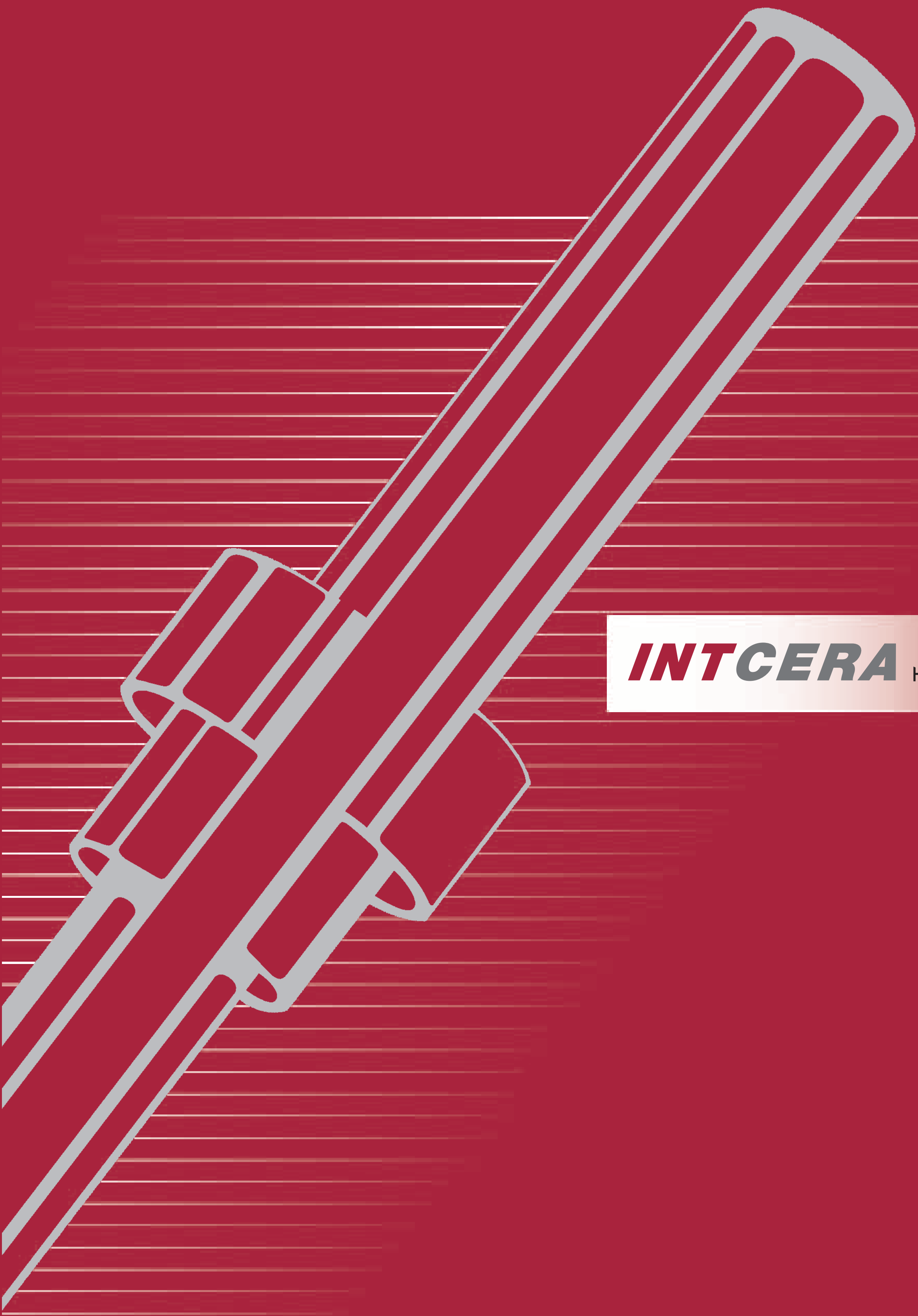
Annual Report

2003



INTCERA High Tech Group Limited

Contents

INTCERA

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

KING Chun Kong, Karl
HU Shiang-Chi

Independent Non-executive Directors

LAI Kin Wai
LIU Zheng Hao
WU Min

COMPANY SECRETARY

TSUI Wing Tak *CPA, CPA(AUST)*

COMPLIANCE OFFICER

LIN Nan

QUALIFIED ACCOUNTANT

TSUI Wing Tak *CPA, CPA(AUST)*

AUDIT COMMITTEE

LAI Kin Wai
LIU Zheng Hao
WU Min

AUTHORISED REPRESENTATIVES

LIN Nan
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 4713, 47th Floor, The Center
99 Queen's Road Central, Central, Hong Kong

PLANTS & OPERATIONS

Shenzhen Plant
5th Floor, ZhenHua Industrial Park,
He Ping East Road,
Longhua Town, BaoAn District,
Shenzhen, China
Postal Code: 518109

LEGAL ADVISERS

As to Hong Kong Law
Hau, Lau, Li & Yeung

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

AUDITORS

KLL Associates CPA Ltd.
Certified Public Accountants (Practising)
Suite 1303, Shanghai Industrial Investment Building
60 Hennessy Road
Wanchai, Hong Kong

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

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Guangdong Development Bank, Shenzhen Branch
Hua Xia Bank, Shenzhen Branch
Cathay United Bank

STOCK CODE

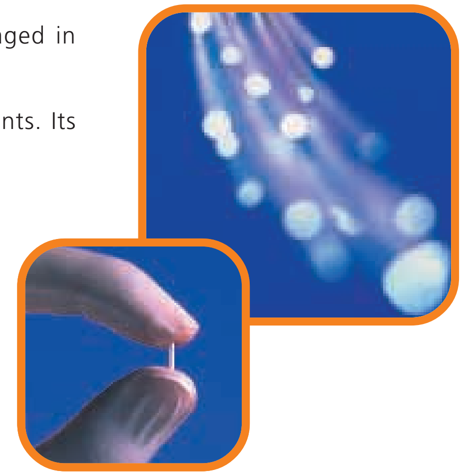
8041

WEBSITE

www.intcera.com

Corporate Profile

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 also one of the major manufacturers in China which is capable of producing ceramic blanks and ferrules from ceramic powder.

Chairman Statement

GENERAL BUSINESS REVIEW

Confronting challenges with unparallel strengths

The global telecommunications and fibre optic network markets are showing signs of recovery after a period of adjustment in the last couple of years. Beneficial factors such as China's accession to the WTO and the hosting of the 2008 Olympic Games in Beijing are driving developments in the telecommunications and optic communications industries to be the most robust among all industries and become a priority in development projects nationwide. The Group's competitive advantages lie in its state-of-the-art technology and leading-edge facilities. On the strength of these, the Group has been able to sustain itself despite market uncertainty and unfavourable economic conditions. This also serves to prove the Group's ability to confront challenges and difficulties and demonstrate its superior market position.

The first half of 2003 was a time for contemplation and reconsideration of future moves for the Group. The delay in the relocation of production facilities was unexpected. The outbreak of SARS in the period caused further delay as the Group had to put on hold its programme in engaging foreign experts to fine-tune the production facilities in Shenzhen. However, the management had made good use of this quiet period to formulate its long-term strategic plans and identify suitable business partners to build the foundation for future growth.

Reaching new milestone with technology transfer

The cooperation between the Group and Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") was the Group's key project for the year. It was officially launched in September with Weiyi commencing production. This is a significant milestone for the Group in its entry to the mainland market. It also put the Group's strategic plan of technology transfer in the mainland to the test. At present the

orders received by Weiyi far exceed its production capacity. The Group therefore will make efforts to improve the current production facilities so that the production capacity can reach its maximum in a short time to meet the huge demands from customers.

Based on the experience gained through the cooperation with Weiyi, the Group will continue to identify suitable business partners in the mainland for technology transfer projects. In addition to target for the most favourable cooperation terms, the Group also aspires to penetrate the market nationwide for the "INTCERA" branded ceramic ferrules. The Group is in the process of negotiation with several potential partners and has reached common ground with them. Once the achievement of Weiyi has gained recognition in the market, this will provide the benchmarking solution for cooperation with potential partners in the pipe-line and will accelerate the execution of these agreements. This will further consolidate and enhance the profitability of the Group.

OUTLOOK

With the resumption of production in the mainland, all the delays and obstacles during the past year are out of the way. The prime concerns for the Group now are to concentrate on how to improve its production capacity and product quality. In order to keep track of market trends and develop in tandem with them, the Group will establish a sales team in Hong Kong to maintain proactive close contact with the Group's customers so as to ensure the timely response of the Group in terms of technology and product quality to market demands. It is only through such efforts that the Group can sustain its market leader position as well as improve its strengths for profit creation in the future. In addition to taking technology transfer as the key business focus in the future, the Group also aims to expand the scope of its operation by developing peripheral products, such as the entire production process of fibre optic connector, and cultivating other side-businesses. As such, the Group can take initiative to broaden its customer base and to open a new chapter for the future.

Various government authorities in the mainland have expressed their keen support to the telecommunications and fibre optic industries and have placed the development of networks as one of the key priorities in development projects. The Group is well poised to capture the opportunities from the forthcoming immense market demand. Leveraging on the unparallel production superiority in the mainland, the sophisticated management skills and experience accumulated in Taiwan and Hong Kong's strategic position as an important platform in the market in the region and worldwide, the Group is equipped with the best talents and facilities to communicate across the Strait and link up its global partners to capitalize on the synergy in Greater China to maximize its competitive advantages for the best economic returns. For this, the Group would like to express its most sincere thanks to its shareholders, management team, technical staff and all the employees for their unwavering support.

Cheng Qing Bo
Chairman
4 November 2004

Financial Highlights

- The Group has recorded a total turnover of approximately HK$9,591,000 for the year ended 31 December 2003 representing an increase of 6.35% over the corresponding period of 2002.

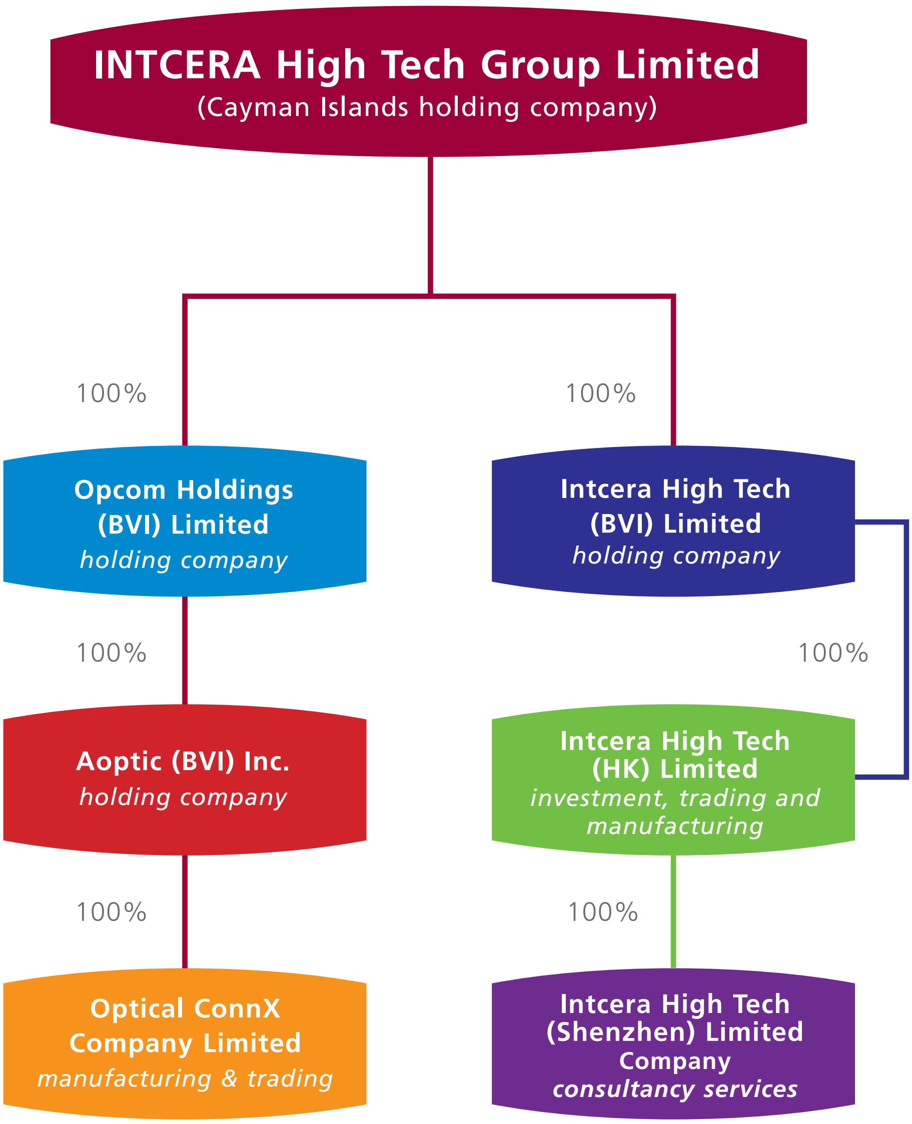
- The Group's gross profit amounted to approximately HK$6,210,000 for the year ended 31 December 2003 compared to a gross loss of approximately HK$20,068,000 in the corresponding period of 2002.

- The Group has recorded a net loss attributable to shareholders for the year ended 31 December 2003 of approximately HK$47,658,000, representing a basic loss per share of HK$6.83 cents.

- The Directors do not recommend the payment of a dividend for the year ended 31 December 2003.

- The Group has a sound financial position with cash balances of HK$23,144,000 and no bank borrowings as at 31 December 2003.

Corporate Structure (Group's principal subsidiaries)



FINANCIAL REVIEW

For the year ended 31 December 2003, the Group recorded a total turnover of approximately HK$9,591,000 representing an increase of 6.35% from approximately HK$9,018,000 for the year ended 31 December 2002. A gross profit of approximately HK$6,210,000 was recorded by the Group for the year ended 31 December 2003 showing a big contrast to a gross loss of approximately HK$20,068,000 in the corresponding period of 2002. The increase in turnover was mainly attributed to the fact that results were beginning to show for our efforts in developing cooperation with our strategic partners, and that the obstacles caused by the relocation of facilities and production lines were out of the way and our production capability gradually resumed to normal capacity. At the same time, operation cost was substantially reduced by the relocation of production lines to the Chinese Mainland. The Group's initiatives in other new businesses also contributed to the revenue growth.

In 2003, royalty fee amounting to approximately HK$3,120,000 was collected on the transfer of technology rights constituted another major source of revenue for the Group. The technology rights agreement ("Technology Rights Agreement") entered into with Weiyi is for a term of five years and will bring a total royalty fee of US$2,000,000 and a signing fee of US$500,000 to the Group. The Group will continue to identify suitable strategic partners to create other major income sources and enhance the profitability of the Group through the transfer of its production technology of ceramic blanks and ferrules.

In the first nine months of 2003, production almost came to a standstill, and thereby resulting in a relatively low turnover, because of the production line relocation from Taiwan into China. After the Group's earnest efforts in discussion and negotiation with its Taiwan

counterparts and the customs and other relevant authorities of the Mainland and Taiwan, the matter was resolved and the Group's production expansion plan was finally allowed to be carried out.

The Group's decision to move its production facilities to the PRC proved to be a sagacious strategy in terms of cost reduction. Administrative expenses were sharply reduced to HK$4,677,000, a 33.38% decrease when compared with HK$7,020,000 in the corresponding period of 2002. The cost-saving in administrative expenses can help offset to a certain extent the shortfall in turnover. During the year ended 31 December 2003, the Group's finance costs amounted to approximately HK$3,205,000, as compared to approximately HK$5,886,000 for 2002. The decrease in finance costs was mainly a result of the Group's repayment of its bank loans. The management has also taken cautious measures to improve the liquidity and financial position of the Group. In order to secure sufficient capital resources to complete its aggressive production expansion plan and production technology enhancement program, the Group further raised a total proceeds of HK$16,800,000 through a placement of 120,500,000 new shares in March 2003. Upon the subsequent disposal of OpticonX Inc. by the Company on 31 December 2003, all of the Group's bank loans have been cleared. As at 31 December 2003, the Group has a sound financial position without any bank borrowings. The Group has cash and bank balances amounting to approximately HK$23,144,000 with a gearing ratio (arrived at be dividing total debt by total assets) of 42% (2002:45%).

While competition in the fibre optic component market has intensified, the Group continued in pursuing its strategy of maintaining high product quality that well exceeds industrial standard. Stringent quality control will be continued in enhancing brand name development and merchandise promotion with a view to securing future market growth. In order to realize the goal of becoming a quality manufacturer, the Group adopted tightening quality check on its products, which resulted in scrapping of more obsolete stock of blanks and ferrules. In addition to a provision of approximately HK$10,040,000 made against doubtful debts, the Group further make provision for obsolete inventories of approximately HK$2,569,000 and impairment of fixed assets held for resale of approximately HK$4,922,000 for the year ended 31 December 2003. In addition, the Group has sold and assigned some of its surplus machinery and obsolete equipment to lessen the negative impacts caused by machinery depreciation. A total consideration of approximately HK$29,216,000 was received through the sales of machinery and equipment in 2003.

For the year ended 31 December 2003, the Group sustained a loss attributable to shareholders of approximately HK$47,658,000, compared with the loss of HK$35,917,000 in 2002.

OPERATIONS

As a result of the economic slowdown and cutback of corporate capital spending around the world, network operators were less aggressive about new construction investments. This had adversely affected the fibre optic components manufacturing industry, caused severe competition among fibre optic component manufacturers and persistent price reduction. The Company is principally engaged in the manufacture, research and development of optical component products, such as ceramic blanks and ceramic ferrules. The Directors are of the view that to establish the production facilities of the Group in the PRC would be beneficial to the Company in capturing a larger market share in the PRC. The development in the PRC market is also in line with the Group's business objectives and future plans as disclosed in the prospectus of the Company dated 27 June 2000. In order to accomplish the aforesaid business objectives of the Company and achieve economies of scale, the Directors have decided to form a joint venture named Intcera High Tech (Hunan) Limited ("Intcera (Hunan)") with Shenzhen China Technology Industry Development Co., Ltd. Meanwhile, the Company has obtained an approval from the PRC government for constructing its production facilities on a 500-acre plot of land in the Hunan Hi-tech Development Zone 湖南長沙市高新技術開發區直管園區 — 麓谷科技新城. The Group plans to set a footing in Hunan province in the PRC, a place of high level of customer concentration providing conditions for building a production base of costs lower than the Group's Taiwan plant. As the Group's Taiwan facility was inferior to its PRC counterpart in cost effectiveness given the same yield rate, the Taiwan facility was therefore completely wound down and transferred to the future Hunan plant. The transfer of production capacity from the Taiwan plant to Intcera (Hunan), being in line with the aforesaid business objectives and future plans, will serve to enhance the Group's total production capability in the PRC. The Directors opine that the Group should take further initiatives in fostering more technological talents among its workforce in the Mainland to prepare for more active technology transfer in the future. The Group should also integrate the management resources and experiences in Taiwan and leverage on Hong Kong's position as a communication platform for the Group in the Greater China, thereby coordinating the deployment of the Group's resources to best maximize the cost effectiveness. The shifting of the production facilities from Taiwan to the PRC is a key strategic move in the Group's long-term development policy. As the Group focuses on developing the PRC market, it will save time and cost in logistics to establish its production facilities in the PRC. Meanwhile, it is easier to find professionals in China, who possess the required skills and accept comparatively lower pay. This will be advantageous to the Group's operations.

In October 2003, a subsidiary of the Group entered into a consultant and management agreement with Weiyi, pursuant to which the Group was given the right to use the machinery, office, apparatus and client information of Weiyi, for the propose of the Group's future business development in the PRC.

Weiyi is a company incorporated under the laws of the PRC, with its administrative office and manufacturing facilities situated in Shenzhen. With those modern technologies and automatic machineries purchased

from Japan and Switzerland, Weiyi, being capable of producing ferrules (fiber optic connectors) from ceramic powder, is currently one of the few major ferrule manufacturers in the world, and also one of the major corporations which can produce ceramic ferrules in the PRC. By maintaining a close co-operation relationship with Weiyi, we can take full advantage of Weiyi's high quality infrastructure and the low production costs in the PRC. On the other hand, Weiyi also benefits from the joint venture in developing its technological business. The production at Weiyi is currently maintained at a level of 300,000 pieces per month, which has been steadily on the rise. It is envisaged that the designed production capacity of 750,000 pieces per month will be back on board by the second half of next year after all machinery and facilities are successfully assembled and tested.

Arrangement is already made for carrying certain parts and equipment from Taiwan to our production facilities in the PRC. When all production facilities are relocated, assembled, tested and fully launched, the Group's production capability will once again reach 2,000,000 pieces per month, being the full production capacity of the Group immediately before the decision made to discontinue its production activities in Taiwan in 2002.

Following the cessation of the operation in Taiwan around August 2002, the market conditions and economic outlook for fibre optic components industry in Taiwan remained sluggish. The Directors finally decided to dispose of the Group's production units in Taiwan. Pursuant to a share transfer agreement signed with Profits Cone Investment Limited on 31 December 2003, the Company sold its entire equity interest in OpticonX Inc., a wholly owned subsidiary of the Company and a holding company of the Company's subsidiary in Taiwan, for a consideration of HK$1.00. This move will not only help minimize the operation cost of the Group but also relieve the management burden, enabling the management personnel to focus on the development plan in the PRC. The disposal of OpticonX Inc. has brought in a gain of HK$13,614,000 on disposal of a non-profit making subsidiary.

During the year, the Group has taken effective measures to control its operating costs. The Directors are also confident that the Group's operation will be improved upon recovery of the economy, expected to be in the second half of 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, shareholders' fund of the Group amounted to approximately HK$66,220,000. Current assets amounted to approximately HK$38,511,000, of which approximately HK$23,144,000 were cash and bank deposits. The Group had non-current liabilities amounted to HK$27,400,000 and its current liabilities amounted to approximately HK$20,237,000, mainly comprises accounts payable and accruals. The Group has a current ratio of approximately 1.9 comparing to that of 1.3 as at 31 December 2002. At 31 December 2003, the Group did not have any bank borrowings and the gearing ratio of 42% was calculated at by dividing total debt by the total assets (as at 31 December 2002 was 45%).

On 20 March 2003, the Group raised net proceeds of HK$16,400,000 from a placement of 120,500,000 new shares mainly for the purpose of funding its future manufacturing and technology development plans. According to the Directors, the Group has adequate financial resources to meet its on-going operations after taking into account of the proceeds raised. During the year ended 31 December 2003, the Group financed its operations with it's own working capital, internally generated cash flow, the proceeds from issuance of new shares and advance from shareholders.

FOREIGN EXCHANGE EXPOSURE

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

CAPITAL STRUCTURE

On 20 March 2003, 120,500,000 ordinary shares of the Company of HK$0.01 each were placed to 24 investors at a price of HK$0.14 each under a placing agreement dated 20 February 2003. As at 31 December 2003, the Group's outstanding issued shares were 723,087,310 ordinary shares (2002: 602,587,310 ordinary shares of HK$0.01 each).

MAJOR INVESTMENTS

The Group does not have any significant investments as at 31 December 2003.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 10 March 2003, the Company's wholly-owned subsidiary, Intcera High Tech (Shenzhen) Limited Company（大陶精密科技（深圳）有限公司）was formed with a registered capital of US$130,000. This new subsidiary will undertake within the PRC technology consulting services including after-sales services as well as assist the Group in broadening its customer base in the PRC.

On 31 December 2003, the Company disposed of its entire equity interest in OpticonX Inc. and Taicera High Tech Co., Limited at a consideration of HK$1 and has made a gain arising from the disposal of HK$13,614,000.

EMPLOYEES

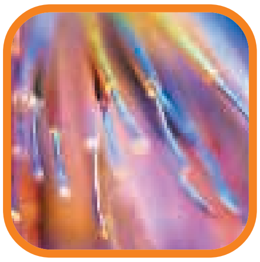
As at 31 December 2003, the Group had 118 full time employees compared with that of 74 in 2002. The staff costs, including directors' remuneration, were approximately HK$4,289,000 (2002: HK$15,496,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the Mainland respectively, including medical scheme, provident fund or retirement fund.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any material contingent liabilities or charges laid against its assets.

Expected Source of Funding in Coming Year/ Further Financing Plans

Since the Group has adopted technology and facilities transfer as its strategic investment policy, no significant problems were experienced in liquidity during the year ended 31 December 2003. To consolidate the Group's liquidity and financial status, the Directors put forward the following improvement recommendations:



To attract strategic partners by state-of-the-art technology

The Group will continue to identify suitable strategic partners in the Mainland to strive for the most favorable cooperation terms as a means to enhance its profitability. The Group enjoys a worldwide reputation in the research and production technology of ceramic ferrules. Many domestic enterprises in the telecommunications and fibre optic industries have high regard for the Group's expertise and are prepared to cooperate with the Group on favourable terms. Currently, the Group is having negotiations at an advanced stage with a number of enterprises in various regions in China. Once these cooperation agreements are entered into, they will bring substantial revenue to the Group.

To expand business scopes to generate revenue

In addition to the manufacture of ceramic ferrules and the transfer of technology, the Group also intends to develop other peripheral businesses to expand its income sources, including full assembly for fibre optic connectors. The assembly process for complete fibre optic connectors does not entail any additional machinery and equipment, nor requires any skills confined to technology experts. Compared with the Group's usual high-technology production activities, the assembly process therefore is much easier to bring into place. The development of this new business will provide a diversified product mix to customers and will facilitate the expansion of our customer base.

To improve product quality over and above international standards

The Group is renowned for its stringent quality control of its products. Product specifications are adjusted in accordance with the requirements of different customers so that each ferrule can meet customer's strictest demand in precision. The Group's benchmark goal for production is to maintain a zero-return rate. Towards this end, the Group invests heavily in resources to the research and development of manufacturing technology as a means for sustained enhancement of the technical standard in production. By maintaining product quality to over and above international standards, product return rate will be kept to a minimum while maximum profitability will be achieved.

USE OF PROCEEDS

The Group raised approximately HK$16,800,000 through a placement of 120,500,000 new shares at a subscription price of HK$0.14 per share on 20 March 2003. The net proceeds, after expenses, derived from the placing were approximately HK$16,400,000, of which approximately HK$10,000,000 will be used for 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 as general working capital of the Company.

PROSPECTS

The global telecommunications industry has witnessed a spectacular growth in recent years. While fibre-to-the-home and fibre-to-the-desk have become landmarks of an information society, they are also driving competition in the country and community. The huge potential of the fibre optic market brings about the synchronous demand of active and passive fibre optic components. As a manufacturer of the crucial component of a fibre optic connector — the ceramic ferrule, the Group is well positioned to capitalize on the expected growth and to fulfill its ambition to be a market leader in the industry in the Mainland.

According to the annual report of the Ministry of Information Industry of China in 2003, the nation's telecommunications industry generated a total revenue of RMB461 billion last year, an increase of 13.9% comparing with the corresponding period of the previous year, and 150% of the GDP growth rate. Further expansion of the telecommunications industry is expected in 2004, amounting to RMB519 billion in revenue. Total length of the national fibre optic cables will reach 2.95 million km, an 8.9% increase over the corresponding period of the previous year. Furthermore, the Beijing Organizing Committee for the Games of the 29th Olympia had announced an investment input of RMB6.6 billion to expand and upgrade the telecommunications network in Beijing by 2008. Both the Shanghai municipality and Hubei province had also put forward relevant proposals to support the development of telecommunications and optic communications. All these clearly indicate that the development of optic communications has become a major priority throughout the nation and a fibre-to-the-house era can be envisaged in major cities in China shortly.

Leveraging on its lower production cost, the Chinese mainland has developed into the world's largest manufacturer of fiber optic components and is expected to maintain this advantage in the future. However, the demand for state-of-the-art technology, leading-edge equipment and well-trained and skilled professionals in the manufacturing of ceramic ferrules creates a gap in the fiber optic component manufacturing industry, which is not a common production operation even worldwide. The Group's accumulated experience and professional expertise, coupled with its huge investment in state-of-the-art technology and equipment, has put it in the rank of the top nine ceramic ferrule manufacturers in the world and one of the leading manufacturing enterprises of ceramic ferrules in the Mainland. Recently, the Huawei Group, one of the largest Chinese telecommunications providers, has visited the Group's production facilities and conducted detailed tests on its products. They are fully satisfied with our technology control and our product quality, and have indicated their interest to cooperate with the Group. The Directors believe that this cooperation will certainly become a key milestone in the Group's expansion to the Chinese market. However, the Directors are also aware that further coordination of the relocated production facilities is required before they can reach full functionality. Therefore, the Group will concentrate on cultivating the fruitful cooperation with Weiyi before attempting to develop relationship with other major telecommunications industry players.

When the time is ripe, the Group will expand the production lines and cultivate other partners in technological cooperation to build the brand "INTCERA" in ceramic ferrules. At present, Weiyi is the key focus of the Group's production which is to set the model for other production lines in the future.

Notwithstanding this, the Group will also develop peripheral products of ceramic ferrules. Taking advantage of the relatively low labour costs in the Mainland, the Group will develop assembling operations where a lower technology standard is required as a supplementary scope to extend the product range and to attract new customers and additional revenue.

In addition to its focus on the Chinese market, the Group vies for the global telecommunications market as well. The existing leading-edge equipment and technology of the Group will form a solid foundation for its future expansion into the global market. While the Group maintains its market position in the Mainland, it will also establish a sales force in Hong Kong for more participation in international conferences and exhibitions relating to the telecommunications and optic communications industries. Through exchanges and benchmarking, relationship with other communications enterprises will be engendered and knowledge on the changing global market trend will be obtained. This understanding and sensitivity of market will enable the Group to have a competitive edge on offering products best suited to customer demands.

Meanwhile, the Group will continue to focus on training to nurture a workforce with outstanding technical skills in the Mainland as the enablers of technology transfer. As to machinery and equipment, the Group will continue to challenge itself by researching and developing state-of-the-art technology, and improving the efficiency and precision of the machinery to attain more sophisticated production technology. Such technology and equipment will be the backbone for product quality improvement and production capability enhancement, which in turn will constitute a base for the Group in reinforcing its strengths and profitability.

Biographical Information of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHENG Qing Bo

Aged 41, 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 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 16 years of experience in finance, accounting and investment management.

Mr. LIN Nan

Aged 40, was appointed as Chief Executive Officer, Executive Director, Compliance Officer and Authorized Representative of the Group in November 2004. Mr. Lin is responsible for corporate planning, business development and strategy of the Group. Mr. Lin holds a PhD in business administration from Southwest International University, United States. He is currently the general manager of a private company in Shanghai of the People's Republic of China ("PRC"). Besides, Mr. Lin is a committee member of 中國上海市盧灣區第十屆政協委員會. He has over 13 years of management experience.

Mr. TUNG Tai Yung

Aged 38, is an Executive Director of the Group. Mr. Tung joined the Group in February 1998. 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 36, was appointed as Executive Director of the Group in June 2002. 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 11 years of experience in industrial operations and investment management.

NON-EXECUTIVE DIRECTORS

Mr. KING Chun Kong, Karl

Aged 37, 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 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 43, 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. Lai Kin Wai

Aged 37, was appointed Independent Non-executive Director in October 2004. Mr. Lai is a member of The Hong Kong Institute of Certified Public Accountants as well as a fellow member of The Association of Chartered Certified Accountants. Mr. Lai has over 10 years' working experience. Besides, Mr. Lai presently holds a directorship in a certified public accountants firm in Hong Kong.

Mr. Liu Zheng Hao

Aged 45, was appointed Independent Non-executive Director in September 2004. Mr. Liu is currently a director as well as the financial controller of a private company in Shenzhen of the PRC.

Mr. WU Min

Aged 45, 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 11 years of experience in manufacturing and management.

SENIOR MANAGEMENT

Mr. LIN Nan

Aged 40, was appointed as Chief Executive Officer, Executive Director, Compliance Officer and Authorized Representative of the Group in November 2004. Mr. Lin is responsible for corporate planning, business development and strategy of the Group. Mr. Lin holds a PhD in business administration from Southwest International University, United States. He is currently the general manager of a private company in Shanghai of the People's Republic of China ("PRC"). Besides, Mr. Lin is a committee member of 中國上海市盧灣區第十屆政協委員會. He has over 13 years of management experience.

Mr. TSUI Wing Tak

Aged 36, was appointed as Financial Controller, Qualified Accountant as well as Company Secretary of the Group in October 2004. Mr. Tsui graduated from Macquarie University, Australia with a bachelor degree in Economics. He is a certified public accountant of The Australian Society of Certified Practising Accountants as well as a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsui has over 11 years' experience in accounting, auditing and financial management. Besides, Mr. Tsui is currently an independent non-executive director of Aptus Holdings Limited and B & B Natural Products Limited, both of which are companies listed on GEM Board of the Stock Exchange.

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 2003.

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 15 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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 32 to 73 of this annual report.

No interim dividend was paid during the year (2002: Nil). The directors do not recommend the payment of any final dividend for the year ended 31 December 2003 (2002: Nil).

SHARE CAPITAL

Details of share capital and share options of the Company are set out in notes 27 and 13 to the financial statements respectively.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity respectively.

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. In the opinion of the Directors, the Company's reserves available for distribution to shareholders at 31 December 2003 amounted to approximately HK$26,642,000 (2002: HK$152,353,000), representing the aggregate of share premium of approximately HK$61,597,000 and accumulated losses of approximately HK$34,955,000.

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2003:

	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**9,591**	9,018	27,551	37,006	205
Net loss attributable to shareholders	**(47,658)**	(35,917)	(163,595)	(26,317)	(18,508)
Total assets	**113,857**	186,598	249,502	371,279	156,881
Total liabilities	**(47,637)**	(84,849)	(128,577)	(85,668)	(45,797)
Minority interests	**—**	—	—	(9)	(244)
Net assets	**66,220**	101,749	120,925	285,602	110,840

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 2003.

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 (2002: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

STAFF RETIREMENT BENEFITS

Details of staff retirement benefits are set out in note 3 to the financial statements.

BORROWINGS

Details of the Group's borrowings are set out in notes 23, 24 and 25 to the financial statements.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 13 to the financial statements.

Details of the share options outstanding as at 31 December 2003 which have been granted under the Old Scheme are as follow:

	Options held at 1 January 2003	Options lapsed during the year	Options held at 31 December 2003	Adjusted exercise price	Grant date
				HK$	
	(Note)		*(Note)*	*(Note)*	
Executive Directors					
Mr. King Chun Kong, Karl	2,250,000	—	2,250,000	0.789	10 October 2000
	2,250,000	—	2,250,000	0.500	10 July 2001
Mr. Tung Tai Yung	600,000	—	600,000	0.731	20 July 2000
Continuous contracted employees	10,740,000	(2,715,000)	8,025,000	0.731	20 July 2000
	8,130,000	(6,257,500)	1,872,500	0.789	10 October 2000
	2,405,616	(1,983,125)	442,491	0.738	22 April 2001
	15,000,000	(7,500,000)	7,500,000	0.50	10 July 2001

Note: 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.

DIRECTORS

The Directors during the financial year and subsequently were:

Executive Directors

Mr. Cheng Qing Bo	
Mr. Lin Nan	(appointed on 1 November 2004)
Mr. Tung Tai Yung	
Mr. Hu Xue Jun	

Non-executive Directors

Mr. King Chun Kong, Karl
Mr. Hu Shiang-Chi

Independent Non-executive Directors

Mr. Lai Kin Wai	(appointed on 15 October 2004)
Mr. Liu Zheng Hao	(appointed on 28 September 2004)
Mr. Wu Min	
Mr. Huang Zhi Jia	(resigned on 15 October 2004)

In accordance with Article 87 of the Company's Articles of Association, Mr. Tung Tai Yung, Mr. Hu Xue Jun and Mr. Wu Min 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 30 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.

DISCLOSURE OF INTERESTS

Directors and Chief Executive's Interests in Securities

As at 31 December 2003, the interests and short positions of the Directors in the shares ("Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, the Laws of Hong Kong (the "SFO") which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in Shares

Name of Directors	Number of Shares	Capacity	Type of Interest	*(Note 3)* Approximate percentage of issued share capital (%)
Mr. Cheng Qing Bo ("Mr. Cheng")	180,000,000 *(Note 1)*	Beneficial owner	Corporate	24.89
Mr. Tung Tai Yung ("Mr. Tung")	4,759,935 *(Note 2)*	Interest of a controlled corporation	Corporate	0.66
	5,637,500	Beneficial owner	Personal	0.78
Mr. King Chun Kong, Karl	5,500,000	Beneficial owner	Personal	0.76

Notes:

1. These shares are held by Bright Castle Investments Limited, which is wholly owned by Mr. Cheng, Mr. Cheng is deemed to be interested in 24.89% of the issued share capital of the Company.

2. These Shares are held as to 4,017,435 directly by Taiping and as to 742,500 through Mamcol Taiwan Company Limited ("Mamcol"), which is a subsidiary of Taiping. These shares are attributable to Mr. Tung under the SFO, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung's directions or instructions and Taiping in turn holds more than one-third of the issued shares in Mamcol.

3. The percentage of issued shares had been arrived at on the basis of a total of 723,087,310 shares of the Company in issue as at 31 December 2003.

Save as disclosed above, as at 31 December 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

(ii) Long positions in underlying Shares of equity derivatives of the Company

The following Directors were granted share options under the share option scheme adopted by shareholders of the Company on 21 June 2000. The number of options granted to each Director over the Shares up to 31 December 2003 are as follows:

Name of Directors	*(Note)* Number of aggregate share options	Date of grant	*(Note)* Exercise price	Balance of options as at 31 December 2003
Mr. Tung	600,000	20 July 2000	0.731	600,000
Mr. King	2,250,000	10 July 2001	0.500	2,250,000
	2,250,000	10 October 2000	0.789	2,250,000

Note:

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

No share option was granted or exercised during the year.

Save as disclosed above, as at 31 December 2003, none of the Directors or chief executives of the Company or their respective spouses or children under 18 years of age had any right to subscribe for the Shares or any share of its associated corporations.

(iii) Short positions in the Shares and underlying Shares of equity derivatives of the Company

Saved as disclosed herein, as at 31 December 2003, none of the Directors had short positions in Shares or underlying Shares of equity derivatives of the Company.

Interests of Substantial Shareholders in Securities

So far as was known to any Director or chief executive of the Company, as at 31 December 2003, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) Long positions in Shares

Name of Shareholder	Number of Shares	Capacity	*(Note 2)* Approximate percentage of issued share capital (%)
Bright Castle	180,000,000 *(Note 1)*	Other	24.89%

Notes:

1. see Note 1 on page 24

2. see Note 3 on page 24

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(ii) Short positions in the Shares and underlying Shares of equity derivatives of the Company

So far as the Directors are aware, saved as disclosed herein, as at 31 December 2003, no persons had short positions in Shares or underlying Shares of equity derivatives of the Company.

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 2003 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.

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 30 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) During the year, the Group had entered into the following material related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business:

Related party	**Nature of transaction**	**2003**	2002
		HK$'000	*HK$'000*
Weiyi	Sale of goods to Weiyi	**9,514**	—
	Sale of property, plant and equipment held for resale to Weiyi	**292**	—
	Management fee received from Weiyi	**1,151**	—
	Royalty fee income received from Weiyi *(Note)*	**3,120**	—
	Non-refundable signing fee received from Weiyi *(Note)*	**—**	3,900

Note: In accordance with the Technology Rights Agreement dated 29 December 2002 entered into between the Company and Weiyi, the Group 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 the PRC and controlled by Mr. Cheng Qing Bo ("Mr. Cheng"), the chairman, an executive director as well as substantial shareholder of the Company. As at 31 December 2002, the Group received HK$800,000 as partial payment of the non-refundable signing fee, and the remaining balance of approximately HK$3,100,000 was 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. During the year ended 31 December 2003, the Group recognised a royalty fee income of US$400,000 (equivalent to approximately HK$3,120,000) in the income statement. Further details of the above transactions are disclosed in note 20 to the financial statements.

(ii) On 18 August 2003, Intcera High Tech (HK) Limited ("Intcera (HK)"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Shenzhen China Technology Industry Development Co., Ltd. ("Shenzhen China Technology"), which is beneficially held as to 36% by Mr. Cheng pursuant to which Intcera (HK) Limited and Shenzhen China Technology have agreed to establish a sino-foreign equity joint venture in the PRC. The total registered capital of the joint venture is US$12,000,000. The amount of the registered capital to be contributed by Intcera (HK) is US$8,400,000, representing 70% of the total registered capital of the joint venture. Such capital contribution will be made by Intcera (HK) in the form of technology and equipment. The completion of this agreement is subject to approval by shareholders of the Company at an extraordinary general meeting.

(iii) On 24 October 2003, Intcera High Tech (Hunan) Ltd. ("Intcera (Hunan)"), a joint venture company established by Intcera (HK) and Shenzhen China Technology pursuant to a joint venture agreement dated 18 August 2003, entered into a management agreement ("Management Agreement") with Weiyi. As mentioned in note (ii) above, Weiyi is a connected person of the Company and the aforesaid transaction therefore constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Pursuant to the Management Agreement, Weiyi granted the exclusive right to Intcera (Hunan) to use its machinery, office, apparatus and client information for the manufacture, production, development and sale of ceramic blanks and ceramic ferrules in Shenzhen of the PRC for a period of 3 years. In consideration of the grant of exclusive use of the production facilities and client information of Weiyi in Shenzhen, Intcera (Hunan) will pay Weiyi 20% of the net profit generated by the production and/or development of the production by using of such production facilities and client information of Weiyi. The completion of the Management Agreement is subject to approval by the independent shareholders of the Company at an extraordinary general meeting.

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	99%	—
Five largest customers in aggregate	100%	—
The largest supplier	—	72%
Five largest suppliers in aggregate	—	97%

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.

At 31 December 2003, Mr. Cheng had a beneficial interest in the largest customer of the Group. All transactions between the Group and the customer were carried out on normal commercial terms and in the ordinary course of the Group's business.

COMPETING INTERESTS

During the year and up to the date of this report, the Directors are not aware of 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.

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 5.34 to 5.45 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 Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee has met regularly to review with management the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The audit committee comprises three Independent Non-Executive Directors, namely Mr. Lai Kin Wai, Mr. Liu Zheng Hao and Mr. Wu Min.

AUDITORS

The financial statements have been audited by KLL Associates CPA Ltd. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Mr. Cheng Qing Bo
Chairman

Hong Kong, 4 November 2004

KLL ASSOCIATES CPA LTD
華融會計師事務所有限公司
Suite 1303, Shanghai Ind. Investment Building
60 Hennessy Road, Wanchai, 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 32 to 73 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 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.

KLL Associates CPA Limited
Certified Public Accountants (Practising)
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 4 November 2004

Consolidated Income Statement

Year ended 31 December 2003

	Notes	**2003** **HK$'000**	2002 HK$'000
Turnover	4	**9,591**	9,018
Cost of sales		**(3,381)**	(29,086)
Gross profit/(loss)		**6,210**	(20,068)
Other revenue	5	**25,607**	7,904
Selling and distribution expenses		**(1,183)**	(1,467)
Administrative expenses		**(4,677)**	(7,020)
Other operating expenses		**(65,488)**	(22,380)
(Provision for)/reversal of impairment of property, plant and equipment held for resale		**(4,922)**	13,000
Loss from operations	6	**(44,453)**	(30,031)
Finance costs	7	**(3,205)**	(5,886)
Loss before taxation		**(47,658)**	(35,917)
Taxation	8	**—**	—
Net loss for the year attributable to shareholders		**(47,658)**	(35,917)
Loss per share			
Basic	10	**HK(6.83) cents**	HK (6.28) cents

Consolidated Balance Sheet

As at 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**74,516**	81,559
Long-term investment	*16*	**830**	830
Long-term rental deposits		**—**	676
		75,346	83,065
Current assets			
Property, plant and equipment held for resale		**—**	72,720
Inventories	*17*	**2,590**	9,604
Trade and notes receivables	*18*	**78**	1,409
Other receivables, deposits and prepayments	*19*	**12,699**	11,895
Non-refundable signing fee receivable in respect of the Technology Rights Agreement	*20*	**—**	3,100
Pledged bank deposits		**—**	26
Bank balances and cash		**23,144**	4,779
		38,511	103,533
Current liabilities			
Trade and notes payables	*21*	**204**	777
Other payables and accruals		**18,833**	16,083
Amounts due to directors	*22*	**1,200**	—
Convertible bonds	*23*	**—**	27,400
Commercial paper	*24*	**—**	1,340
Obligations under finance leases	*25*	**—**	4,332
Current portion of long-term bank loans	*25*		
— secured		**—**	7,359
— unsecured		**—**	12,031
Short-term bank loans			
— unsecured		**—**	11,800
		20,237	81,122
Net current assets		**18,274**	22,411
Total assets less current liabilities		**93,620**	105,476

Consolidated Balance Sheet *(cont'd)*

As at 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current liabilities			
Long-term borrowings	*25*	—	3,727
Convertible bonds	*23*	**27,400**	—
		66,220	101,749
Capital and reserves			
Share capital	*27*	**7,231**	6,026
Reserves		**58,989**	95,723
		66,220	101,749

The financial statements on pages 32 to 73 were approved and authorised for issue by the Board of Directors on 4 November 2004 and signed on its behalf by:

Lin Nan
Director

Tung Tai Yung
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Share capital *HK$'000*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Merger reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
As at 1 January 2002	200,862	127,878	(8,483)	14,968	(214,300)	120,925
Bonus Issue *(note (27(b))*	80,345	(80,345)	—	—	—	—
Rights Issue *(note (27(b))*	20,086	—	—	—	—	20,086
Capital Reduction *(note 27(c))*	(295,267)	—	—	—	295,267	—
Share issue expenses	—	(1,227)	—	—	—	(1,227)
Exchange difference arising on translation of financial statements of operations outside Hong Kong	—	—	(2,118)	—	—	(2,118)
Net loss for the year	—	—	—	—	(35,917)	(35,917)
As at 31 December 2002	6,026	46,306	(10,601)	14,968	45,050	101,749
Issue of shares *(note 27(d))*	1,205	15,665	—	—	—	16,870
Share issue expenses	—	(374)	—	—	—	(374)
Exchange difference arising on translation of financial statements of operations outside Hong Kong	—	—	493	—	—	493
Release on disposal of subsidiaries	—	—	10,108	(14,968)	—	(4,860)
Net loss for the year	—	—	—	—	(47,658)	(47,658)
As at 31 December 2003	7,231	61,597	—	—	(2,608)	66,220

Note:

The merger reserve of the Group included the difference between the nominal value of the share capital of subsidiaries acquired pursuant to the group reorganisation for listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), and the nominal value of the shares issued by the Company in exchange thereof and also a balance on the share premium account of a subsidiary.

Balance Sheet

As at 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current assets			
Property, plant and equipment	14	**100**	301
Investments in subsidiaries	15	**72,455**	176,228
		72,555	176,529
Current assets			
Other receivables, deposits and prepayments		**575**	9,514
Bank balances and cash		**330**	3,975
		905	13,489
Current liabilities			
Other payables and accruals		**4,076**	4,239
Amounts due to directors	22	**8,111**	—
Convertible bonds	23	**—**	27,400
		12,187	31,639
Net current liabilities		**(11,282)**	(18,150)
Total assets less current liabilities		**61,273**	158,379
Non-current liabilities			
Convertible bonds	23	**27,400**	—
		33,873	158,379
Capital and reserves			
Share capital	27	**7,231**	6,026
Reserves	28	**26,642**	152,353
		33,873	158,379

Lin Nan
Director

Tung Tai Yung
Director

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(47,658)**	(35,917)
Adjustments for:			
Depreciation		**12,427**	19,078
Provision for/(reversal of) impairment of property, plant and equipment held for resale		**4,922**	(13,000)
(Gain)/loss on disposal of property, plant and equipment		**(6,701)**	1,321
Loss on disposal of property, plant and equipment held for resale		**29,893**	—
Gain on disposal of subsidiaries	29	**(13,614)**	—
Gain on disposal of other short-term investments		**—**	(1,743)
Loss on disposal of long-term investments		**—**	14
Dividend income		**—**	(23)
Interest income		**(39)**	(435)
Finance cost		**3,205**	5,886
Operating loss before working capital changes		**(17,565)**	(24,819)
Decrease/(increase) long-term rental deposits		**676**	(10)
Decrease in inventories		**5,256**	280
Decrease/(increase) in trade and notes receivables		**631**	(579)
Decrease/(increase) in non-refundable signing fee receivable in respect of the Technology Rights Agreement		**3,100**	(3,100)
Increase in other receivables, deposits and prepayments		**(10,734)**	(204)
Increase/(decrease) in trade and notes payables		**2,238**	(418)
Increase in amounts due to directors		**1,200**	—
Increase in other payables and accruals		**13,063**	10,492
Cash used in operations		**(2,135)**	(18,358)
Interest received		**39**	435
Interest paid on bank loans and overdrafts		**(2,009)**	(5,293)
Interest paid on finance leases		**(648)**	(593)
NET CASH USED IN OPERATING ACTIVITIES		**(4,753)**	(23,809)

Consolidated Cash Flow Statement *(cont'd)*

Year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4,427)**	(28,945)
Proceeds on disposal of property, plant and equipment and property, plant and equipment held for resale		**29,216**	3,032
Disposal of subsidiaries	29	**(11)**	—
Proceeds on disposal of long-term investments		**—**	10
Purchase of other short-term investments		**—**	(10,609)
Proceeds on disposal of other short-term investments		**—**	20,077
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**24,778**	(16,435)
FINANCING ACTIVITIES			
Increase in pledged bank deposits		**—**	74,975
Net decrease in bank loans		**(16,816)**	(65,070)
Proceeds from issue of shares		**16,870**	18,859
Expenses paid in connection with issue of shares		**(374)**	—
Repayment of obligations under finance leases		**—**	(10,896)
Issue of convertible bonds		**—**	27,400
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		**(320)**	45,268
Increase in cash and cash equivalents		**19,705**	5,024
Cash and cash equivalents as at 1 January		**3,439**	1,580
Effect of foreign exchange rate changes		**—**	(3,165)
Cash and cash equivalents as at 31 December		**23,144**	3,439
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**23,144**	4,779
Less: Commercial paper		**—**	(1,340)
		23,144	3,439

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The shares of the Company are listed on the GEM of Stock Exchange. The Company acts as an investment holding company. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current year, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKICPA.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment is required.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life, generally not exceeding twenty years. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Intangible assets

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; it is reasonably certain that the projects are technically feasible; and the products have commercial value. Products development expenditure which does not meet these criteria is expensed when incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

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%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Property, plant and equipment held for resale

Property, plant and equipment held for resale are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property, plant and equipment.

Inventories

Inventories comprise stocks of raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and appropriate portion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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

Impairment *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Long-term investment

Long-term investment is stated at cost less any impairment losses.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

4. TURNOVER 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.

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.

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

The Group operates in three main geographical areas — the PRC, other than Taiwan and Hong Kong, Taiwan 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	
Group	**2003** *HK$'000*	2002 *HK$'000*	**2003** *HK$'000*	2002 *HK$'000*	**2003** *HK$'000*	2002 *HK$'000*
Taiwan	**78**	2,973	**123**	35,639	**—**	3,048
PRC, other than Taiwan and Hong Kong	**9,513**	1,515	**71,375**	54,946	**4,206**	25,843
Hong Kong	**—**	4,392	**42,359**	96,013	**293**	54
Europe	**—**	138	**—**	—	**—**	—
	9,591	9,018	**113,857**	186,598	**4,499**	28,945

5. OTHER REVENUE

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest income	**39**	435
Dividend income from listed investment	**—**	23
Gain on disposal of other short-term investments	**—**	1,743
Net exchange gain	**—**	1,695
Non-refundable signing fee in respect of the Technology Rights Agreement *(Note 20)*	**—**	3,900
Royalty fee in respect of the Technology Rights Agreement *(Note 20)*	**3,120**	—
Gain on disposal of property, plant and equipment	**6,701**	—
Gain on disposal of subsidiaries	**13,614**	—
Sundry income	**2,133**	108
	25,607	7,904

6. LOSS FROM OPERATIONS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**369**	298
Depreciation:		
— owned assets	**11,760**	17,410
— leased assets	**667**	1,668
Loss on disposal of property, plant and equipment	**—**	1,321
Loss on disposal of property, plant and equipment held for resale	**29,893**	—
Operating lease rentals in respect of land and buildings	**260**	2,235
Provision for obsolete inventory	**2,569**	1,275
Retirement benefit costs, (including directors' remuneration and net of forfeiture of voluntary contribution of HK$78,000 (2002: HK$215,000))	**6**	16
Research and development costs	**—**	158
Staff costs (including directors' remuneration *(Note 11)*)	**4,289**	15,496

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**2,009**	5,293
Interest payable on convertible bonds wholly repayable within five years	**548**	—
Interest on finance leases	**648**	593
	3,205	5,886

8. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong for the year (2002: Nil).

No provision for overseas taxation has been made in the financial statements as the Group had no assessable profit in Taiwan and PRC for the year. The subsidiary in Taiwan was granted a tax holiday since commencing operation 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 subsidiary in Taiwan has not yet utilised the tax holiday as it has been loss making. The Group disposed of its entire equity interest in the subsidiary in Taiwan during the year. The subsidiary in the PRC is entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and entitled to a 50% relief from PRC income tax for the following three years. The subsidiary in the PRC has not yet utilised the tax holiday as it has been loss making.

9. DIVIDEND

No interim dividend was paid during the year (2002: Nil). The Directors do not recommend the payment of any final dividend for the year (2002: Nil).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of approximately HK$47,658,000 (2002: HK$35,917,000) and the weighted average number of 697,336,625 (2002: 572,078,233) ordinary shares in issue during the year.

No diluted loss per share has been presented because the exercise of the outstanding share options would have an anti-dilutive effect for the years ended 31 December 2003 and 2002.

11. DIRECTORS' REMUNERATION

Detail of emoluments paid to the directors of the Company are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees	**664**	726
Basic salaries, housing allowances, other allowances and benefits-in-kind	**96**	802
Retirement benefit costs	**12**	11
	772	1,539

Each of the two independent non-executive directors received a director fee of HK$90,000 during the year (2002: HK$120,000).

During the year, the executive and non-executive directors received individual emoluments of approximately HK$Nil (2002: HK$333,000), HK$96,000 (2002: HK$352,000), HK$204,000 (2002: HK$204,000), HK$96,000 (2002: HK$274,000), HK$Nil (2002: HK$34,000), HK$100,000 (2002: HK$51,000) and HK$96,000 (2002: HK$51,000).

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.

12. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments in the Group do not include any director, the emoluments payable to the five (2002: five) non-director, highest paid employees during the year are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,964**	2,580
Retirement benefit costs	**32**	79
	1,996	2,659

The emoluments fell within the following band:

	2003	2002
Number of individuals		
HK$Nil — HK$1,000,000	**5**	5

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.

13. SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 June 2000 (the "Old Scheme") for the purpose of providing incentives and rewards to directors and eligible employees and will expire on 20 June 2010.

Under the Old Scheme, the directors of the Company may grant options to employees (whether full time or part time) and/or any director of any member of the Group to take up options to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

13. SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant is limited to 10% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 3 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and commences from the date of grant of the share options and ends on the expiry date of the Old Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the existing share on the date of offer; (ii) the average closing price of existing shares on the five business days immediately preceding the date of offer of such option; and (iii) the nominal value of the shares.

Movements in the share options under the Old Scheme during the year are as follows:

	2003 Number	2002 Number
Options vested as at 1 January	**41,375,616**	60,193,744
Adjusted as a result of the Rights Issue	**—**	26,896,872
Lapsed	**(19,035,625)**	(45,715,000)
Options vested as at 31 December	**22,339,991**	41,375,616

13. SHARE OPTION SCHEME (continued)

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

Exercise period	Exercise price	2003 Number	2002 Number
20 July 2000 to 19 July 2010	HK$0.731	**8,025,000**	11,340,000
10 October 2000 to 9 October 2010	HK$0.789	**4,122,500**	10,380,000
22 April 2001 to 21 April 2011	HK$0.738	**442,491**	2,405,616
10 July 2001 to 9 July 2011	HK$0.500	**9,750,000**	17,250,000
		22,339,991	41,375,616

The exercise in full of the outstanding vested options would have, with the capital structure of the Company as at 31 December 2003, resulted in the issue of additional 22,339,991 shares.

As a result of the amendments of Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules") on 1 October 2001, certain terms of the Old Scheme are no longer in compliance with the GEM Listing Rules and the Company can no longer grant any further options under the Old Scheme without being in breach of the GEM Listing Rules. Accordingly, the Company terminated the Old Scheme and adopted a new share option scheme (the "New Scheme"), which was approved in the Company's annual general meeting on 29 April 2002, for the purpose of providing incentives to directors and employees of the Group.

Except that no further options may be granted under the Old Scheme subsequent to its termination, all the other provisions of the Old Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the Old Scheme prior to 1 October 2001 and all such options will remain valid and exercisable in accordance with the provisions of the Old Scheme.

According to the New Scheme, the directors of the Company may grant options to employees (whether full time or part time) and/or any director of any member of the Group to take up options to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

13. SHARE OPTION SCHEME *(continued)*

Options granted should be accepted within 3 business days from the date of grant. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue at the date of adoption of the New Scheme ("Scheme Limit").

The Scheme Limit may be refreshed by a resolution in shareholders' meeting such that the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes shall not exceed 10% of the shares in issue as at the date of such shareholders' approval. However, the Scheme Limit and any increase in the Scheme Limit shall not result in the number of shares which may be issued upon exercise of all outstanding options granted under the New Scheme and other schemes exceed 30% of the shares in issue from time to time.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholder or an independent non-executive director of the Company or any of their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The directors may at their absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's share on the date of grant, (ii) the average closing price of Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

No options were granted under the New Scheme since its adoption.

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
As at 1 January 2003	1,244	99,307	6,785	—	107,336
Additions	118	4,206	71	104	4,499
Transfer from property, plant and equipment held for resale	—	25,180	—	—	25,180
Disposals	(31)	(12,287)	(1,833)	—	(14,151)
Disposals through disposal of subsidiaries	—	(24,434)	(3,801)	—	(28,235)
Exchange realignment	—	684	96	—	780
As at 31 December 2003	1,331	92,656	1,318	104	95,409
Depreciation and impairment					
As at 1 January 2003	1,228	21,430	3,119	—	25,777
Provided for the year	20	12,043	361	3	12,427
Written back on disposals	(29)	(3,130)	(1,202)	—	(4,361)
Written back on disposals through disposal of subsidiaries	—	(11,892)	(1,345)	—	(13,237)
Exchange realignment	—	226	61	—	287
As at 31 December 2003	1,219	18,677	994	3	20,893
Net book value					
As at 31 December 2003	112	73,979	324	101	74,516
As at 31 December 2002	16	77,877	3,666	—	81,559

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Total *HK$'000*
Cost			
As at 1 January 2003	1,213	752	1,965
Disposals	—	(44)	(44)
As at 31 December 2003	1,213	708	1,921
Depreciation			
As at 1 January 2003	1,213	451	1,664
Provided for the year	—	183	183
Disposals	—	(26)	(26)
As at 31 December 2003	1,213	608	1,821
Net book value			
As at 31 December 2003	—	100	100
As at 31 December 2002	—	301	301

As at 31 December 2003, the net book value of property, plant and equipment held by the Group under finance leases amounted to approximately HK$Nil (2002: HK$6,677,000).

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**16**	124,754
Amounts due from subsidiaries	**203,438**	176,228
	203,454	300,982
Provision for impairment losses	**(130,999)**	(124,754)
	72,455	176,228

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.

The following is a list of subsidiaries of the Company as at 31 December 2003:

Name	**Place of incorporation**	**Issued and fully paid share capital/ paid-up capital**	**Principal activities and place of operations**
Wholly-owned subsidiaries directly held by the Company:			
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

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Issued and fully paid share capital/ paid-up capital	Principal activities and place of operations
Wholly-owned subsidiaries indirectly held by the Company:			
Great Route Limited	Hong Kong	100 ordinary shares of HK$1 each	Investment holding in Hong Kong
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	Trading of ceramic blanks and ferrules in the 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
大陶精密科技（深圳）有限公司	PRC	Registered capital of US$130,000	Provision of technical consulting services on optical technology in the PRC

16. LONG-TERM INVESTMENT

	Group 2003 HK$'000	2002 HK$'000
Club membership, at cost	**830**	830

17. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Finished goods, at net realisable value	**—**	741
Raw materials, at net realisable value	**2,590**	8,863
	2,590	9,604

18. TRADE AND NOTES RECEIVABLES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trade receivables, with aging analysis:		
Current	**—**	96
30 — 60 days	**—**	70
Over 60 days	**78**	1,213
	78	1,379
Notes receivables	**—**	30
	78	1,409

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

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments as at 31 December 2003 include an aggregate amount of approximately HK$7,363,000 due from two debtors which arose from the sale of property, plant and equipment held for resale.

20. 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").

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 (equivalent to approximately HK$3,900,000) in cash 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.

As at 31 December 2002, the Group 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 was 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.

21. TRADE AND NOTES PAYABLES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trade payables, with aging analysis:		
Current	**185**	—
30 — 60 days	**—**	7
Over 60 days	**19**	685
	204	692
Note payables	**—**	85
	204	777

22. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represent net funds advanced to the Group and the Company, and are unsecured, interest-free and have no fixed terms of repayment.

23. CONVERTIBLE BONDS

On 31 October 2002 the Company issued convertible bonds (the "Convertible Bonds") with principal amount of HK$27,400,000 which were originally 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.

23. CONVERTIBLE BONDS *(Continued)*

On 1 November 2003, the Company entered into agreements with the bondholders to extend the maturity date to 31 October 2005, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2003.

Up to 31 December 2003, 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 2003, result in the issue of approximately 161,176,470 additional shares.

24. COMMERCIAL PAPER

The commercial paper bore interest at 5.1% per annum.

25. LONG-TERM BORROWINGS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Bank loans *(note a)*		
— secured	—	7,359
— unsecured	—	15,758
	—	23,117
Obligations under finance leases *(note b)*	—	4,332
	—	27,449
Less: Current portion of long-term borrowings	—	(23,722)
	—	3,727

25. LONG-TERM BORROWINGS *(Continued)*

Notes:

(a) As at 31 December 2003, the Group's bank loans were repayable as follows:

	2003 **HK$'000**	2002 *HK$'000*
Within one year	—	19,390
In the second year	—	3,727
	—	23,117

(b) As at 31 December 2003, the minimum lease payment of Group's obligations under finance lease were as follows:

	2003 **HK$'000**	2002 *HK$'000*
Within one year	—	4,575
Less: Future finance charges	—	(243)
	—	4,332
Present value of minimum lease payments		
— Within one year	—	4,332

26. DEFERRED TAX

Group

The following are the major deferred tax liabilities and assets recongised by the Group and movements thereon during the current and prior periods:

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised) *(Note 2)*	9,249	(9,249)	—
— as restated	9,249	(9,249)	—
(Credit)/charge to income for the year	(957)	957	—
At 31 December 2002	8,292	(8,292)	—
(Credit)/Charge to income for the year	(884)	884	—
Effect of change in tax rate			
— charge/(credit) to income for the year	777	(777)	—
At 31 December 2003	8,185	(8,185)	—

For the purpose of balance sheet presentation, deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP12 (Revised).

At the balance sheet date, the Group has unused tax losses of HK$119,652,000 (2002: HK$144,632,000) available to set off future profits. A deferred tax asset has been recognised in respect of the HK$46,771,000 (2002: HK$51,825,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$72,881,000 (2002: HK$92,807,000) due to the unpredictability of future profits streams. All the losses can be carried forward indefinitely.

26. DEFERRED TAX *(Continued)*

Company

At the balance sheet date, the Company has deductible temporary differences of HK$1,069,000 (2002: HK$956,000) and unused tax losses of HK$11,736,000 (2002: HK$7,394,000). No deferred tax assets has been recognised in relation to such deductible temporary differences and unused tax losses due to the unpredictability of future profits streams.

27. SHARE CAPITAL

	Number of shares	**Par value per share**	**Total value**
	'000	*HK$*	*HK$'000*
Authorised:			
As at 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
As at 31 December 2002 and 31 December 2003	50,000,000	0.01	500,000

27. SHARE CAPITAL *(Continued)*

	Number of shares *'000*	Par value per share *HK$*	Total value *HK$'000*
Issued and fully paid:			
As at 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))*	—	(0.49)	(295,267)
As at 31 December 2002	602,587	0.01	6,026
New issue of shares *(note (d))*	120,500	0.01	1,205
As at 31 December 2003	723,087	0.01	7,231

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 (the "Rights Issue"), 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 "Bonus Issue"). These new shares ranked 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.

27. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(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.

(d) On 19 March 2003, 120,500,000 ordinary shares of the Company of HK$0.01 each were placed to 24 investors who were independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company or their respective associates at a price of HK$0.14 per share, 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$16,496,000.

28. RESERVES

Company	Share premium	(Accumulated loss)/retained profits	Total
	HK'000	*HK$'000*	*HK$'000*
As at 1 January 2002	127,878	(171,893)	(44,015)
Net loss for the year	—	(17,327)	(17,327)
Bonus Issue *(note 27(b))*	(80,345)	—	(80,345)
Capital Reduction *(note 27(c))*	—	295,267	295,267
Share issue expenses	(1,227)	—	(1,227)
As at 31 December 2002	46,306	106,047	152,353
Issue of shares *(note 27(d))*	15,665	—	15,665
Share issue expenses	(374)	—	(374)
Net loss for the year	—	(141,002)	(141,002)
As at 31 December 2003	61,597	(34,955)	26,642

Note:

Pursuant to the Company 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. At 31 December 2003, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to approximately HK$26,642,000, representing the aggregate of share premium of approximately HK$61,597,000 and accumulated losses of approximately HK$34,955,000.

29. DISPOSAL OF SUBSIDIARIES

On 31 December 2003, the Company disposed of its entire equity interests in OpticonX Inc. and its subsidiary, Taicera High Tech Co., Limited at a cash consideration of HK$1. The gain arising from the disposal amounted to HK$13,614,000.

29. DISPOSAL OF SUBSIDIARIES *(Continued)*

	2003	2002
	HK$'000	*HK$'000*
Net liabilities disposed:		
Property, plant and equipment	**14,998**	—
Inventories	**1,758**	—
Trade and note receivables	**700**	—
Other receivables, deposits and prepayments	**9,930**	—
Pledged bank deposit	**26**	—
Bank balances and cash	**11**	—
Trade and note payables	**(2,811)**	—
Other payable	**(10,861)**	—
Obligations under finance lease	**(4,404)**	—
Bank loans	**(18,101)**	—
	(8,754)	—
Merger reserve released	**(14,968)**	—
Exchange reserve released	**10,108**	—
	(13,614)	—
Gain on disposal of subsidiaries	**13,614**	—
Consideration	**—**	—
Net cash outflow on disposal of subsidiaries		
Cash consideration received	**—**	—
Bank balances and cash of disposed subsidiaries	**(11)**	—
	(11)	—

29. DISPOSAL OF SUBSIDIARIES *(Continued)*

The operating results of the disposed subsidiaries for the period from 1 January 2003 to 31 December 2003 (date of disposal) as included in the Group's consolidated financial statements are as follows:

	2003	2002
	HK$'000	*HK$'000*
Turnover	**78**	—
Cost of sales	**(62)**	—
Gross profit	**16**	—
Other revenues	**59**	—
Selling and distribution expenses	**(1,155)**	—
Other operating expenses	**(3,644)**	—
Loss from operations	**(4,724)**	—
Finance costs	**(2,409)**	—
Loss before taxation	**(7,133)**	—
Taxation	**—**	—
Net loss for the year	**(7,133)**	—

30. CONNECTED AND RELATED PARTY TRANSACTIONS

(i) During the year, the Group had entered into the following material related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business:

Related party	Nature of transaction	2003 HK$'000	2002 HK$'000
Weiyi	Sale of goods to Weiyi	**9,514**	—
	Sale of property, plant and equipment held for resale to Weiyi	**292**	—
	Management fee received from Weiyi	**1,151**	—
	Royalty fee income received from Weiyi *(Note)*	**3,120**	—
	Non-refundable signing fee received from Weiyi *(Note)*	**—**	3,900

Note:

In accordance with the Technology Rights Agreement dated 29 December 2002 entered into between the Company and Weiyi, the Group 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 the PRC and controlled by Mr. Cheng Qing Bo, a director of the Company. As at 31 December 2002, the Group received HK$800,000 as partial payment of the non-refundable signing fee, and the remaining balance of approximately HK$3,100,000 was 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. During the year ended 31 December 2003, the Group recognised a royalty fee income of US$400,000 (equivalent to approximately HK$3,120,000) in the income statement. Further details of the above transactions are disclosed in note 20 above.

30. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(ii) On 18 August 2003, Intcera High Tech (HK) Limited ("Intcera (HK)"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Shenzhen China Technology Industry Development Co., Ltd. ("Shenzhen China Technology"), which is beneficially held as to 36% by Mr. Cheng Qing Bo, a director as well as the substantial shareholder of the Company, pursuant to which Intcera (HK) Limited and Shenzhen China Technology have agreed to establish a sino-foreign equity joint venture in the PRC. The total registered capital of the joint venture is US$12,000,000. The amount of the registered capital to be contributed by Intcera (HK) is US$8,400,000, representing 70% of the total registered capital of the joint venture. Such capital contribution will be made by Intcera (HK) in the form of technology and equipment. The completion of the agreement is subject to approval from shareholders of the Company.

31. COMMITMENTS

As at the balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	2002
	HK$'000	*HK$'000*
Within one year	**582**	293
Two to five years	**1,470**	10
	2,052	303

As at the balance sheet date, the Company did not have any significant operating lease commitment (2002: Nil).

32. POST BALANCE SHEET EVENTS

On 19 January 2004, a winding up petition was filed against the Company by certain ex-senior employees of the Group claiming for payment in the sum of HK$594,315 from the Company in respect of an award/order dated 29 October 2003 granted by the Labour Tribunal in respect of the severance and bonus disputes between the Company and the ex-senior employees. A provision has been made for this amount in the Company's financial statements for the year. The Company is currently seeking legal advice on the feasibility of appeal against the decision of the Labour Tribunal. The directors of the Company are of the view that this winding up petition has no adverse impact on the Group's financial position and business operations.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting ("Meeting") of Intcera High Tech Group Limited (the "Company") will be held at Unicorn & Phoenix Room, Basement 2, The Charterhouse, 209-219 Wanchai Road, Hong Kong on Monday, 20 December 2004 at 10:30 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 2003.

2. To re-elect the retiring directors and the proposed appointment of directors of the Company and to authorize the board of directors to fix their remuneration *(note 4).*

3. To re-appoint the auditors of the Company and to authorize the board of directors to fix their remuneration *(note 5).*

4. As special business, to consider and, if thought fit, pass with or without amendments 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 in 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 or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the 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."

5. As special business, to consider and approve the amendments of the articles of association of the Company (the "Articles") based on their existing context and in accordance with Appendix 3 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") as revised and effective from 31 March 2004. Details of the amendments to the Articles are set out as follows:

SPECIAL RESOLUTION

Article 2

(a) THAT the definition of "associate" of Article 2 be inserted as follows:

""associate" the meaning attributed to it in the rules of the Designated Stock Exchange."

Article 76

(b) THAT Article 76 be amended as follows:

(i) By re-numbering existing Article 76 as Article 76(1);

(ii) By inserting the following as new Article 76(2):

"(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

Article 88

(c) THAT Article 88 be amended as follows:

By deleting the words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in the last sentence of Article 88 and replacing therewith the following proviso:

"provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."

Article 103

(d) THAT Article 103 be amended as follows:

By deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

"103 (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph, there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and

conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

By Order of the Board
Intcera High Tech Group Limited
Cheng Qing Bo
Chairman

Registered Office:
Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 G7
George Town, Grand Cayman
British West Indies

Head Office and Principal Place of Business:
Unit 4713, 47th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

Hong Kong, 15 November 2004

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) Completion and return of the proxy form will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the instrument appointing a proxy shall be revoked.

(4) The biographical details of Messrs. Tung Tai Yung, Hu Xue Jun, Wu Min, Liu Zheng Hao, Lai Kin Wai and Lin Nan who offer themselves for re-election are provided in Appendixes II and III of the Company's circular dated 15 November 2004.

(5) Messrs. HLB Hodgson Impey Cheng ("HLB") resigned as the Company's auditors with effect from 9 August 2004 and Messrs. KLL Associates CPA Ltd. ("KLL") was appointed as the Company's auditors to fill the casual vacancy created by the resignation of HLB with effect from 20 September 2004. Being eligible, KLL offer themselves for re-appointment at the Meeting.

(6) A circular containing further details in respect of resolutions Nos. 4 and 5 as required by the GEM Listing Rules will be dispatched to the shareholders of the Company.