**–**	–	**–**	–
Share issue expenses	**–**	(15,267)	**–**	–	**–**	–
New bank loans borrowed	**–**	–	**–**	–	**90,495**	20,424
Repayment of bank loans	**–**	–	**–**	–	**(30,423)**	(5,473)
Capital element of finance leases payment	**–**	–	**–**	–	**(21,268)**	(13,064)
Inception of finance leases	**–**	–	**–**	–	**24,963**	20,612
At 31st December	**328,740**	328,740	**–**	9	**115,215**	55,037

(c) Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$24,963,000 (2000: HK$20,612,000).

27. DEFERRED TAXATION

Deferred taxation liabilities/(assets) for the year has not been provided for in respect of the following:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowance	**9,249**	–	**(120)**	–
Tax losses	**(50,552)**	(20,397)	**(3,746)**	–
	(41,303)	(20,397)	**(3,866)**	–

Notes to the accounts

28. CONTINGENT LIABILITIES

As at 31st December 2001, the Company had contingent liabilities not provided for in the accounts as follows:–

	Company	
	2001	2000
	HK$'000	*HK$'000*
Guarantees for bank loans of subsidiaries	**54,972**	–

29. BANKING FACILITIES

As at 31st December 2001, total banking facilities granted to the Group amounted to HK$184,319,000 (2000: HK$127,223,000) and were secured by the following:

(i) a charge over fixed assets with carrying value of HK$39,148,000 (2000: HK$45,083,000);

(ii) bank deposits, amounting to HK$75,001,000 (2000: HK$50,527,000);

(iii) corporate and personal guarantees granted by certain directors of the Company and a shareholder.

30. COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group	
	2001	2000
	HK$'000	*HK$'000*
Contracted but not provided for	**12,762**	51,145

Notes to the accounts

30. COMMITMENTS (continued)

(b) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Not later than one year	**1,473**	3,546
Later than one year and not later than five years	**5,169**	6,808
Later than five years	**–**	536
	6,642	10,890

The company did not have any commitments at 31st December 2001. (2000: Nil).

31. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		Group	
		2001	2000
	Note	***HK$'000***	*HK$'000*
Insurance premium paid to a related company	*(a)*	**273**	291
Rental income from a minority shareholder and a related company	*(b)*	**–**	85

(a) Taiping Insurance Company Limited, which is controlled by a director of the Company, Mr. Tung Tai Yung, has underwritten the insurance policy for the Group's assets during the year.

(b) The Group sub-leased part of its factory premises to a minority shareholder, Mamcol and a related company, Nagahisa Taiwan Company Limited, which are both controlled by Mr. Tung Tai Yung for the period from 1st October 1998 to 30th June 2000.

Notes to the accounts

31. RELATED PARTY TRANSACTIONS (continued)

(c) The Group has various loan facilities in Taiwan of approximately HK$67 million that were jointly and severally guaranteed by Taiping Enterprises Co. Ltd. ("Taiping"), Mr. Koh Tat Lee and Mr. Tung Tai Yung and/or Mr. Tung Hau Keung (Mr. Tung Tai Yung's father) (the "Parties"). The directors confirm that no security over the assets of the Group has been granted to the Parties for such financial assistance provided by them.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March 2002.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Intcera High Tech Group Limited (the "Company") will be held at Unicorn & Phoenix Room, Basement 2, The Charterhouse, 209-219 Wanchai Road, Hong Kong on Monday, 29th April, 2002 at 10:00 a.m. for the following purposes:–

1. To receive and consider the audited consolidated financial statements of the Company and the reports of the directors and auditors for the year ended 31st December, 2001;

2. To re-elect the retiring directors of the Company and to authorize the board of directors to fix their remuneration;

3. To re-appoint the auditors of the Company and to authorize the board of directors to fix their remuneration; and

4. As special business, to consider and, if thought fit, pass with or without amendment the following resolutions as ordinary resolutions:

   A. "**THAT**, subject to the passing of the resolution by the Directors for the termination of the existing share option scheme (the "**Existing Scheme**") adopted by shareholders of the Company at an Extraordinary General Meeting on 21st June 2000 and with effect from the close of business of the day on which this resolution is passed, the rules of the share option scheme (the "**New Scheme**", the principal terms of which are particularly described in the circular (the "**Circular**") to the shareholders of the Company dated 28th March, 2002) (a copy of the New Scheme and the Circular having been produced to the meeting marked "**A**" and "**B**" respectively and signed by the chairman of the meeting for the purposes of identification), be approved and adopted and the directors of the Company be and they are hereby authorised to approve any amendments to the rules of the New Scheme in accordance with the New Scheme and Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and to take all such steps as may be necessary, desirable or expedient to carry into effect the New Scheme with immediate effect".

   B. "**THAT**:

      (a) subject to the passing of the resolution set out in paragraph 4A above and paragraph (b) below, pursuant to the GEM Listing Rules (as defined in the resolution set out in paragraph 4A above) and the terms of the New Scheme (as defined in the resolution set out in paragraph 4A above), the directors of the Company are hereby authorised to grant options under the New Scheme and to allot, issue and otherwise deal with shares of HK$0.50 each in the capital of the Company pursuant to the exercise of options granted under the New Scheme; and

Notice of annual general meeting

(b) the aggregate nominal amount of share capital to be allotted and issued pursuant to paragraph (a) above, together with any shares to be allotted and issued upon the exercise of any options (excluding the exercise of those options granted under the Existing Scheme (as defined in the resolution set out in paragraph 4A above)) granted under any other share option scheme of the Company as may from time to time adopted by the Company, shall not exceed the aggregate of 40,172,487 shares, representing 10 per cent of the shares in issue as at 26th March, 2002, being the latest practicable date prior to the printing of the Circular (as defined in the resolution set out in paragraph 4A above) for ascertaining certain information of the Circular."

C. "**THAT**:

(a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and securities convertible into shares, and to make or grant offers, agreements and options, including warrants to subscribe for shares, which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

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

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants or conversion rights under the terms of any convertible bonds which may be issued by the Company or any securities which are convertible into shares of the Company from time to time; or (iii) the exercise of the options granted under the share option schemes of the Company; or (iv) an issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly; and

Notice of annual general meeting

(d) for the purpose of this resolution:

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

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

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

(iii) the passing of any ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

"Rights Issue" means an offer of shares in the Company open for a period fixed by the directors of the Company to holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong applicable to the Company)."

D. "**THAT**:

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the GEM Listing Rules (as defined in the resolution set out in paragraph 4A above) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

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(b) the aggregate nominal amount of securities of the Company authorized to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

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

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

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

(iii) the passing of any ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution."

E. "**THAT** conditional on the passing of the resolutions set out in paragraphs 4C and 4D of the notice convening this meeting, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with unissued shares pursuant to the resolution set out in paragraph 4C of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 4D of the notice convening this meeting provided that such extended amount of the share capital of the Company shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of the said resolution."

By Order of the Board
Intcera High Tech Group Limited
Cheuk Wa Pang
Company Secretary

Hong Kong, 28th March, 2002

Notes:

(1) Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

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(2) To be valid, a form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be deposited at the Company's head office & principal place of business in Hong Kong at Unit F, 19th Floor, CNT Tower, 338 Hennessy Road, Hong Kong or its principal place of business in Taiwan at No. 21 Wu-Chuan Road II, Wugu Industrial Park, Taipei County, Taiwan, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

(3) A circular containing an explanatory statement with further details regarding ordinary resolution 4D and a circular containing information on the New Scheme with further details regarding ordinary resolution 4A, in both cases, as required by the GEM Listing Rules will be dispatched together with the annual report for the financial year ended 31 December, 2001 to the shareholders of the Company.