INTCERA High Tech Group Limited

2002 Annual Report

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Board of Directors

Executive Directors

CHENG Qing Bo *(Chairman)*
TUNG Tai Yung *(Chief Executive Officer)*
HU Xue Jun

Non-executive Directors

KING Chun Kong, Karl
HU Shiang-Chi

Independent Non-executive Directors

HUANG Zhi Jia
WU Min

Company Secretary

LEE Ying Biu

Compliance Officer

TUNG Tai Yung

Qualified Accountant

LEUNG Dennis *AICPA, AHKSA*

Audit Committee

HUANG Zhi Jia
WU Min

Authorised Representatives

TUNG Tai Yung
HU Xue Jun

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

Shenzhen Plant
Block B & C, 5/F, Plant 1
Zhenghua Industrial Zone, Heping Road
Longhua Town, Bao An District, Shenzhen, China
Postal Code: 518109

Shanghai Plant
1385 Kang Qiao Road
Shanghai, China
Postal Code: 201315

Legal Advisers

As to Hong Kong Law
Robertsons

As to Taiwan Law
Everlex Law Offices

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
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

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GENERAL BUSINESS OVERVIEW

For the optical network developers and carriers, the recent years have left them in a tricky position. The over-expansion of network infrastructure and capital investment in the technology boom years have left those heavily commitment facing a severe readjustment. In the face of continued technological advancement such as the optical equivalent of integrated circuits, the dilemma is whether to consolidate existing under-utilised services or to reap future benefits from continued technological achievements and efficiency.

Although these uncertain business environment hurt the Group's financial results for the year ended 31 December 2002, the Group has taken stock in closely examining the technology "food chain" and looking at what's in the pipeline for the optical components industry.

In the year 2002, there were perspectives for the Group, that were cost and repositioning.

We believe that the dynamic nature of the network is unstoppable and carriers will be on the lookout to offer a full range of services over a single fibre at low cost. We thus made some very hard decisions to restructure the Group's manpower and moving its production facilities from Taiwan to the People's Republic of China (the "PRC"), where not only costs of production are relatively cheaper, skilled labour were easier sought, giving assurance that the technology yield rate may be maintained.

The relocation of the Group's facility to the PRC also involved turning the immense opportunities in the PRC into profits and growth for the Group. Mainland China is building tomorrow's optical architecture and linking up its various cities. Whilst the networks expand, so will the optical components industry, which are the building blocks of optical networking equipment.

2002 provided the Group with a consolidation period. Whilst customers' demands became stringent, the Group's efforts in solving technological problems for them and reworking on returned goods enhanced the Group's own technology. As a consequence, the Group has a much improved quality assessment programme than ever. This has led the Group to reinforce itself not merely as a ceramic ferrule manufacturer but a technology rights licensor with strategic partners.

TECHNOLOGY IS THE KEY

In the fourth quarter of 2002, the Group successfully secured a non-exclusive, geographically restricted strategic and commercial relationship with Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") under the Technology Rights Agreement (see below) signed with Weiyi.

Weiyi will manufacture ceramic ferrules under the "Intcera" brandname in Shenzhen. In return, the Group will receive a royalty fee of US$2 million over 5 years.

Such strategic relationships not only assist the Group in breaking into identified local markets, it will provide the Group with a stable level income. The Group has taken active initiatives in seeking out a number of other strategic partners and discussions along this direction are ongoing.

FINANCIAL HIGHLIGHTS

The Group had been able to contain its losses amidst severe economic conditions and a period of temporary halt in production in the fourth quarter of 2002 pending relocation. Loss attributable to shareholders for the year ended 31 December 2002 was approximately HK$35.9 million (2001: HK$163.6 million). This was due to the Group's determined and tough cost-cutting measures.

The Group had also been successful in disposing of part of its previously written down assets for HK$13 million in 2002.

In 2002, the Group achieved a significant reduction in its administrative expenses from HK$38.1 million in 2001 down to HK$7 million.

OUTLOOK

For the year 2003, the Group will focus on and relentlessly execute its plan of building:

- building up its Shanghai joint venture facility under tough challenges;
- help Weiyi build up its production base in Shenzhen;
- continue to build strategic and commercial relationships in identified locations in the PRC;
- build up and strengthen its research and development capability;
- build up a market in the PRC; and
- build up its reputation as a technology-strong optic components manufacturer.

LAST BUT NOT LEAST... ...

We wish to personally say a heartfelt thank you to those who have contributed to the stability of the Group. Shareholders who continued to support the Group despite the uncertain economic climate deserves our appreciation. The many talented and diligent management and administrative teams, engineers and operators, we salute our dedication and many personal sacrifices made for the sake of the Company.

Cheng Qing Bo	**Tung Tai Yung**
Chairman	*Chief Executive Officer*

31 March 2003

Financial Highlights

For the year ended 31 December 2002

	2002	2001
	HK$'000	*HK$'000*
Turnover	9,018	27,551
Cost of sales	(29,086)	(23,249)
Gross (loss)/ profit	(20,068)	4,302
Other revenues	566	5,095
Other income	7,338	417
Selling and distribution expenses	(1,467)	(1,759)
Administrative expenses	(7,020)	(38,154)
Other operating expenses	(21,105)	(25,086)
Reversal of impairment of assets	13,000	—
Provisions for impairment of assets	(1,275)	(101,273)
Loss from operations	(30,031)	(156,458)
Finance costs	(5,886)	(7,146)
Loss from ordinary activities before taxation	(35,917)	(163,604)
Taxation	—	—
Loss after taxation	(35,917)	(163,604)
Minority interests	—	9
Net loss for the year attributable to shareholders	(35,917)	(163,595)
Loss per share		
Basic, in cents	(6.28)	(31.57)

INTCERA High Tech Group Limited
(Cayman Islands holding company)

- **OpticonX Inc.**
  (BVI) holding company
  - **Aoptic (BVI) Inc.**
    (BVI) holding company
    - **Optical ConnX Company Limited**
      (HK) manufacturing & trading
  - **Taicera High Tech Co., Ltd.**
    (Taiwan) trading and liaison office
- **Intcera High Tech (BVI) Limited**
  (BVI) holding company
  - **Intcera High Tech (HK) Limited**
    (HK) general trading

INTCERA

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Intcera High Tech Group Limited ("Intcera" or the "Company") was incorporated on 1 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 telecommunications systems, data transmission networks, local area networks and cable television networks. The Group is one of the ten main manufacturers in the world and to be the only manufacturer in China who is capable of producing ceramic blanks and ferrules from ceramic powder.

INTCERA

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MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the year ended 31 December 2002, the Group's total turnover was HK$9,018,000 (2001: HK$27,551,000). The reduction in turnover was mainly attributable to the Group's pursuit for a more consistent yield rate and higher quality products for its customers.

Due to the high level of sales return in the year ended 31 December 2001, the Group had exerted additional labour time and extended its product research and development efforts to ensure a higher product yield rate. This has resulted in a high yield of approximately 90%. The efforts expanded in 2002 succeeded as the percentage of sales return was reduced from 25% in 2001 to 8% in 2002. Unfortunately, as a result of the additional efforts, the production level was also scaled back in 2002 and led to an overall decline in the Group's sales revenue.

Further, due to the slowdown of the global economy and cutback of corporate capital sending around the world, the fibre optic industry experienced another low industry growth year in 2002. Sales prices of various telecommunications and peripheral products dropped further. In 2002, the telecommunications market suffered a slump with an over-expansion of network infrastructure. As a result, network operators are now more conservative about new construction investments. This has affected the fibre optic components manufacturers such as the Group.

As the Group had expanded resources into improved quality assessment methodology and its technology, the Group had been able to utilize its technology know-how as technology rights licence to its strategic partners for royalty income. The Technology Rights Agreement signed between the Company and Weiyi in relation to the grant of the technology rights in the manufacturing of ceramic blanks and ferrules will benefit the Group through a signing fee of US$500,000 and a royalty fee of US$2,000,000 over a period of five years from 1 January 2003 to 31 December 2007. The Group is in discussions with a number of other parties in the PRC on the licensing of its technology rights and further agreements are expected to strengthen the financial position of the Group.

The loss of HK$35,917,000, when compared with that of HK$163,595,000 in 2001, has been contained in the adverse telecommunications industry due to determined and strenuous efforts on the part of the Group. In 2001, the Group recorded a charge in the profit and loss accounts for impairment of assets totalling HK$101,273,000. After this significant provision, Management was able to better assess the costs structure of the Group and achieved a more competitive position in the market. During the year ended 31 December 2002, the Group relentlessly tried to recoup value from these written down assets. The Group entered into an agreement with an independent third party to dispose of certain plant and machinery which had been previously written down to nil net book value as at 31 December 2001, at an aggregate consideration of HK$13,000,000. Accordingly, the Group recognized a reversal of impairment loss in respect of such disposed fixed assets amounting to HK$13,000,000, representing the difference between the net book value of nil and the recoverable amount. In January 2003, the Group entered into another sale and purchase agreement with another independent third party to dispose of certain other plant and machinery at an aggregate consideration of HK$13,000,000.

To compensate for the decrease in sales revenue, the Group took proactive cost-cutting measures. In 2002, the Group achieved a significant reduction in its administrative expenses from HK$38,154,000 in 2001 down to HK$7,020,000. This was the result of the centralization of the Group's operations from various offices to one central location in Hong Kong. This centralization resulted in reduced head counts, more efficient usage of the Group's resources and better negotiating power with its vendors.

Operations

Conscious and determined efforts were put in restructuring the Group's manpower and moving its facilities from Taiwan to China, where the Group may enjoy lower production costs and comparatively greater number of skilled operators. The overall staff cost had decreased by 52% and staff cost constituted 26% of the Group's total operating expenses (2001: 37%). Management expects the level of operating expenses to stabilise in 2003. As part of streamlining the Group's operations and reorganizing its assets, the Group also sought to dispose part of its over-capacity and older generation machinery and equipment.

As a result, the Group recorded a loss attributable to shareholders of HK$35,917,000 (2001: HK$163,595,000). This loss was narrowed by 78% as compared with that of 2001.

Liquidity and Financial Resources

As at 31 December 2002, the Group held cash and cash equivalents of HK$3,439,000 (2001: HK$1,580,000). The increase was largely due to the Group's efforts in realization of assets and stringent cost control measures.

As at 31 December 2002, the Group had an outstanding capital commitment of HK$77,990,000 for capital contribution to a joint venture company.

The gearing ratio of the Group was 36% (2001: 46%) on the basis of total external borrowings divided by total assets .

Management and control of the Group's financing and loan negotiating activities were centralized at the corporate headquarters in Hong Kong.

FOREIGN EXCHANGE EXPOSURE

Management believes that the Group does not have much exposure to fluctuation of foreign exchange rates because the Group has borrowed in local currencies to minimise currency risk.

Capital Structure

As at 31 December 2002, the Company's issued share capital were 602,587,310 ordinary shares of HK$0.01 each (2001:401,724,875 ordinary shares of HK$0.50 each).

CHARGES ON GROUP'S ASSETS

As at 31 December 2002, the secured bank loans and obligations under finance leases were secured by the Group's fixed assets with net book value of HK$Nil (2001: HK$39,148,000) and the bank deposits of HK$ Nil (2001: HK$3,971,000).

Significant Investments

As at 31 December 2002, the Group did not have any significant investments.

Material Acquisitions and Disposals of Subsidiaries

The Company did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year.

Employees

As at 31 December 2002, the Group had 72 full-time employees. The staff costs, including directors' remuneration were approximately HK$15,496,000 (2001: HK$32,446,000). The Group offers a comprehensive remuneration package and benefits to its full time employees, including medical scheme and retirement fund.

CONTINGENT LIABILITIES

At 31 December 2002, the Company had contingent liabilities not provided for in the financial statements as follows:

	2002	2001
	HK$'000	*HK$'000*
Guarantees for bank loans of subsidiaries	—	54,972

At 31 December 2002, the Group had contingent liabilities in respect of the following:

(i) The Company's subsidiary in Taiwan, Taicera High Tech Co., Limited ("Taicera") has been involved in litigation suits in the Taipei District Court since October 2002. With respect to the disclosed actions instituted by two leasing companies totalling NT$32,894,050 (equivalent to approximately HK$7,831,900), one of them has been paid off and settled and the other has agreed to stay its enforcement proceedings against Taicera pending resolution of payment schedule.

(ii) Taicera has received further writ of summons in Taiwan from its bankers for certain claims of repayment. The total indebtedness of Taicera accounted for NT$155,569,067 (equivalent to approximately HK$36,179,000) as at 31 October 2002. Taicera is seeking resolution with its banks to restructure these bank loans whilst Taicera continues to service interest payments whilst other banks are considering taking further security and allowing Taicera time to make payments. The Directors are closely monitoring the Taiwan banking situation and have agreed with its bankers to send its management team to Taiwan to further negotiate on both the litigation and restructuring position by end of April 2003.

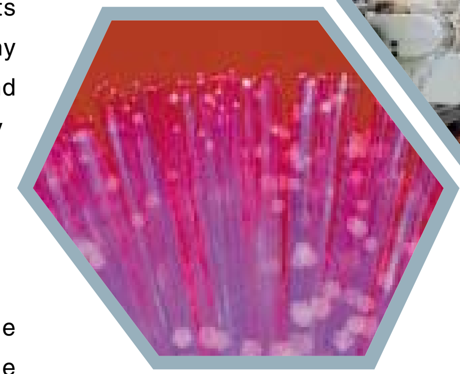
EXPECTED SOURCE OF FUNDING IN COMING YEAR/ FURTHER FINANCING PLANS

During the year ended 31 December 2002 and subsequently, the Directors have taken active measures to improve the liquidity and financial positions of the Group.

(a) With a view to improving cash flows, during the year ended 31 December 2002 and subsequently, the Group implemented an orderly asset disposal programme to dispose of certain identified assets which were surplus to the Group's requirements. On 27 December 2002, the Group entered into an agreement with an independent third party to dispose of certain plant and machinery at an aggregate consideration of HK$13,000,000. The transaction was completed when the fixed assets were delivered to the purchaser subsequent to the balance sheet date. On 15 January 2003, the Company entered into an agreement with another independent third party to dispose of certain plant and machinery at an aggregate consideration of HK$13,000,000.

(b) During the year ended 31 December 2002 and subsequently, the Group completed a number of fund raising transactions. On 31 October 2002, the Company issued convertible bonds (the "Convertible Bonds") with principal amount of HK$27,400,000 which are due and mature on 31 October 2003. On 3 June 2002, the Company completed a rights issue (the "Rights Issue") of 40,172,487 right shares on the basis of one rights share for every ten existing shares held at HK$0.50 per rights share, with 160,689,948 bonus shares issued with the rights shares on the basis of four bonus shares for every fully paid rights share. The net proceeds of the rights issue amounted to approximately HK$19,000,000, of which approximately HK$13,400,000 was applied for the repayment of the Group's borrowings and approximately HK$5,400,000 was used as general working capital for the operations of the Group. On 13 March 2003, 120,500,000 ordinary shares of the Company of HK$0.01 each were placed to 24 investors (who are independent of and not connected with the Directors, chief executive, substantial shareholders or management shareholders of the Company or their respective associates and is not persons mentioned in Note 1 to Rule 10.12(4) of the GEM Lisitng Rules) at a subscription price of HK$0.14 each under a placing agreement dated 20 February 2003. The net proceeds amounted to approximately HK$16,400,000, and would be used as to approximately HK$10,000,000 to finance the research and development of the manufacturing technology in fibre optic components, as to approximately HK$4,000,000 to repay the Group's bank loans and as to approximately HK$2,400,000 as the Group's general working capital.

(c) The Directors have formulated plans to engage in the manufacture and sale of ceramic blanks and ferrules and other related optical components through its newly established joint venture company in Shanghai, the PRC in order to expand the trade and the production capability of the Group in the PRC.



USE OF PROCEEDS

The net proceeds raised from the Rights Issue of the Company, on 3 June 2002 and the Convertible Bonds' issue on 31 October 2002 were approximately HK$19,000,000 and HK$26,300,000 respectively. During the year under review, the Group had utilised the proceeds for various purposes as detailed in the announcements of the Company dated 28 March 2002 and 4 November 2002 respectively.

The net proceeds of approximately HK$16,400,000 raised on 13 March 2003 from a placing of 120,500,000 new shares of HK$0.01 each in the capital of the Company will be used as to approximately HK$10,000,000 for the research and development of the manufacturing technology in fibre optic components, approximately HK$4,000,000 for the repayment of bank loans and approximately HK$2,400,000 for general working capital.

CHANGE IN AUDITORS

PricewaterhouseCoopers resigned as auditors of the Company with effect from 17 March 2003 and the Directors accepted their resignation and have appointed HLB Hodgson Impey Cheng as the Company's auditors to fill the casual vacancy created by the resignation of PricewaterhouseCoopers with effect from 18 March 2003 until the conclusion of the next annual general meeting. The resignation was due to the fact that PricewaterhouseCoopers and the Directors could not reach a consensus on the audit fee for the year ended 31 December 2002. This change of auditors is expected to reduce the Group's audit fee for the year 2002 by 65%. As confirmed by PricewaterhouseCoopers in their notice of resignation, there were no circumstances connected with their resignation that they considered should be brought to the notice of the shareholders or creditors of the Company.

OUTLOOK

Although 2002 has been a difficult year for the Group and the telecommunications industry in general, the Company is cautiously optimistic about the future.

The global telecommunications industry is experiencing a difficult “Nuclear Winter” as termed by the foreigners. This is due to an over-expansion of network infrastructure and capital investment. It, therefore, becomes inevitable as the world’s telecommunications industry is undergoing an aggressive adjustment period.

However, the Group is focusing and accumulating experience in its quality control assessment programme and its technology in ceramic ferrule manufacturing in preparation for the next surge of market upturn.

The Group has signed the Technology Rights Agreement whereby it granted technology rights to its strategic partner in return for payment of royalty fees.

According to the most recent worldwide market forecast report on optical transmitter and receiver communications equipment from Electronic Cast Company, in 2001 the global spending of these products amounted to 4 billion US dollars. Expected annual growth rate is 39% in the next 5 years, which will amount to 20.6 billion US dollars in the year 2006. Market research company ElectroniCast Corp. mentioned in a report earlier that the market growth for planar optical waveguide device would have two digits increase until 2010. It was forecast that by 2010, the total market for this product could reach the level of 4.2 billion US dollars. According to a report titled “The fibre optic and optic cable market in China” composed by the KMI research organization, the production of fibre optic in the PRC would increase at the rate of 27% annually; in 2000 it was 5.8 million fibre-km, and in 2005 it would increase to 16.4 million fibre-km. The prospects for optic communications technology is expected to continue in growth.

As the overall optic communications market progresses, the Group refocuses on the PRC market which is clearly far larger than that of Hong Kong and Taiwan, and the Directors believe that the Group’s direction towards the PRC market will lead to future growth for itself. Through a combination of mature technology and a combined team of experienced professionals from Hong Kong, Taiwan and the PRC, the Directors believe that the positive changes the Group has made during the past year and the generally positive market outlook in the PRC will lead the Group to a brighter future.

Address: @ Comparison of Business Objectives with Actual Business Progress › go

Set out below is a comparison between the Group's actual business progress as at 31 December 2002 and business objectives as set out in its prospectus dated 27 June 2000 (the "Prospectus"):

Business objectives as set out in the prospectus:	Actual business progress as at 31 December 2002:
Research and development	
1. Continue to search for new types of other ceramic powder mixtures from different suppliers;	The search has been suspended whilst the Group decided to focus its efforts in the movement of production facility from Taiwan to the PRC.
2. Improve the yield rate of miniature ceramic ferrules produced by the Group's production facilities in the PRC; and	The commercial production plan has been strategically postponed due to current uncertain market conditions.
3. Decrease the Group's production cost by reducing the ceramic powder usage in manufacture of ceramic ferrules.	The Group had planned this into its production costing.
Production facilities	
1. Complete the sample production of ceramic sleeves at the Group's production facilities in Taiwan;	The Group's Taiwan facility has been closed down to relocate into the PRC. The ceramic sleeves production will suffer a delay for at least one year.
2. Commence the commercial production of ceramic sleeves at the Group's production facilities in Taiwan; and	As stated above.
3. Increase the total production capacity of the Group's production facilities in the PRC plant to approximately 2,600,000 ceramic ferrules per month.	The Group suffered a temporary cessation of production from November 2002 to March 2003 due to its relocation of production facilities.
Sales and marketing	
1. Enlarge the sales and marketing team;	The Group had formed a strategic alliance with Weiyi to help open up sales channels in the PRC.

2.	Appoint more distributors to establish a broader customer base;	The Group had not appointed distributors as such but had formed strategic alliances with various partners in the PRC to help broaden its customer base in the PRC.
3.	Participate in prosfessional trade shows and conferences such as International Conference on Integrated Optics and Optics Fibre Communication;	The Group's representatives have attended the International Optoelectronics Exposition in Taiwan (OPTO Taiwan 2002) in August 2002.
4.	Secure purchase orders for the newly launched sleeves;	The ceramic sleeves project will be delayed for at least one year due to the relocation of the Group's production facilities.
5.	Continue to advertise its products on selective e-commerce websites and publications related to the fibre optics industry; and	The Group's strategy has switched from blanket advertising to active contact with potential and existing customers in order for customers to understand more of the Group's direction.
6.	Visit existing and potential customers and understand their requirements so as to secure more contracts with them.	The Group has been keeping close and active contacts with its customers.

Address: @ Biographical Information of Directors and Senior Management › go

EXECUTIVE DIRECTORS

Mr. CHENG Qing Bo

Aged 40, is the Chairman and an Executive Director of the Group. He joined the Group in June 2002. Mr. Cheng is responsible for overseeing the general management and formulating the strategic plans of the Group. Mr. Cheng is also the chairman of Shenzhen Weiyi Optical Communication Technology Limited and concurrently holding directorships in various other companies, Mr. Cheng holds a master degree in economics from the Zhongnan University of Finance and Economics, and has passed the China United Examination for Certified Public Accountants. He also obtained the Securities Practitioner Certificate. Mr. Cheng has over 15 years of experience in finance, accounting and investment management.

Mr. TUNG Tai Yung

Aged 37, is the 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. HU Xue Jun

Aged 35, was appointed executive Director of the Group in June 2002. Mr. Hu is at the same time the general manager of Shenzhen Weiyi Optical Communication Technology Limited as well as the vice general manager of Shenzhen China Technology Industry Development Co., Ltd. Mr. Hu holds a master degree from the Faculty of Power Automated Control Engineering under Zhongnan Industrial University and obtained the electronics engineer qualification from Shenzhen Municipal Office for Professional Titles Reform. He has over 10 years of experience in industrial operations and investment management.

NON-EXECUTIVE DIRECTORS

Mr. KING Chun Kong, Karl

Aged 36, is a Non-executive Director of the Group. He joined the Group as a member of the supervisory board of Taicera in July 1999. Mr. King 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 42, is a Non-executive Director of the Group. He joined the Group in October 2001. Mr. Hu is also the chairman of ChipCera Technology Co., Ltd., which is an electronic components manufacturer, and the chairman of 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 in Business Administration majored in International Business from National Taiwan University in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HUANG Zhi Jia

Aged 37, was appointed Independent Non-executive Director in January 2003. He is also a division manager of Minsheng Securities Co. Ltd. (China), which is engaged in securities underwriting. In addition, Mr. Huang worked for Beijing Guotu Culture Development Co. Ltd. (China) as a general manager and Yellow River Securities Co. Ltd. (China) as a customer manager in Shenzhen marketing division. Mr. Huang obtained his law degree at the University of Wuhan, the PRC. He has over 5 years of experience in securities investment.

Mr. WU Min

Aged 44, was appointed Independent Non-executive Director in January 2003. He is also the deputy general manager of Afc Technology Company Ltd. (China), which is engaged in lasers industry. In addition, Mr. Wu has served as a deputy director and a director of Municipal Culture Bureau and Press and Publication Bureau in Enshi City, Hubei Province, the PRC. Mr. Wu obtained his degree in economics management from Zhongnan Mingsu Institute in Wuhan City of the PRC. He has over 10 years of experience in manufacturing and management.

SENIOR MANAGEMENT

Mr. HOON Siang Book

Aged 52, 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 of Malaysia, Bangkok of Thailand, and Wuxi in Jiangsu Province of the PRC. 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 33, 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, a solicitor of the Supreme Court of Singapore, a 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 nine years of experience in legal practice.

Mr. SHICK David

Aged 34, is the Vice President, Investor Relations of the Group and joined the Group in September 2002. Mr. Shick was formerly the chairman and chief executive officer of T2mail Pte Ltd., an Internet based communications company funded by top tier venture capitalists in the region. Prior to that he was the expatriate regional manager and the head of Asian Banking for Canadian Imperial Bank of Commerce (CIBC) based in Taipei, Taiwan, where he worked for 4 years. Mr. Shick started his banking career with CIBC in Vancouver, Canada, in 1990. There, he held various senior management positions as a regional manager of Asian Banking for the British Columbia region in which he was responsible for the Asian business portfolio of more than C$3.5 billion. He was also previously the president of Richmond Asia Pacific Business Association, one of Vancouver's premier non-profit organizations. Mr. Shick holds a bachelor degree in business administration from Simon Fraser University in Canada and a master degree in business administration from Fuqua School of Business, Duke University in the United States of America.

Mr. LEUNG Dennis

Aged 36, is the Financial Controller of the Group and joined the Group in November 2002. Mr. Leung started his professional career in North America after graduation in 1988. He joined Arthur Andersen & Co. in 1993 when he migrated back to Hong Kong. He had over 14 years of professional experience serving clients in high tech engineering, banking, securities dealing and manufacturing industries. Mr. Leung later became the chief operating officer of a multi-national IT consulting firm prior to joining the Group. He is an associate member of the Hong Kong Society of Accountants and a member of the America Institute of Certified Public Accountants.

Address: @ Report of the Directors › go

The Directors are pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2002.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

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 4 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 40 of this annual report.

No interim dividend was paid during the year (2001: Nil). The directors do not recommend the payment of any final dividend for the year ended 31 December 2002 (2001: Nil).

Share capital

Details of share capital and share options of the Company are set out in notes 28 and 13b to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

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. In the opinion of the Directors at 31 December 2002, the Company's reserves available for distribution to shareholders amounted to approximately HK$152,353,000, representing the aggregate of share premium of approximately HK$46,306,000 and accumulated profits of approximately HK$106,047,000. (distributable reserves as at 31 December 2001: Nil).

Five-Year Financial Summary

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2002:

	2002 *HK$'000*	2001 *HK$'000*	2000 *HK$'000*	1999 *HK$'000*	1998 *HK$'000*
Turnover	9,018	27,551	37,006	205	—
Net loss attributable to shareholders	(35,917)	(163,595)	(26,317)	(18,508)	(5,879)
Total assets	186,598	249,502	371,279	156,881	84,413
Total liabilities	(84,849)	(128,577)	(85,668)	(45,797)	(27,371)
Minority interests	—	—	(9)	(244)	(12)
Net assets	101,749	120,925	285,602	110,840	57,030

Purchases, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2002.

Pre-emptive rights

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

Donations

There are no charitable and other donations made by the Group during the year (2001: HK$6,500).

Fixed assets

Details of movements in fixed assets of the Group during the year are set out in note 15 to the financial statements.

Staff retirement benefits

Details of staff retirement benefits are set out in note 13a to the financial statements.

Borrowings

Details of the Group's borrowings are set out in notes 25, 26, 27 and 32 to the financial statements.

Share option scheme

The employee share option scheme was approved by the shareholders at an extraordinary general meeting on 21 June 2000 (the "Old Scheme"). The share options are exercisable at any time during a period of ten years from the date of grant.

Due to amendments to Chapter 23 of the GEM Listing Rules, on 29 April 2002, the Company terminated the Old Scheme and adopted a new share option scheme (the "New Scheme") which complied with the amended Chapter 23 of the GEM Listing Rules. No further options would be offered under the Old Scheme but the Old Scheme would remain in force to the extent necessary to give effect to the exercise of the existing share options (the "Existing Options"). The Existing Options will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

Under the New Scheme, the Directors are authorised to grant share options of up to 10% of the issued share capital of the Company and 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 under the Old Scheme and no options had been granted under the New Scheme.

Details of the Old Scheme are as follows:

1.	Purpose of the Old Scheme	As incentive to employees
2.	Participants of the Old Scheme	Any full-time employee and/or any director of any member of the Group as the Directors may determine
3.	Total number of shares available for issue under the Old Scheme and their percentage on issued share capital at 31 December 2002	41,375,616 shares (6.87%)
4.	Maximum entitlement of each participant under the Old Scheme	10% 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 the Old Scheme	From date of grant to 20 June 2010
6.	The minimum 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 per grant is required to be paid within three business days of the date of offer
8.	The basis of determining the exercise price	The exercise price is determined by the Directors as being not less than the greater of: (a) the 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 Old Scheme	The Scheme period will end on 20 June 2010

Details of the share options outstanding as at 31 December 2002 which have been granted under the Old Scheme are as follow:

	Options held at 1 January 2002	Additional entitlement of Options adjusted after the Rights Issue *(Note 1)*	Options lapsed during the year	Options held at 31 December 2002	Adjusted exercise price HK$ *(Note 1)*	Grant date
Executive Directors						
Mr. Shih Wen Hao	2,000,000	1,000,000	3,000,000	—	0.731	20 July 2000
(Note 2)	1,500,000	750,000	2,250,000	—	0.500	10 July 2001
Mr. King Chun Kong, Karl	1,500,000	750,000	—	2,250,000	0.789	10 October 2000
	1,500,000	750,000	—	2,250,000	0. 500	10 July 2001
Mr. Tung Tai Yung	400,000	200,000	—	600,000	0.731	20 July 2000
Non-executive Directors						
Mr. Koh Tat Lee *(Note 3)*	10,000,000	—	10,000,000	—	0.731	20 July 2000
	10,000,000	—	10,000,000	—	0.500	10 July 2001
Continuous contracted employees	14,570,000	14,755,000	18,585,000	10,740,000	0.731	20 July 2000
	7,060,000	2,860,000	1,790,000	8,130,000	0.789	10 October 2000
	1,663,744	831,872	90,000	2,405,616	0.738	22 April 2001
	10,000,000	5,000,000	—	15,000,000	0. 50	10 July 2001

Notes:

1. The number of share options and exercise prices for each Director and employees of the Company had been adjusted for the Rights Issue with effect from 13 May 2002.

2. Pursuant to the rules of the Company's Old Scheme, the share options held by Mr. Shih Wen Hao were lapsed on 18 November 2002 (i.e. 3 months immediately after his resignation as executive director of the Company on 19 August 2002).

3. All share options held by Mr. Koh Tat Lee were lapsed on 31 January 2002.

Valuation of share options

The options granted to the Directors and employees of the Company are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of the share options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on such great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Directors

The Directors during the financial year and subsequently were:

Executive Directors

Mr. Cheng Qing Bo	(appointed on 18 June 2002)
Mr. Tung Tai Yung	
Mr. Hu Xue Jun	(appointed on 18 June 2002)
Mr. King Chun Kong, Karl	(resigned on 28 August 2002)
Mr. Hu Shiang-Chi	(resigned on 28 August 2002)
Mr. Shih Wen Hao	(resigned on 19 August 2002)

Non-executive Directors

Mr. King Chun Kong, Karl	(appointed on 28 August 2002)
Mr. Hu Shiang-Chi	(appointed on 28 August 2002)
Mr. Cheng Cheng Pin	(resigned on 10 May 2002)
Mr. Koh Tat Lee	(resigned on 16 December 2002)

Independent Non-executive Directors

Mr. Wu Min	(appointed on 24 January 2003)
Mr. Huang Zhi Jia	(appointed on 24 January 2003)
Mr. Chen Domingo	(resigned on 1 January 2003)
Mr. Goldstein Henry R.	(resigned on 1 January 2003)

In accordance with Article 87 of the Company's Articles of Association, Mr. King Chun Kong, Karl and Mr. Hu Shiang-Chi retire and, being eligible, offer themselves for re-election in the upcoming annual general meeting of the Company.

Directors' service contracts

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in contracts

Except for the transactions as disclosed in note 31 to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors 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.

Directors' interests in securities

As at 31 December 2002, the interests of the Directors and their respective associates in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance, or as otherwise notified to the Company and the Stock Exchange under Rule 5.40 of the GEM Listing Rules, were as follows:

	Number of shares in the Company				
Name	**Personal interests**	**Family interests**	**Corporate interests**	**Total interests**	**Percentage of issued share capital** *(Note 2)*
Mr. Tung Tai Yung	33,637,500	—	156,759,935 *(Note 1)*	190,397,435	31.60%
Mr. King Chun Kong, Karl	5,500,000	—	—	—	0.91%

Notes:

1. These shares are held by Taiping Enterprises Co., Ltd. ("Taiping"), a company (limited by shares) incorporated in Taiwan and Mamcol Taiwan Company Limited ("Mamcol"), a subsidiary of Taiping. 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.

2. The percentage of issued share capital has been arrived at on the basis of a total of 602,587,310 shares of the Company in issue as at 31 December 2002.

Save as disclosed above, as at 31 December 2002, none of the Directors or chief executive had any interests in the shares of the Company and its associated corporations (within the meaning of the SDI Ordinance), and none of the Directors or their spouses or children under eighteen years of age had any rights to subscribe for equity or debt securities of the Company, or had exercised any such rights during the year ended 31 December 2002.

Directors' and chief executive's right to subscribe for equity or debt securities

Share options are granted to the Directors under the Old Scheme. Please refer to details under the paragraph headed "Share option scheme" above.

Save as disclosed above, at no time during the year ended 31 December 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate.

Substantial shareholders

As at 31 December 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, showed that the Company has been notified of the following substantial shareholders' interests, being ten percent or more of the issued share capital of the Company, other than those of the Directors as disclosed above.

Name of shareholder	**Number of shares held**	**Percentage of issued share capital** *(Note 2)*
Taiping Enterprise Co., Ltd	156,759,935 *(Note 1)*	26.01%

Notes

1. These shares are held as to 156,017,435 shares directly by Taiping and as to 742,500 shares through Mamcol which is a subsidiary of Taiping. The entire issued share capital of Taiping is held as to approximately 28.8% by Mr. Tung and 45.9% by his family members.

2. The percentage of issued share capital has been arrived at on the basis of a total of 602,587,310 shares of the Company in issue as at 31 December 2002.

Management contracts

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

Connected transactions

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

i. 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. The aggregate insurance premium paid by the Group to Taiping Insurance Company Limited amounted to approximately HK$172,000 for the year ended 31 December 2002.

ii. In accordance with the Technology Rights Agreement entered into between the Company and Weiyi, the Group has recognised a non-refundable signing fee of US$500,000 (equivalent to approximately HK$3,900,000) in the income statement for the year ended 31 December 2002. Weiyi is a limited liability company established in Shenzhen, the PRC and wholly and beneficially owned by Mr. Cheng Qing Bo, the Chairman and an executive director of the Company. At 31 December 2002, the Group has received HK$800,000 as partial payment of the non-refundable signing fee, and the remaining balance of approximately HK$3,100,000 has been included under current assets in the Group's balance sheet as at 31 December 2002, which was subsequently received by the Group on 4 March 2003. Further details of the above transaction are disclosed in note 21 to the financial statements.

iii. The Group has various loan facilities in Taiwan of approximately HK$67,000,000 that were jointly and severally guaranteed by 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.

iv. During the year, the Company was granted a standby loan facility by a shareholder of the Company, Mr. Tung Tai Yung. The loan could be drawn down at any time upon the request by the Company up to a maximum sum of HK$28,000,000. The loan was interest bearing at 4.875% per annum which was waived by Mr. Tung Tai Yung for the year ended 31 December 2002. The loan would not be required to be repaid by the Company earlier than 30 June 2003.

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

Major customers and suppliers

The information in respect of the Group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	Percentage of the Group's total	
	Turnover	**Purchases**
The largest customer	30%	—
Five largest customers in aggregate	95%	—
The largest supplier	—	25%
Five largest suppliers in aggregate	—	58%

At no time during the year have the Directors, their respective associates and any shareholder of the Company (who to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers and suppliers of the Group.

Competing interests

The Directors are not aware of, as at 31 December 2002, any business or interest of each of the Directors, management shareholders (as defined in the GEM Listing Rules) and their respective associates that competes or may compete with the business of the Group or any other conflicts of interest which any such person has or may have with 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 31 December 2002.

Pursuant to the sponsorship agreement entered into between the Company and Shenyin Wanguo Capital on 11 September 2001, Shenyin Wanguo Capital was appointed as sponsor of the Company for the period ended 31 December 2002 and the Company has agreed to pay Shenyin Wanguo Capital for its provision of services.

Compliance with the Board Practices and Procedures

In the opinion of the Directors, 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 the listing of the Company's shares on GEM on 7 July 2000, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

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's 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. Huang Zhi Jia and Mr. Wu Min. The audit committee has met four times during the year.

Auditors

HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of PricewaterhouseCoopers with effect from 18 March 2003. There had been no other changes of the Company's auditors in the past three years.

A resolution for the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Mr. Tung Tai Yung
Chief Executive Officer

Hong Kong, 21 March 2003

Address:

Auditors' Report

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HLB 鄭國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

6th Floor, Wheelock House
20 Pedder Street
Central
Hong Kong

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

We have audited the financial statements on pages 40 to 74 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 financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

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

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As explained in note 2 to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to return to normal and profitable operational activity and the agreement of its bankers and other financial institutions to extend the repayment dates of the Group's borrowings. The financial statements 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.

Opinion

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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 21 March 2003

Address: @ Financial Statements › go

Consolidated Income Statement

For the year ended 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	4	9,018	27,551
Cost of sales		(29,086)	(23,249)
Gross (loss)/ profit		(20,068)	4,302
Other revenues	4	566	5,095
Other income	5	7,338	417
Selling and distribution expenses		(1,467)	(1,759)
Administrative expenses		(7,020)	(38,154)
Other operating expenses		(21,105)	(25,086)
Reversal of impairment of assets	6(a)	13,000	—
Provisions for impairment of assets	6(b)	(1,275)	(101,273)
Loss from operations	5	(30,031)	(156,458)
Finance costs	5	(5,886)	(7,146)
Loss from ordinary activities before taxation		(35,917)	(163,604)
Taxation	7	—	—
Loss after taxation		(35,917)	(163,604)
Minority interests		—	9
Net loss for the year attributable to shareholders	8, 29	(35,917)	(163,595)
Loss per share			
Basic, in cents	10	(6.28)	(31.57)

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
Total equity as at 1 January	*28,29*	120,925	285,602
Exchange differences arising on translation of financial statements of a foreign subsidiary	*29*	(2,118)	(1,585)
Gross proceeds from Rights Issue	*28*	20,086	—
Share issue expenses	*29*	(1,227)	—
Goodwill released from reserves		—	503
Net loss for the year	*29*	(35,917)	(163,595)
Total equity as at 31 December	*28,29*	101,749	120,925

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Intangible assets	14	—	—
Fixed assets	15	81,559	134,718
Long-term investments	17	830	854
Long-term rental deposits		676	666
Long-term pledged bank deposits	22	—	3,971
		83,065	140,209
Current assets			
Fixed assets held for resale		72,720	—
Inventories	19	9,604	9,884
Trade and note receivables	20	1,409	830
Non-refundable signing fee receivable in respect of the Technology Rights Agreement	21	3,100	—
Other receivables, deposits and prepayments		11,895	11,691
Other short-term investments	18	—	7,702
Pledged bank deposits	22	26	71,030
Bank balances and cash	22	4,779	8,156
		103,533	109,293
***Less:* Current liabilities**			
Trade and note payables	23	777	1,195
Other payables and accrued charges	24	16,083	5,591
Commercial paper	25	1,340	6,576
Convertible bonds	26	27,400	—
Obligations under finance leases	27	4,332	13,167
Current portion of long-term bank loans	27		
— secured		7,359	6,386
— unsecured		12,031	2,131
Short-term bank loans			
— secured	32	—	71,916
— unsecured		11,800	11,057
		81,122	118,019
Net current assets/(liabilities)		22,411	(8,726)
Total assets less current liabilities		105,476	131,483
***Less:* Non-current liabilities**			
Long-term borrowings	27	3,727	10,558
Net assets		101,749	120,925
Capital and reserves			
Share capital	28	6,026	200,862
Reserves	29	95,723	(79,937)
		101,749	120,925

Approved by the Board of Directors on 21 March 2003 and signed on behalf of the Board by:

Tung Tai Yung	**Hu Xue Jun**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Fixed assets	15	301	617
Investments in subsidiaries	16	176,228	153,650
		176,529	154,267
Current assets			
Other receivables, deposits and prepayments		9,514	168
Bank balances and cash		3,975	3,881
		13,489	4,049
***Less:* Current liabilities**			
Other payables and accrued charges		4,239	1,469
Convertible bonds	26	27,400	—
		31,639	1,469
Net current (liabilities)/assets		(18,150)	2,580
Net assets		158,379	156,847
Capital and reserves			
Share capital	28	6,026	200,862
Reserves	29	152,353	(44,015)
		158,379	156,847

Approved by the Board of Directors on 21 March 2003 and signed on behalf of the Board by:

Tung Tai Yung
Director

Hu Xue Jun
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
Net cash used in operating activities	30(a)	(23,809)	(48,732)
Cash flows from investing activities			
Purchase of fixed assets		(28,945)	(68,298)
Sale of fixed assets		3,032	1,571
Purchase of long-term investments		—	(854)
Sale of long-term investments		10	—
Purchase of other short-term investments		(10,609)	(3,385)
Sale of other short-term investments		20,077	5,235
Net cash used in investing activities		(16,435)	(65,731)
Cash flows from financing activities			
Net decrease/(increase) in pledged bank deposits		74,975	(24,474)
Net (decrease)/increase in bank loans		(65,070)	60,072
Net proceeds from issue of ordinary shares		18,859	—
Capital element of finance leases payments		(10,896)	(21,268)
Issue of convertible bonds		27,400	—
Net cash from financing activities		45,268	14,330
Increase/(decrease) in cash and cash equivalents		5,024	(100,133)
Cash and cash equivalents at 1 January		1,580	100,179
Effect of foreign exchange rate changes		(3,165)	1,534
Cash and cash equivalents at 31 December		3,439	1,580
Analysis of balances of cash and cash equivalents			
Bank balances and cash		4,779	8,156
Less: Commercial paper		(1,340)	(6,576)
		3,439	1,580

Certain items have been reclassified to conform with the presentation as required by Statement of Standard Accounting Practice 15 (revised).

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

During the year ended 31 December 2002, the Group sustained a net loss attributable to shareholders of approximately HK$35,917,000.

As at 31 December 2002, the Group had bank loans of approximately HK$34,917,000 and finance lease liabilities of approximately HK$4,332,000. During the year ended 31 December 2002, certain of the Group's bankers and financial institutions have instigated legal proceedings to demand repayment of the loans together with accrued interest thereon, further details of which are set out in note 34 to the financial statements. The Group is currently negotiating with its bankers and other financial institutions which provide credit facilities to the Group to reschedule the Group's indebtedness, although up to the date of approval of these financial statements, no formal arrangements have yet been concluded.

During the year ended 31 December 2002 and subsequently, the directors have taken active measures to improve the liquidity and financial position of the Group. The directors have prepared the financial statements on a going concern basis, having regard to the following:

(a) With a view to improving cash flows, during the year ended 31 December 2002 and subsequently, the Group implemented an orderly asset disposal programme to dispose of certain identified assets which were surplus to the Group's requirements. On 27 December 2002, the Group entered into an agreement with an independent third party to dispose of certain plant and machinery at an aggregate consideration of HK$13,000,000. The transaction was completed when the fixed assets were delivered to the purchaser subsequent to the balance sheet date. On 15 January 2003, the Company entered into an agreement with another independent third party to dispose of certain plant and machinery at an aggregate consideration of HK$13,000,000.

(b) During the year ended 31 December 2002 and subsequently, the Group completed a number of fund raising transactions. On 3 June 2002, the Company completed a Rights Issue of 40,172,487 shares of HK$0.50 each on the basis of one rights share for every ten then existing shares held at HK$0.50 per rights share, with 160,689,948 bonus shares issued with the rights shares on the basis of four bonus shares for every fully paid rights share. The net proceeds of the Rights Issue amounted to approximately HK$18,800,000, of which approximately HK$13,400,000 was applied for the repayment of the Group's borrowings and approximately HK$5,400,000 was used as general working capital for the operations of the Group. On 31 October 2002 the Company issued convertible bonds with principal amount of HK$27,400,000 which are due and mature on 31 October 2003. On 13 March 2003, 120,500,000 ordinary shares of the Company of HK$0.01 each were placed to 24 investors who are independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company or their respective associates (as defined in note 1 to Rule 10.12(4) of the GEM Listing Rules) at a price of HK$0.14 each under a placing agreement dated 20 February 2003. The net proceeds amounted to approximately HK$16,400,000, and would be used as to approximately HK$10,000,000 to finance the research and development of the manufacturing technology in fiber optic components, as to approximately HK$4,000,000 to repay the Group's bank loans and as to approximately HK$2,400,000 as the Group's general working capital.

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

(c) The directors have formulated plans to engage in the manufacture and sale of ceramic blanks and ferrules and other related optical components through its newly established joint venture company in Shanghai, the People's Republic of China ("PRC") in order to expand the trade and the production capability of the Group in the PRC.

(d) The Group has been in discussion with a number of parties in the PRC on licensing of its technology rights, which is a long-term business objective to share the Group's technical know-how with strategic partners to exploit greater PRC market share by focusing on technology development. On 29 December 2002, the Company entered into the Technology Rights Agreement with Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") in relation to the grant of the right by the Company to Weiyi to use the technology in the manufacturing of ceramic blanks and ferrules in Shenzhen, the PRC. Pursuant to the Technology Rights Agreement, the aggregate consideration payable by Weiyi amounted to US$2,500,000, comprising a non-refundable signing fee of US$500,000 (equivalent to approximately HK$3,900,000) and a royalty fee of US$2,000,000 (equivalent to approximately HK$15,600,000) receivable by the Group over a period of five years from 1 January 2003 to 31 December 2007. The receipt of such sums is expected to strengthen the financial position of the Group.

The directors are of the view that the above measures will enable the Group to continue as a going concern and that the Group will have sufficient working capital for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. However, if these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable provisions 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").

In the current year, the Group adopted the following SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The effects of adopting these new SSAPs and a summary of the principal accounting policies followed by the Group in the preparation of the financial statements are set out below:

a. Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in note 3(g) below.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital or controls the composition of the board of directors or equivalent governing body.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 identifiable assets and liabilities 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 income statement, as further explained in note 3(d) below.

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, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c. 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 29 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

d. Intangibles

i. Goodwill

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

Goodwill on acquisitions that occurred prior to 1 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 five 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 five 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

e. Fixed assets and depreciation

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 income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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 income statement.

f. 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 income statement over the lease periods.

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 income statement on a straight-line basis over the lease periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g. 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 income statement. This impairment loss is written back to the income statement 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 income statement. Provision is made when there is a diminution in value other than temporary.

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 income statement 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 income statement. Profits or losses on disposals of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

h. Fixed assets held for resale

Fixed assets held for resale are stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the fixed assets.

i. Inventories

Inventories comprise stocks of raw materials and finished goods 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.

j. 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.

k. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset, including goodwill previously written off against reserves, exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

l. Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

m. 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 income statement.

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

n. Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) 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.

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

(iii) Dividend income is recognised when the shareholder's right to receive payment is established.

o. 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 which form an integral part of the Group's cash management.

p. Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed.

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 financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

q. Contingencies

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

r. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

s. 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 income statement in the year in which they are incurred.

t. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

u. 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

v. Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are settled at their present values.

(ii) The Group participates in the mandatory provident fund for its employees in Hong Kong. Contributions to the fund by the Group and the employees are calculated as a percentage of the employees' basic salaries. The retirement benefit cost charged to the income statement 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.

The subsidiary in Taiwan operated a defined benefit scheme for all of its employees. Contributions were charged to the income statement. The contributions were 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 were determined annually by a qualified actuary using the projected unit credit cost method. The assets of the scheme were held separately from those of the Group, being invested through a financial institution owned by the government of Taiwan.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of ceramic blanks and ferrules. Turnover represents sale of goods by the Group to outside customers at invoiced value net of discounts, business tax and returns and after eliminating inter-company sales. Revenues recognised during the year are as follows:

	2002 *HK$'000*	2001 *HK$'000*
Turnover:		
Sales of goods, net of discounts and business tax	9,813	38,173
Sales returns	(795)	(10,622)
	9,018	27,551
Other revenues:		
Interest income	435	4,851
Dividend income from listed investments	23	—
Sundry income	108	244
	566	5,095
Total revenues	9,584	32,646

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

	Turnover		Total assets		Capital expenditure	
	2002 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	2001 *HK$'000*
Taiwan	2,973	14,294	35,639	100,711	3,048	30,165
PRC	1,515	6,576	54,946	58,692	25,843	62,849
Hong Kong	4,392	—	96,013	90,099	54	247
Europe	138	6,681	—	—	—	—
	9,018	27,551	186,598	249,502	28,945	93,261

For the year ended 31 December 2002

5. LOSS FROM OPERATIONS

Other income:

	2002 *HK$'000*	2001 *HK$'000*
Gain on sale of other short-term investments	1,743	122
Net exchange gain	1,695	—
Non-refundable signing fee in respect of the Technology Rights Agreement	3,900	—
Unrealised gain on other short-term investments	—	295
	7,338	417

Loss from operations is stated after charging:

	2002 *HK$'000*	2001 *HK$'000*
Auditors' remuneration	298	585
Amortisation of intangible assets (included in administrative expenses)	—	5,512
Depreciation:		
— owned fixed assets	17,410	16,848
— leased fixed assets	1,668	4,347
Loss on disposal of fixed assets	1,321	998
Net exchange loss	—	2,378
Operating lease rentals in respect of land and buildings	2,235	2,867
Staff costs (including directors' remuneration)	15,496	32,446
Retirement benefit costs	16	808
Research and development costs	158	793

Finance costs:

	2002 *HK$'000*	2001 *HK$'000*
Interest on bank loans and overdrafts		
— wholly repayable within five years	5,293	5,268
Interest element of finance leases	593	1,878
	5,886	7,146

For the year ended 31 December 2002

6a. REVERSAL OF IMPAIRMENT OF ASSETS

During the year ended 31 December 2002, the Group entered into an agreement dated 27 December 2002 with an independent third party to dispose of certain plant and machinery which had been previously written down to nil net book value as at 31 December 2001, at an aggregate consideration of HK$13,000,000. The transaction was completed when the fixed assets were delivered to the purchaser subsequent to the balance sheet date. The directors considered that the recoverable amount of these fixed assets as at 31 December 2002 was equal to their aggregate net selling price as stipulated in the agreement, and the transaction constituted an adjusting post balance sheet event indicating that the previously recognised impairment loss on these fixed assets had ceased to exist as at 31 December 2002. Accordingly the Group recognised a reversal of impairment loss in respect of such disposed fixed assets amounting to HK$13,000,000, representing the difference between the net book value of nil and the recoverable amount.

6b. PROVISIONS FOR IMPAIRMENT OF ASSETS

	2002	2001
	HK$'000	*HK$'000*
Impairment of fixed assets	—	50,428
Impairment of intangible assets	—	13,305
Impairment of goodwill	—	503
Write-off of inventories	—	26,631
Provision for inventories	1,275	—
Provision for doubtful debts	—	6,742
Forfeiture of purchase deposit for fixed assets	—	3,664
	1,275	101,273

7. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit arising in Hong Kong for the year (2001: Nil).

No provision for overseas taxation has been made in the financial statements as the Group has no assessable profit in Taiwan for the year. The subsidiary in Taiwan was granted a tax holiday since commencing operations from 1 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.

No provision for deferred taxation has been made as the Group and the Company have no material potential liabilities arising on timing differences at the balance sheet dates. The potential deferred tax liabilities/ (assets) which have not been recognised in the financial statements are as follows:

	Group		**Company**	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accelerated/(decelerated) depreciation allowance	8,292	9,249	(153)	(120)
Taxation losses	(47,640)	(50,552)	(1,183)	(3,746)
	(39,348)	(41,303)	(1,336)	(3,866)

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of approximately HK$17,327,000 (2001: HK$168,881,000) which has been dealt with in the financial statements of the Company.

9. DIVIDEND

No interim dividend was paid during the year (2001: Nil). The directors do not recommend the payment of any final dividend for the year (2001: Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to the shareholders of approximately HK$35,917,000 (2001: HK$163,595,000) and the weighted average number of 572,078,233 (2001: 518,225,089) ordinary shares in issue during the year. The weighted average number of shares outstanding for 2001 has been retrospectively adjusted for the effects of the Rights Issue and the Bonus Issue on 3 June 2002.

No diluted loss per share has been presented because the exercise of the outstanding potential ordinary shares would have an anti-dilutive effect for the years ended 31 December 2002 and 2001.

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 *HK$'000*	2001 *HK$'000*
Fees	726	998
Basic salaries, housing allowances, other allowances and benefits-in-kind	802	2,999
Retirement scheme contributions	11	69
Compensation for loss of office as director paid by the Company	—	882
	1,539	4,948

Each of the two independent non-executive directors received a director fee of HK$120,000 for the year ended 31 December 2002 (2001: HK$195,000).

The executive and non-executive directors received individual emoluments for the year ended 31 December 2002 of approximately HK$Nil (2001: HK$2,510,000), HK$333,000 (2001: HK$680,000), HK$352,000 (2001: HK$815,000), HK$204,000 (2001: HK$247,000), HK$274,000 (2001: HK$137,000), HK$34,000 (2001: HK$113,000), HK$51,000 (2001: HK$Nil), HK$51,000 (2001: HK$Nil) and HK$Nil (2001: HK$56,000). Two of the executive directors resigned and were appointed as non-executive directors during the year ended 31 December 2002.

11. DIRECTORS' REMUNERATION *(Continued)*

Details of the share options granted to the directors under the Company's Employee Share Option Scheme, and details of the share options lapsed during the year are disclosed in the Directors' Report.

There were no arrangements under which the directors have waived or agreed to waive any emoluments. No emoluments were paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2002.

12. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2002 include nil (2001: one) director whose emoluments have been disclosed in note 11 above. The emoluments payable to the remaining five (2001: four) highest paid, non-director individuals during the year are as follows:

	2002 *HK$'000*	2001 *HK$'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	2,580	4,211
Retirement scheme contributions	79	159
Compensation for loss of office	—	250
	2,659	4,620

The emoluments fell within the following bands:

	2002	2001
	Number of individuals	
HK$ Nil - HK$1,000,000	5	2
HK$1,000,001 - HK$1,500,000	—	2
	5	4

No emoluments were paid by the Group to the respective five highest paid employees, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2002.

13a. RETIREMENT BENEFIT COSTS

The latest actuarial valuation at 31 December 2001 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 was valued at 31 December 2001 using the following principal assumptions: average annual investment return of 4% and average annual increase in compensation rate of 3%. The latest actuarial valuation completed on 31 December 2001 indicated that the scheme's assets at market value and pension cost as at 31 December 2001 amounted to HK$915,000 and HK$380,000 respectively, resulting in a funding surplus of HK$535,000. The scheme's assets covered 241% of the benefits, allowing for future increases in earnings, which had been accrued to members.

At 31 December 2002, the Taiwan subsidiary's retirement scheme has been curtailed and settled when the Taiwan subsidiary lay off all the staff covered by the retirement scheme and the obligation under the retirement scheme has been settled during the year. Since the Group has settled all its obligations under the retirement scheme, there was no liability recognised in the Group's balance sheet as at 31 December 2002. The Group has taken advantage of the transitional provisions under SSAP 34 and the 2001 comparative figures are not restated in this respect.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group in an independently administered fund.

During the year, benefits forfeited in accordance with the schemes' rules amounted to approximately HK$137,000 which have been applied towards the voluntary contributions payable by the Group amounted to approximately HK$153,000, thereby reducing the retirements benefits costs to approximately HK$16,000.

13b. SHARE OPTION SCHEME

The Company has an employee share option scheme which was approved by the shareholders at an extraordinary general meeting on 21 June 2000, whereby the directors of the Company are authorised, at their discretion, to invite full time employees of the Group, including executive directors, to take up options to subscribe for shares of the Company. The exercise price of the options is determined by the directors and is the highest of (a) the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant; (b) the average closing price of the shares on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The options vest immediately upon grant, and are exercisable from the date of grant to the end of the scheme period ending on 20 June 2010. Each option gives the holder the right to subscribe for one share.

13b. SHARE OPTION SCHEME *(Continued)*

Movements in the share options during the year are as follows:

	2002 *Number*	2001 *Number*
Options vested at 1 January	60,193,744	38,845,000
Issued	—	24,762,488
Adjusted as a result of Rights Issue	26,896,872	—
Exercised	—	—
Lapsed	(45,715,000)	(3,413,744)
Options vested at 31 December	41,375,616	60,193,744

Details of the share options granted during the year ended 31 December 2001, all of which were granted for consideration of HK$1 per grant, are as follows:

Exercise period	**Exercise price**	2002 Number	2001 Number
22 April 2001 to 21 April 2011	HK$0.738	—	1,762,488
10 July 2001 to 9 July 2011	HK$0.500	—	23,000,000
		—	24,762,488

The terms of the outstanding share options at the balance sheet date are as follows:

Exercise period	**Exercise price**	2002 Number	2001 Number
20 July 2000 to 19 July 2010	HK$0.731	11,340,000	26,970,000
10 October 2000 to 9 October 2010	HK$0.789	10,380,000	8,560,000
22 April 2001 to 21 April 2011	HK$0.738	2,405,616	1,663,744
10 July 2001 to 9 July 2011	HK$0.500	17,250,000	23,000,000
		41,375,616	60,193,744

The exercise in full of the outstanding vested options would have, with the capital structure of the Company as at 31 December 2002, resulted in the issue of additional 41,375,616 shares.

14. INTANGIBLE ASSETS

	2002 HK$'000	2001 HK$'000
Technological know-how		
At cost:		
At 1 January and 31 December	25,168	25,168
Accumulated amortisation:		
At 1 January	25,168	6,351
Charge for the year	—	5,512
Impairment charge	—	13,305
At 31 December	25,168	25,168
Net book value at 31 December	—	—

15. FIXED ASSETS

Group	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:					
At 1 January 2002	1,213	204,400	9,138	614	215,365
Exchange adjustment	—	2,130	103	9	2,242
Additions	31	28,824	90	—	28,945
Disposals/ transfers	—	(136,047)	(2,546)	(623)	(139,216)
At 31 December 2002	1,244	99,307	6,785	—	107,336
Accumulated depreciation:					
At 1 January 2002	1,213	76,692	2,497	245	80,647
Exchange adjustment	—	1,155	35	5	1,195
Charge for the year	15	17,186	1,800	77	19,078
Disposals/ transfers	—	(73,603)	(1,213)	(327)	(75,143)
At 31 December 2002	1,228	21,430	3,119	—	25,777
Net book value:					
At 31 December 2002	16	77,877	3,666	—	81,559
At 31 December 2001	—	127,708	6,641	369	134,718

15. FIXED ASSETS *(Continued)*

Company	Leasehold improvements	Furniture, fixtures and office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
At 1 January 2002	1,213	1,245	2,458
Additions	—	9	9
Disposals	—	(502)	(502)
At 31 December 2002	1,213	752	1,965
Accumulated depreciation:			
At 1 January 2002	1,213	628	1,841
Charge for the year	—	212	212
Disposals	—	(389)	(389)
At 31 December 2002	1,213	451	1,664
Net book value:			
At 31 December 2002	—	301	301
At 31 December 2001	—	617	617

At 31 December 2002, the net book value of fixed assets held by the Group under finance leases amounted to approximately HK$6,677,000 (2001: HK$29,077,000).

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 31 December 2002, the aggregate net book value of fixed assets pledged as security for the Group's long-term bank loans and obligations under finance leases amounted to HK$Nil (2001: HK$39,148,000).

16. INVESTMENTS IN SUBSIDIARIES

	2002	2001
	HK$'000	*HK$'000*
Company		
Unlisted shares, at cost	124,754	124,754
Amounts due from subsidiaries *(note i)*	176,228	181,372
	300,982	306,126
Provision for diminution in value *(note ii)*	(124,754)	(152,476)
	176,228	153,650

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

i. The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are unlikely to be repaid within one year and are therefore shown as non-current.

ii. A full provision had been made in the previous year in respect of an amount of approximately HK$27,722,000 due from the Company's subsidiary in Taiwan. For the year ended 31 December 2002, such amount was written out of books, resulting in a corresponding reduction in the balance of provision for diminution in value for the same amount.

The following is a list of subsidiaries of the Company as at 31 December 2002:

Name	Place of incorporation	Issued and fully paid share capital	Principal activities and place of operations
Wholly-owned subsidiaries directly held by the Company:			
OpticonX Inc.	British Virgin Islands	249,474,875 ordinary shares of HK$0.5 each	Investment holding in Hong Kong
Optical Crystal (BVI) Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	Investment holding in Hong Kong
Opcom Holdings (BVI) Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	Investment holding in Hong Kong
Intcera High Tech (BVI) Limited	British Virgin Islands	100 ordinary shares of US$1 each	Investment holding in Hong Kong
Wholly-owned subsidiaries indirectly held by the Company:			
Aoptic (BVI) Inc.	British Virgin Islands	10 ordinary shares of US$1 each	Investment holding in Hong Kong
Optical ConnX Company Limited	Hong Kong	100 ordinary shares of HK$1 each	Manufacturing and trading of ceramic blanks and ferrules in PRC and Hong Kong
Intcera High Tech (HK) Limited	Hong Kong	100 ordinary shares of HK$1 each	Provision of management service in Hong Kong
Subsidiary with 99.99% equity interests indirectly held by the Company:			
Taicera High Tech Co., Limited	Taiwan	50,000,000 ordinary shares of NT$10 each	Manufacturing and trading of ceramic blanks and ferrules in Taiwan

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

During the year ended 31 December 2002, the following indirect wholly-owned subsidiaries were deregistered:

Name	Place of incorporation	Issued and fully paid share capital	Principal activities
Optical Crystal Hong Kong Company Limited	Hong Kong	1,000 ordinary shares of HK$1 each	Manufacturing
Opcom Company Limited	Hong Kong	1,000 ordinary shares of HK$1 each	Research and development

17. LONG-TERM INVESTMENTS

	2002 HK$'000	2001 HK$'000
Equity securities listed in Hong Kong, at cost	—	24
Club membership, at cost	830	830
	830	854
Market value of listed equity securities	—	20

18. OTHER SHORT-TERM INVESTMENTS

	2002 HK$'000	2001 HK$'000
Equity securities listed in Hong Kong, at fair value	—	7,702

19. INVENTORIES

	2002 HK$'000	2001 HK$'000
Finished goods	741	1,884
Raw materials	8,863	5,824
Work-in-progress	—	2,176
	9,604	9,884

At 31 December 2002, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK$9,604,000 (2001: HK$9,884,000).

For the year ended 31 December 2002

20. TRADE AND NOTE RECEIVABLES

	2002 HK$'000	2001 HK$'000
Trade receivables, with aging analysis:		
Current	96	341
30 - 60 days	70	450
Over 60 days	1,213	26
	1,379	817
Note receivables	30	13
	1,409	830

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

21. NON-REFUNDABLE SIGNING FEE RECEIVABLE IN RESPECT OF THE TECHNOLOGY RIGHTS AGREEMENT

On 29 December 2002, the Company entered into the Technology Rights Agreement with Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") in relation to the grant of the right by the Company to Weiyi to use the technology in the manufacturing of ceramic blanks and ferrules in Shenzhen, the PRC (the "Technology Rights"). Weiyi is a limited liability company established in the PRC and wholly and beneficially owned by Mr. Cheng Qing Bo, a director of the Company, and is principally engaged in the trading of optical telecommunications materials, components and high-tech ceramic products.

The Technology Rights Agreement is effective from the date of signing on 29 December 2002, until 31 December 2007, and may be extended by further agreement between the parties. The actual use of the Technology Rights will be for the duration of a maximum period of five years from the later of either (a) 1 January 2003 or (b) the date after the fulfilment of conditions as stated in the Technology Rights Agreement to 31 December 2007. All of the conditions as stipulated in the Technology Rights Agreement were fulfilled on 3 March 2003, the date of the extraordinary general meeting at which the independent shareholders of the Company approved the Technology Rights Agreement.

Pursuant to the Technology Rights Agreement, the aggregate consideration payable by Weiyi amounted to US$2,500,000 (equivalent to approximately HK$19,500,000), of which Weiyi would pay the Company a non-refundable signing fee of US$500,000 in cash (equivalent to approximately HK$3,900,000) before 31 December 2002 and a royalty fee of US$2,000,000 (equivalent to approximately HK$15,600,000). The Company agreed to allow Weiyi a period of five years from 1 January 2003 to 31 December 2007 to pay off the royalty fee, provided that Weiyi would make payment of not less than US$400,000 (equivalent to approximately HK$3,120,000) in cash per year.

At 31 December 2002, the Group has received HK$800,000 as partial payment of the non-refundable signing fee. The remaining balance of the non-refundable signing fee of approximately HK$3,100,000 has been included under current assets in the Group's balance sheet as at 31 December 2002 and was subsequently received by the Group on 4 March 2003.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Approximately HK$762,000 (2001: HK$11,957,000) 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.

23. TRADE AND NOTE PAYABLES

	2002 *HK$'000*	2001 *HK$'000*
Trade payables, with aging analysis:		
Current	—	372
30 - 60 days	7	111
Over 60 days	685	101
	692	584
Note payables	85	611
	777	1,195

24. OTHER PAYABLES AND ACCRUED CHARGES

	2002 *HK$'000*	2001 *HK$'000*
Deposit received in respect of sale of fixed assets	2,800	—
Other payables	9,799	2,832
Accrued charges	3,484	2,759
	16,083	5,591

25. COMMERCIAL PAPER

The commercial paper bears interest at 5.1% (2001: 6.32%) per annum. The commercial paper was secured by the Group's bank deposits of HK$Nil (2001: HK$1,985,440).

26. CONVERTIBLE BONDS

On 31 October 2002 the Company issued convertible bonds (the "Convertible Bonds") with principal amount of HK$27,400,000 which are due and mature on 31 October 2003.

The Company will repay the principal amount outstanding under the Convertible Bonds to the bondholders together with interest accrued thereon up to and including the date of actual repayment upon maturity. The Convertible Bonds bear interest at a rate of 2% per annum on the aggregate principal amount outstanding from time to time. The interest will be payable by the Company only upon maturity. The Convertible Bonds carry the rights to convert, at the discretion of the bondholders, either in whole or in part of the principal amount into ordinary shares of the Company at the initial conversion price of HK$0.17 per share (subject to adjustments), from 1 November 2002, being the date upon which the Capital Reduction becoming effective, up to the maturity date of 31 October 2003.

Up to 31 December 2002, none of the Convertible Bonds had been converted into shares of the Company. The full conversion of the Convertible Bonds would, with the capital structure of the Company as at 31 December 2002, result in the issue of approximately 161,176,470 additional shares.

For the year ended 31 December 2002

27. LONG-TERM BORROWINGS

	2002 HK$'000	2001 HK$'000
Wholly repayable within five years		
Bank loans *(note a)*		
— secured	7,359	12,772
— unsecured	15,758	4,242
	23,117	17,014
Obligations under finance leases *(note b)*	4,332	15,228
	27,449	32,242
Less: Current portion of long-term borrowings	(23,722)	(21,684)
	3,727	10,558

Notes:

(a) At 31 December 2002, the Group's bank loans were repayable as follows:

	2002 HK$'000	2001 HK$'000
Within one year	19,390	8,517
In the second year	3,727	8,497
	23,117	17,014

(b) At 31 December 2002, the Group's finance lease liabilities were repayable as follows:

	2002 HK$'000	2001 HK$'000
Within one year	4,575	14,129
In the second year	—	2,123
	4,575	16,252
Less: Future finance charges on finance leases	(243)	(1,024)
	4,332	15,228
Present value of finance lease liabilities		
— Within one year	4,332	13,167
— In the second year	—	2,061
	4,332	15,228

(c) The secured bank loans and obligations under finance leases were secured by the Group's fixed assets with net book value of HK$Nil (2001: HK$39,148,000) (note 15) and the bank deposits of HK$Nil (2001: HK$3,971,000).

28. SHARE CAPITAL

	Number of shares '000	Par value per share HK$	Total value HK$'000
Authorised:			
At 1 January 2001 and 1 January 2002	624,000	0.50	312,000
Increase in authorised share capital *(note (a))*	376,000	0.50	188,000
	1,000,000	0.50	500,000
Share Subdivision *(note (c))*	1,000,000	0.01	10,000
Increase in authorised share capital *(note (c))*	49,000,000	0.01	490,000
At 31 December 2002	50,000,000	0.01	500,000

	Number of shares '000	Par value per share HK$	Total value HK$'000
Issued and fully paid:			
At 1 January 2001 and 1 January 2002	401,724	0.50	200,862
Rights Issue *(note (b))*	40,173	0.50	20,086
Bonus Issue *(note (b))*	160,690	0.50	80,345
	602,587	0.50	301,293
Capital Reduction *(note (c))*	—	0.01	(295,267)
At 31 December 2002	602,587	0.01	6,026

Notes:

(a) Pursuant to the resolutions passed at an extraordinary general meeting held on 10 May 2002, the authorised share capital of the Company was increased from HK$312,000,000 to HK$500,000,000 by the creation of an additional 376,000,000 new shares of HK$0.50 each in the capital of the Company.

(b) On 3 June 2002, the Company completed a Rights Issue of 40,172,487 shares of HK$0.50 each on the basis of one rights share for every ten existing shares held at HK$0.50 each per rights share, with 160,689,948 bonus shares issued with the rights shares on the basis of four bonus shares for every fully paid rights share. These new shares rank pari passu in all respects with the then existing shares in issue. The net proceeds of the Rights Issue amounted to approximately HK$18,800,000, of which HK$13,400,000 was applied for the repayment of the Group's bank borrowings and approximately HK$5,400,000 was used as general working capital for the operations of the Group.

(c) Pursuant to the resolutions passed at an extraordinary general meeting held on 17 July 2002, it was resolved to (i) reduce the nominal value of each of the 602,587,310 shares then in issue from HK$0.50 each to HK$0.01 each by cancelling HK$0.49 paid up on each issued share by way of a reduction of share capital in accordance with the Companies Law (Revised) of the Cayman Islands (the "Capital Reduction"); (ii) subdivide every unissued share so that each unissued share of HK$0.50 each becomes 50 unissued shares of HK$0.01 each (the "Share Subdivision") ; (iii) restore the authorised share capital of the Company to HK$500,000,000 by the creation of an additional 49,000,000,000 new shares of HK$0.01 each; and (iv) apply the credit arising from the Capital Reduction in an amount of not more than HK$295,267,782 towards the elimination of the accumulated losses of the Company.

29. RESERVES

Company and subsidiaries	Share premium HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000	Accumulated profits/(losses) HK$'000	Total HK$'000
At 1 January 2001	127,878	(6,898)	14,968	(51,208)	84,740
Exchange differences	—	(1,585)	—	—	(1,585)
Impairment of goodwill	—	—	—	503	503
Net loss for the year	—	—	—	(163,595)	(163,595)
At 31 December 2001 and at 1 January 2002	127,878	(8,483)	14,968	(214,300)	(79,937)
Bonus Issue *(note 28(b))*	(80,345)	—	—	—	(80,345)
Capital Reduction *(note 28(c))*	—	—	—	295,267	295,267
Share issue expenses	(1,227)	—	—	—	(1,227)
Exchange differences	—	(2,118)	—	—	(2,118)
Net loss for the year	—	—	—	(35,917)	(35,917)
At 31 December 2002	46,306	(10,601)	14,968	45,050	95,723

Company	Share premium HK$'000	Accumulated profits/(losses) HK$'000	Total HK$'000
At 1 January 2001	127,878	(3,012)	124,866
Net loss for the year	—	(168,881)	(168,881)
At 31 December 2001 and at 1 January 2002	127,878	(171,893)	(44,015)
Net loss for the year	—	(17,327)	(17,327)
Bonus Issue *(note 28(b))*	(80,345)	—	(80,345)
Capital Reduction *(note 28(c))*	—	295,267	295,267
Share issue expenses	(1,227)	—	(1,227)
At 31 December 2002	46,306	106,047	152,353

Notes:

(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 31 December 2002, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to approximately HK$152,353,000, representing the aggregate of share premium of approximately HK$46,306,000 and accumulated profits of approximately HK$106,047,000 (2001: HK$ Nil).

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of loss from ordinary activities before taxation and minority interests to net cash used in operating activities

	2002 *HK$'000*	2001 *HK$'000*
Loss from ordinary activities before taxation and minority interests	(35,917)	(163,604)
Adjustments for:		
Amortisation of intangible assets	—	5,512
Depreciation of fixed assets	19,078	21,195
Impairment of fixed assets	—	50,428
Impairment of intangible assets	—	13,305
Impairment of goodwill	—	503
Reversal of impairment of assets	(13,000)	—
Gain on sale of other short-term investments	(1,766)	(122)
Loss on sale of long-term investments	14	—
Loss on disposal of fixed assets	1,321	998
Unrealised gain on other short-term investments	—	(295)
Interest income	(435)	(4,851)
Interest expenses	5,886	7,146
Operating loss before changes in working capital	(24,819)	(69,785)
Changes in working capital:		
Long-term rental deposits	(10)	519
Inventories	280	2,937
Trade and note receivables	(579)	4,727
Non-refundable signing fee receivable in respect of the Technology Rights Agreement	(3,100)	—
Other receivables, prepayments and deposits	(204)	22,150
Trade and note payables	(418)	(1,981)
Other payables and accrued charges	10,492	(5,433)
Cash used in operations	(18,358)	(46,866)
Interest received	435	5,458
Interest paid	(5,293)	(5,446)
Interest element of finance lease rental payments	(593)	(1,878)
Net cash used in operating activities	(23,809)	(48,732)

b. Major non-cash transactions

During the year ended 31 December 2001, 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.

The subsidiaries deregistered during the year ended 31 December 2002 as detailed in note 16 above had no significant impact on the cash flows, turnover and results of the Group for the year.

31. RELATED PARTY TRANSACTIONS

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

i. 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. The aggregate insurance premium paid by the Group to Taiping Insurance Company Limited amounted to approximately HK$172,000 for the year ended 31 December 2002 (2001: HK$273,000).

ii. In accordance with the Technology Rights Agreement dated 29 December 2002 and entered into between the Company and Weiyi, the Group has recognised a non-refundable signing fee of US$500,000 (equivalent to approximately HK$3,900,000) in the income statement for the year ended 31 December 2002. Weiyi is a limited liability company established in Shenzhen, the PRC and wholly and beneficially owned by Mr. Cheng Qing Bo, a director of the Company. At 31 December 2002, the Group has received HK$800,000 as partial payment of the non-refundable signing fee, and the remaining balance of approximately HK$3,100,000 has been included under current assets in the Group's balance sheet as at 31 December 2002, which was subsequently received by the Group on 4 March 2003. Further details of the above transaction are disclosed in note 21 above.

iii. 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.

iv. During the year, the Company was granted a standby loan facility by a shareholder of the Company, Mr. Tung Tai Yung. The loan could be drawn down at any time upon the request by the Company up to a maximum sum of HK$28 million. The loan was interest bearing at 4.875% per annum which was waived by Mr. Tung Tai Yung for the year ended 31 December 2002. The loan would not be required to be repaid by the Company earlier than 30 June 2003.

32. BANKING FACILITIES

As at 31 December 2002, total banking facilities granted to the Group amounted to approximately HK$52,026,000 (2001: HK$184,319,000) and were secured by the following:

i. a charge over fixed assets with an aggregate carrying value of HK$Nil (2001: HK$39,148,000);

ii. bank deposits, amounting to HK$26,000 (2001: HK$75,001,000); and

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

33. COMMITMENTS

(a) As at 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002 *HK$'000*	2001 *HK$'000*
Within one year	293	1,473
Two to five years	10	5,169
	303	6,642

As at 31 December 2002, the Company did not have any significant commitment (2001: Nil).

(b) Capital commitments of the Group outstanding at 31 December 2002 contracted for but not provided for in the financial statements were as follows:

	2002 *HK$'000*	2001 *HK$'000*
— Acquisition of property, plant and equipment	—	12,762
— Capital contribution to a joint venture company	77,990	—

On 16 September 2002, Intcera High Tech (HK) Limited ("Intcera (HK)"), a wholly-owned subsidiary of the Company, entered into an agreement with two independent third parties to jointly establish a joint venture company in Shanghai, the PRC, namely Shangcera High Tech Company Limited ("Shangcera"). Shangcera was established on 17 October 2002 with an initial operational term of 15 years and a registered capital of US$18,000,000, and its business scope are the development, manufacture and sale of ceramic ferrules and other optical components and provision of related services. Pursuant to the agreement, for its proportionate interest of 55.5% in Shangcera, Intcera (HK) is required to contribute an amount of US$10,000,000 (equivalent to approximately HK$77,990,000) to the registered capital of Shangcera, which is proposed to be satisfied by a 10-year technology transfer fee to the amount of US$3,600,000 and by injection of equipment and machinery to the value of US$6,400,000. At 31 December 2002, Intcera (HK) has not yet made any contribution to the registered capital of Shangcera.

34. CONTINGENT LIABILITIES

(i) At 31 December 2002, the Company had the following contingent liabilities:

	2002 HK$'000	2001 HK$'000
Guarantees for bank loans of subsidiaries	—	54,972

(ii) The Company's subsidiary in Taiwan, Taicera High Tech Co., Limited ("Taicera") is involved in litigation suits in the Taipei District Court since October 2002. With respect to the disclosed actions instituted by two leasing companies totalling NT$32,894,050 (equivalent to approximately HK$7,831,900), one of them has been paid off and settled and the other has agreed to stay its enforcement proceedings against Taicera pending resolution of payment schedule.

(iii) Taicera has received further writ of summons in Taiwan from its bankers for certain claims of repayment. The total indebtedness of Taicera accounts for NT$155,569,067 (equivalent to approximately HK$36,179,000) as at 31 October 2002. As of the date of approval of these financial statements, Taicera is seeking resolution with its banks to restructure these bank loans and continues to service interest payments, whilst other banks are considering taking further security and allowing Taicera time to make payments. The directors are closely monitoring the Taiwan banking situation and have agreed with its bankers to send its management team to Taiwan to further negotiate on both the litigation and restructuring position by end of April 2003.

35. POST BALANCE SHEET EVENTS

(i) On 15 January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain plant and machinery at an aggregate consideration of HK$13,000,000.

(ii) On 13 March 2003, 120,500,000 ordinary shares of the Company of HK$0.01 each were placed to 24 investors who are independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company or their respective associates (as defined in note 1 to Rule 10.12(4) of the GEM Listing Rules) at a price of HK$0.14 each, representing a discount of approximately 16.2% to the closing price of HK$0.167 per share on 19 February 2003, under a placing agreement dated 20 February 2003. These new shares ranked pari passu in all respects with the then existing shares in issue, and were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 17 July 2002. The net proceeds amounted to approximately HK$16,400,000, and would be used as to approximately HK$10,000,000 to finance the research and development of the manufacturing technology in fiber optic components, as to approximately HK$4,000,000 to repay the Group's bank loans and as to approximately HK$2,400,000 as the Group's general working capital.

36. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2003.

INTCERA

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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 Tuesday, 29 April 2003 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 of the Company for the year ended 31 December 2002;

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:

(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

(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)."

B. "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 of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(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."

C. **"THAT** conditional on the passing of the resolutions set out in paragraphs 4A and 4B 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 4A 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 4B 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
Tung Tai Yung
Chief Executive Officer

Hong Kong, 31 March 2003

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.

(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 as soon as possible to the Company's branch registrar in Hong Kong, Abacus Share Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

(3) PricewaterhouseCoopers resigned as auditors of the Company with effect from 17 March 2003 and HLB Hodgson Impey Cheng was appointed the Company's auditors to fill the casual vacancy created by the resignation of PricewaterhouseCoopers with effect from 18 March 2003. Being eligible, HLB Hodgson Impey Cheng offers themselves for re-appointment at the meeting.

(4) An explanatory statement containing the information necessary to enable the shareholders to make informed decision to vote on the proposed Resolution 4B as required by the GEM Listing Rules will be dispatched together with the annual report for the financial year ended 31 December 2002 to the shareholders of the Company.