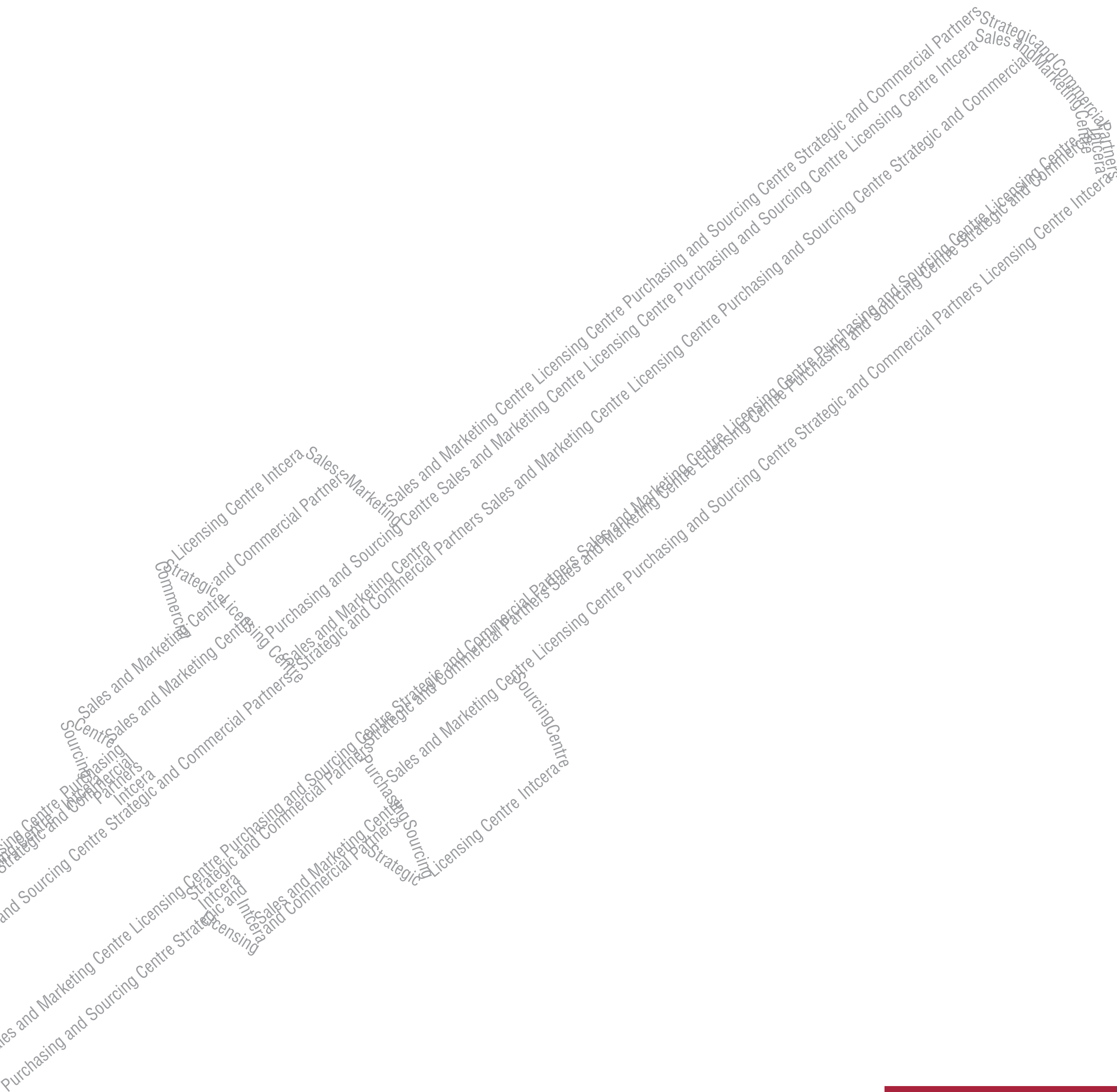
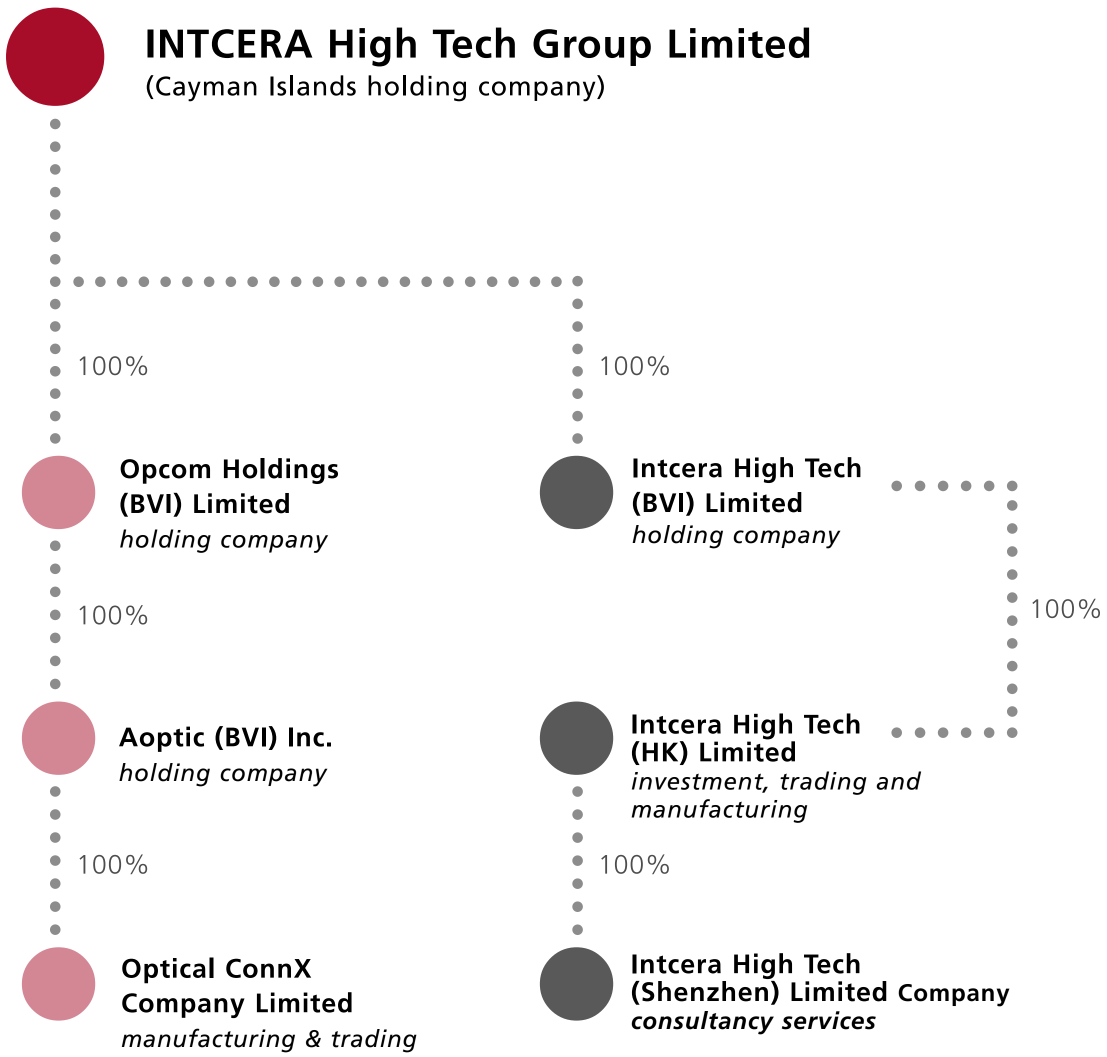
INTCERA High Tech Group Limited



2004

Annual Report

Corporate Structure (Group's principal subsidiaries)



Contents

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

WONG Hon Kit

COMPLIANCE OFFICER

LIN Nan

QUALIFIED ACCOUNTANT

WONG Hon Kit

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, Bao An 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
Cathay United Bank

STOCK CODE

8041

WEBSITE

www.intcera.com

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 World Trade Organization 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 advantages, Intcera High Tech Group Limited (the "Company") and its subsidiaries (collectively, 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.

Reaching new milestone with technology transfer

A cooperation between the Group and Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") was the Group's key project for the year. This is a significant milestone for the Group in its entry to the market of the People's Republic of China (the "PRC"). It also put the Group's strategic plan of technology transfer in the PRC 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.

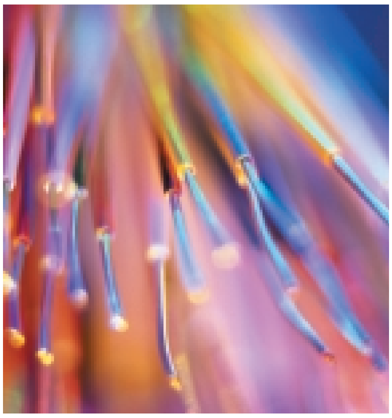
Based on the experience gained through the cooperation with Weiyi, the Group will continue to identify suitable business partners in the PRC for technology transfer projects. In addition to target for the most favourable cooperation terms, the Group also aspires to penetrate the market nationwide for 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.

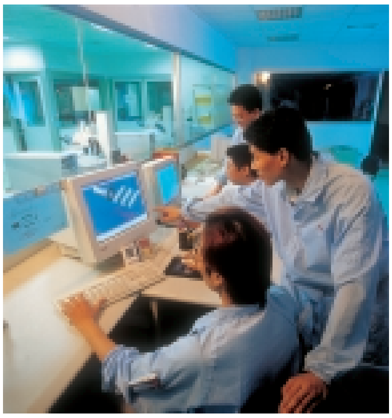
OUTLOOK

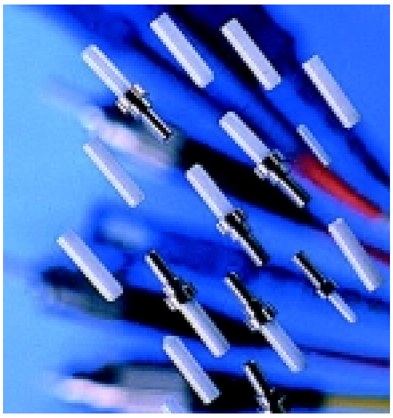
With the resumption of production in the PRC, all the delays and obstacles during the past two years are out of the way. The prime concerns for the Group now are to concentrate on how to improve its production capacity and product quality. Taking technology transfer as the key business focus in the future, 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 PRC 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 PRC, 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 the Greater China to maximize its competitive advantages for the best economic returns. Finally, 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
30 March 2005







Financial Highlights

- The Group has recorded a total turnover of approximately HK$7,076,000 for the year ended 31 December 2004 representing a decrease of approximately 26% over the corresponding period of 2003.

- The Group's gross profit amounted to approximately HK$361,000 for the year ended 31 December 2004 compared to a gross profit of approximately HK$6,210,000 in the corresponding period of 2003.

- Approximately HK$3,115,000 in technology rights licensing revenue was achieved for the year ended 31 December 2004.

- The Group has recorded a net loss attributable to shareholders for the year ended 31 December 2004 of approximately HK$16,090,000, representing a basic loss per share of HK$2.23 cents and a decrease of approximately 67% over the same period of 2003.

- The Directors do not recommend the payment of a dividend for the year ended 31 December 2004.

- The Group has a sound financial position with cash balances of HK$28,592,000 and no bank borrowings as at 31 December 2004.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a total turnover of approximately HK$7,076,000 representing a decrease of approximately 26% from approximately HK$9,591,000 for the year ended 31 December 2003. A gross profit of approximately HK$361,000 was recorded by the Group for the year ended 31 December 2004. The loss attributable to shareholders was approximately HK$16,090,000 when compared with that of approximately HK$47,658,000 for the same period in 2003. The decrease in loss attributable to shareholders was the result of the Group's effort in cost reduction.

During the year under review, royalty fee amounting to approximately HK$3,115,000 was achieved on the transfer of the technology rights constituted another major source of revenue for the Group. Besides collecting technology rights licensing revenue from Shenzhen Weiyi Optical Communication Technology Limited (the "Weiyi"), 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.

OPERATIONS

Pursuant to the Consultancy and Management Agreement with Weiyi, the Group was given the right of use the machinery, office, apparatus and client information of Weiyi, for the purpose of the Group's future business development in the People's Republic of China (the "PRC"). The production of ceramic ferrules at Weiyi was increased from 300,000 pieces per month to approximately 600,000 pieces per month. It is envisaged that the designed production capacity of 750,000 pieces per month will be back on board by the second quarter of 2005 after all machinery and facilities are successfully assembled and tested.

Arrangement was 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 capacity 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 2002.

During the year under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of approximately HK$95,729,000 of which bank and cash balances of approximately HK$28,592,000. At the balance sheet date, the Group had unsecured convertible bonds of approximately HK$27,400,000. The Group has a current ratio of approximately 1.88 comparing to that of 1.90 as at 31 December 2003. As at 31 December 2004, the Group did not have any bank borrowings and the gearing ratio of 48% was calculated at by dividing total debt by the total assets (as at 31 December 2003 was 42%).

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

As at 31 December 2004 and 2003, the Company's outstanding issued shares were 723,087,310 ordinary shares of HK$0.01 each. There has not been any change to the capital structure of the Company during the year under review.

MAJOR INVESTMENTS

The Group did not have any significant investments as at 31 December 2004.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies for the year ended 31 December 2004.

EMPLOYEES

As at 31 December 2004, the Group had 17 full time employees compared with that of 25 in 2003. The staff costs, including directors' remuneration, were approximately HK$3,032,000 (2003: HK$4,289,000). The Group offers a comprehensive remuneration package and benefits to its full time employees in compliance with the regulations in Hong Kong and the PRC respectively, including medical scheme, provident fund or retirement fund.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any material contingent liabilities or charges laid against its assets.

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 PRC.

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 PRC 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 PRC. Recently, the Huawei Group, one of the largest PRC's 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 PRC's 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 PRC, 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.

Meanwhile, the Group will continue to focus on training to nurture a workforce with outstanding technical skills in the PRC 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 42, 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 China Technology Industry Development Company Limited and 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 10 years of experience in finance, accounting and investment management.

Mr. LIN Nan

Aged 41, 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 (the "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 10 years of management experience.

Mr. TUNG Tai Yung

Aged 39, 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 Company Limited since June 1985.

Mr. HU Xue Jun

Aged 37, 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 10 years of experience in industrial operations and investment management.

NON-EXECUTIVE DIRECTORS

Mr. KING Chun Kong, Karl

Aged 38, is a Non-executive Director of the Group. He joined the Group 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 44, 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 38, 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 46, 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 46, was appointed Independent Non-executive Director in January 2003. He is also the deputy general manager of Afc Technology Company Ltd. (China), which is engaged in lasers industry. In addition, Mr. Wu has served as a deputy director and a director of Municipal Culture Bureau and Press and Publication Bureau in Enshi City, Hubei Province, the PRC. Mr. Wu obtained his degree in economics management from Zhongnan Mingsu Institute in Wuhan City of the PRC. He has over 10 years of experience in manufacturing and management.

SENIOR MANAGEMENT

Mr. WONG Hon Kit

Aged 38, was appointed as Financial Controller, Qualified Accountant as well as Company Secretary of the Group in January 2005. Mr. Wong is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 10 years of experience in the accounting field and also possesses accounting experience in the PRC.

Report of the Directors

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 2004.

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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 22 to 52 of this annual report.

No interim dividend was paid during the year (2003: Nil). The directors do not recommend the payment of any final dividend for the year ended 31 December 2004 (2003: Nil).

SHARE CAPITAL

Details of share capital and share options of the Company are set out in notes 24 and 25 to the financial statements respectively.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 26 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, share premium of the Company is distributable to the shareholders, subject to a solvency test. At 31 December 2004, in the opinion of the Directors, the Company's reserves available for distribution to shareholders amount to approximately HK$22,278,000 (2003: HK$26,642,000), representing the aggregate of share premium of approximately HK$61,597,000 (2003: HK$61,597,000) and accumulated losses of approximately HK$39,319,000 (2003: 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 2004:

	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**7,076**	9,591	9,018	27,551	37,006
Net loss attributable to shareholders	**(16,090)**	(47,658)	(35,917)	(163,595)	(26,317)
Total assets	**95,729**	113,857	186,598	249,502	371,279
Total liabilities	**(45,598)**	(47,637)	(84,849)	(128,577)	(85,668)
Minority interests	**—**	—	—	—	(9)
Net assets	**50,131**	66,220	101,749	120,925	285,602

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 2004.

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 (2003: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 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 note 22 to the financial statements.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 25 to the financial statements.

Details of the share options outstanding as at 31 December 2004 which have been granted under the Old Scheme are as follow:

	Options held at 1 January 2004 (Note)	Options lapsed during the year	Options held at 31 December 2004 (Note)	Adjusted exercise price HK$ (Note)	Grant date
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	8,025,000	(8,025,000)	—	0.731	20 July 2000
	1,872,500	(1,872,500)	—	0.789	10 October 2000
	442,491	(397,491)	45,000	0.738	22 April 2001
	7,500,000	(7,500,000)	—	0.500	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. Lin Nan, Mr. Tung Tai Yung and Mr. Liu Zheng Hao 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 29 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 2004, the interests and short positions of the Directors in the shares ("Shares"), underlying Shares or debentures of the Company and 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) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules of the Stock Exchange relating to securities transaction by Directors, 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 ("Mr. King")	5,500,000	Beneficial owner	Personal	0.76

Notes:

1. These shares are held by Bright Castle Investments Limited ("Bright Castle"), which is wholly owned by Mr. Cheng, Mr. Cheng is therefore 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 Enterprises Company Limited ("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 2004.

Save as disclosed above, as at 31 December 2004, 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) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules of the Stock Exchange relating to securities transaction by Directors.

(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 2004 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 2004
Mr. Tung	600,000	20 July 2000	HK$0.731	600,000
Mr. King	2,250,000	10 July 2001	HK$0.500	2,250,000
	2,250,000	10 October 2000	HK$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 2004, 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 2004, 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 2004, 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 15
2. see Note 3 on page 15

Save as disclosed above, as at 31 December 2004, 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, save as disclosed herein, as at 31 December 2004, 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 2004 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 29 to the financial statements, which also constitute connected transactions under the GEM Listing Rules of the Stock Exchange, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules of the Stock Exchange, are as follows:

(i) During the year, the Group had 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**	**2004** *HK$'000*	2003 *HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi")	Sale of goods to Weiyi	**4,236**	9,514
	Sale of property, plant and equipment held for resale to Weiyi	–	292
	Management fee received from Weiyi	**84**	1,151
	Royalty fee income received from Weiyi	**3,115**	3,120

Note: In accordance with the Technology Rights Agreement dated 29 December 2002 entered into between the Company and Weiyi, Weiyi is a limited liability company established in the PRC and controlled by Mr. Cheng, the chairman, an executive director as well as substantial shareholder of the Company. Further details of the above transactions are disclosed in note 29 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 34% by Mr. Cheng, a director as well as the substantial shareholder of the Company, pursuant to which Intcera (HK) 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. As 31 December 2004, the agreement has not yet completed as it is subject to approval from the general meeting of shareholders of the Company.

(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 (i) 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 of the Stock Exchange. 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. As 31 December 2004, the agreement has not yet completed as it is subject to approval from the general meeting of shareholders of the Company.

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	60%	—
Five largest customers in aggregate	100%	—
The largest supplier	—	43%
Five largest suppliers in aggregate	—	88%

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 2004, 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 of the Stock Exchange) 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.

BOARD PRACTICES, PROCEDURES AND CODE ON CORPORATE GOVERNANCE PRACTICES

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 of the Stock Exchange throughout the year.

The Board Practices and Procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules of the Stock Exchange were replaced by the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 15 of the GEM Listing Rules of the Stock Exchange which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

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. The Group's annual results for the year ended 31 December 2004 have been reviewed by the audit committee.

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, 30 March 2005

Auditors' Report

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 22 to 52 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 2004 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, 30 March 2005

Consolidated Income Statement

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	4	**7,076**	9,591
Cost of sales		**(6,715)**	(3,381)
Gross profit		**361**	6,210
Other revenue	5	**3,273**	25,607
Selling and distribution expenses		**(15)**	(1,183)
Administrative expenses		**(3,236)**	(4,677)
Other operating expenses		**(15,925)**	(65,488)
Provision for impairment of property, plant and equipment held for resale		**–**	(4,922)
Loss from operations	6	**(15,542)**	(44,453)
Finance costs	7	**(548)**	(3,205)
Loss before taxation		**(16,090)**	(47,658)
Taxation	10	**–**	–
Net loss for the year		**(16,090)**	(47,658)
Loss per share	12		
Basic		**HK(2.23) cents**	HK(6.83) cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	13	**23,573**	74,516
Machineries held for proposed capital contribution	14	**37,092**	–
Long-term investment	16	**830**	830
		61,495	75,346
Current assets			
Inventories	17	**–**	2,590
Trade receivables	18	**78**	78
Other receivables, deposits and prepayments	19	**5,564**	12,699
Bank balances and cash		**28,592**	23,144
		34,234	38,511
Current liabilities			
Trade payables	20	**770**	204
Other payables and accruals		**11,767**	18,833
Amounts due to directors	21	**3,533**	1,200
Amount due to a related company	21	**2,128**	–
		18,198	20,237
Net current assets		**16,036**	18,274
Total assets less current liabilities		**77,531**	93,620
Non-current liabilities			
Convertible bonds	22	**27,400**	27,400
		50,131	66,220
Capital and reserves			
Share capital	24	**7,231**	7,231
Reserves	26	**42,900**	58,989
		50,131	66,220

The financial statements on pages 22 to 52 were approved and authorised for issue by the Board of Directors on 30 March 2005 and signed on its behalf by:

Lin Nan	**Tung Tai Yung**
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	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 2003	6,026	46,306	(10,601)	14,968	45,050	101,749
Issue of shares	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
Exchange difference arising on translation of financial statements of operations outside Hong Kong	–	–	1	–	–	1
Net loss for the year	–	–	–	–	(16,090)	(16,090)
As at 31 December 2004	**7,231**	**61,597***	**1***	**–***	**(18,698)***	**50,131**

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 (the "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 former subsidiary.

* These reserve balances comprise the consolidated reserve of HK$42,900,000 (2003: HK$58,989,000) in the consolidated balance sheet.

Balance Sheet

As at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	13	**32**	100
Interests in subsidiaries	15	**71,423**	72,455
		71,455	72,555
Current assets			
Other receivables, deposits and prepayments		**794**	575
Bank balances and cash		**99**	330
		893	905
Current liabilities			
Other payables and accruals		**4,865**	4,076
Amounts due to directors	21	**10,574**	8,111
		15,439	12,187
Net current liabilities		**(14,546)**	(11,282)
Total assets less current liabilities		**56,909**	61,273
Non-current liabilities			
Convertible bonds	22	**27,400**	27,400
		29,509	33,873
Capital and reserves			
Share capital	24	**7,231**	7,231
Reserves	26	**22,278**	26,642
		29,509	33,873

Lin Nan
Director

Tung Tai Yung
Director

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(16,090)**	(47,658)
Adjustments for:			
Depreciation		**10,237**	12,427
Provision for impairment of property, plant and equipment held for resale		**–**	4,922
Gain on disposal of property, plant and equipment		**–**	(6,701)
Loss on disposal of property, plant and equipment held for resale		**–**	29,893
Gain on disposal of subsidiaries	27	**–**	(13,614)
Interest income		**(74)**	(39)
Finance cost		**548**	3,205
Operating loss before working capital changes		**(5,379)**	(17,565)
Decrease in long-term rental deposits		**–**	676
Decrease in inventories		**2,590**	5,256
Decrease in trade receivables		**–**	631
Decrease in non-refundable signing fee receivable in respect of the Technology Rights Agreement		**–**	3,100
Decrease / (increase) in other receivables, deposits and prepayments		**7,135**	(10,734)
Increase in trade payables		**566**	2,238
(Decrease) / increase in other payables and accruals		**(994)**	13,063
Increase in amounts due to directors		**2,333**	1,200
Increase in amount due to a related company		**2,128**	–
Cash from / (used in) operations		**8,379**	(2,135)
Interest received		**74**	39
Interest paid on bank loans and overdrafts		**–**	(2,009)
Interest paid on finance leases		**–**	(648)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		**8,453**	(4,753)

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(3,006)**	(4,427)
Proceeds on disposal of property, plant and equipment and property, plant and equipment held for resale		**–**	29,216
Disposal of subsidiaries	27	**–**	(11)
NET CASH (USED IN) / FROM INVESTING ACTIVITIES		**(3,006)**	24,778
FINANCING ACTIVITIES			
Net decrease in bank loans		**–**	(16,816)
Proceeds from issue of shares		**–**	16,870
Expenses paid in connection with issue of shares		**–**	(374)
NET CASH USED IN FINANCING ACTIVITIES		**–**	(320)
Increase in cash and cash equivalents		**5,447**	19,705
Cash and cash equivalents as at 1 January		**23,144**	3,439
Effect of foreign exchange rate changes		**1**	–
Cash and cash equivalents as at 31 December		**28,592**	23,144
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**28,592**	23,144

Notes to Financial Statements

Year ended 31 December 2004

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 the 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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and 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 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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	:	$33\frac{1}{3}$ %
Plant and machinery	:	9% to $16\frac{2}{3}$ %
Furniture, fixtures and office equipment	:	11% to $33\frac{1}{3}$ %
Motor vehicles	:	20%

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.

Leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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.

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 Mandatory Provident Fund 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 within the Group.

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 People's Republic of China (the "PRC"), other than Taiwan and Hong Kong, Hong Kong and Taiwan. An analysis of the Group's turnover, total assets and capital expenditure by geographical segments is as follows:

Group	Turnover		Total assets		Capital expenditure	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
PRC, other than Taiwan and Hong Kong	**4,236**	9,513	**66,617**	71,375	**3,000**	4,206
Hong Kong	**2,840**	–	**28,674**	42,359	**6**	293
Taiwan	**–**	78	**438**	123	**–**	–
	7,076	9,591	**95,729**	113,857	**3,006**	4,499

5. OTHER REVENUE

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest income	**74**	39
Gain on disposal of property, plant and equipment	**–**	6,701
Gain on disposal of subsidiaries	**–**	13,614
Royalty fee in respect of the Technology Rights Agreement	**3,115**	3,120
Sundry income	**84**	2,133
	3,273	25,607

6. LOSS FROM OPERATIONS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**200**	369
Depreciation:		
– owned assets	**7,506**	11,760
– leased assets	**–**	667
– machineries held for proposed capital contribution	**2,731**	–
Loss on disposal of property, plant and equipment held for resale	**–**	29,893
Operating lease rentals in respect of land and buildings	**385**	260
Provision for obsolete inventories	**–**	2,569
Retirement benefit costs (including directors' remuneration and net of forfeiture of voluntary contribution of HK$Nil (2003: HK$78,000))	**71**	6
Staff costs (including directors' remuneration *(Note 8)*)	**2,961**	4,283

7. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**–**	2,009
Interest payable on convertible bonds wholly repayable within five years	**548**	548
Interest on finance leases	**–**	648
	548	3,205

8. DIRECTORS' REMUNERATION

Details of remuneration paid to the directors of the Company are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees	**705**	664
Basic salaries, housing allowances, other allowances and benefits-in-kind	**96**	96
Retirement benefit costs	**12**	12
	813	772

During the year, the independent non-executive directors received director fee HK$96,000 (2003: HK$90,000), HK$76,000 (2003: HK$90,000), HK$18,000 (2003: HK$Nil) and HK$5,000 (2003: HK$Nil).

During the year, the executive and non-executive directors received individual remuneration of approximately HK$30,000 (2003: HK$Nil), HK$96,000 (2003: HK$96,000), HK$204,000 (2003: HK$204,000), HK$96,000 (2003: HK$96,000), HK$96,000 (2003: HK$100,000) and HK$96,000 (2003: HK$96,000).

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

9. 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 (2003: five) non-director, highest paid employees during the year are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,577**	1,964
Retirement benefit costs	**54**	32
	1,631	1,996

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2004	2003
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.

10. TAXATION

No provision for taxation has been made in the financial statements since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for overseas taxation has been made in the financial statements as the Group had no assessable profit in the PRC for the year. The subsidiary in the PRC is entitled to exemption from the 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.

10. TAXATION *(continued)*

The taxation for the year is reconciled to the loss before taxation per the consolidated income statement as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Loss before taxation	**(16,090)**	(47,658)
Tax at the domestic income tax rate of 17.5%	**(2,816)**	(8,340)
Net tax effect of income and expenses not taxable or deductible for income tax purpose	**953**	6,723
Tax effect of tax losses not recognised	**1,863**	1,617
Taxation	**–**	–

11. DIVIDEND

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

12. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss for the year of approximately HK$16,090,000 (2003: HK$47,658,000) and the weighted average number of 723,087,310 (2003: 697,336,625) ordinary shares in issue during the year.

No diluted loss per share has been presented because the exercise of the outstanding share options and convertible bonds would have an anti-dilutive effect for the years ended 31 December 2004 and 2003.

13. 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 2004	1,331	92,656	1,318	104	95,409
Additions	–	3,000	6	–	3,006
Transfer to machineries held for proposed capital contribution	–	(58,982)	–	–	(58,982)
Disposals	–	(9,933)	–	–	(9,933)
As at 31 December 2004	1,331	26,741	1,324	104	29,500
Depreciation and impairment					
As at 1 January 2004	1,219	18,677	994	3	20,893
Provided for the year	39	7,262	184	21	7,506
Transfer to machineries held for proposed capital contribution	–	(19,159)	–	–	(19,159)
Disposals	–	(3,313)	–	–	(3,313)
As at 31 December 2004	1,258	3,467	1,178	24	5,927
Net book value					
As at 31 December 2004	**73**	**23,274**	**146**	**80**	**23,573**
As at 31 December 2003	112	73,979	324	101	74,516

13. 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 2004 and 31 December 2004	1,213	708	1,921
Depreciation			
As at 1 January 2004	1,213	608	1,821
Provided for the year	–	68	68
As at 31 December 2004	1,213	676	1,889
Net book value			
As at 31 December 2004	**–**	**32**	**32**
As at 31 December 2003	–	100	100

14. MACHINERIES HELD FOR PROPOSED CAPITAL CONTRIBUTION

	Group
	HK$'000
Cost	
As at 1 January 2004	–
Transfer from property, plant and equipment	58,982
As at 31 December 2004	58,982
Depreciation	
As at 1 January 2004	–
Transfer from property, plant and equipment	19,159
Provided for the year	2,731
As at 31 December 2004	21,890
Net book value	
As at 31 December 2004	**37,092**
As at 31 December 2003	–

The amount represents machineries held for proposed capital contribution in respect of the establishment of a sino-foreign equity joint venture in the PRC. Details of which were disclosed in note 31 to the financial statements.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**16**	16
Amounts due from subsidiaries	**203,464**	203,438
Amount due to a subsidiary	**(1,058)**	–
	202,422	203,454
Provision for impairment losses	**(130,999)**	(130,999)
	71,423	72,455

15. INTERESTS IN SUBSIDIARIES *(continued)*

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 classified as non-current assets.

The following is a list of subsidiaries of the Company as at 31 December 2004:

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
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	Investment holding and 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	
	2004	2003
	HK$'000	*HK$'000*
Club membership, at cost	**830**	830

17. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials, at net realisable value	**–**	2,590

18. TRADE RECEIVABLES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Trade receivables, with aging analysis:		
1- 365 days	**–**	78
Over 365 days	**78**	–
	78	78

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

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

As at 31 December 2004, other receivables, deposits and prepayments include an aggregate amount of approximately HK$723,000 (2003: HK$7,363,000) due from debtors which arose from the sale of property, plant and equipment held for resale.

20. TRADE PAYABLES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Trade payables, with aging analysis:		
1 - 30 days	**204**	185
91 - 180 days	**396**	19
Over 180 days	**170**	–
	770	204

21. AMOUNTS DUE TO DIRECTORS / A RELATED COMPANY

The amounts are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to directors represent net funds advanced to the Group and the Company.

Mr. Cheng Qing Bo, a director of the Company, is also a director of and has beneficial interests in the related company, Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi").

22. 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 to the maturity date of 31 October 2003.

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.

On 28 December 2004, the Company entered into agreements with the bondholders to extend the maturity date to 30 April 2006, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2004.

Up to 31 December 2004, none of the Convertible Bonds has 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 2004, result in the issue of 161,176,470 additional shares.

23. DEFERRED TAX

Group

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2003	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)	–
(Credit)/charge to income for the year	(8,007)	8,007	–
At 31 December 2004	**178**	**(178)**	**–**

For the purpose of balance sheet presentation, deferred tax assets and liabilities have been offset in accordance with the conditions set out in Statements of Standard Accounting Practice No. 12 (Revised) "Income Taxes".

At the balance sheet date, the Group has unused tax losses of HK$84,546,000 (2003: HK$119,652,000) available to set off future profits. A deferred tax asset has been recognised in respect of the HK$1,017,000 (2003: HK$46,771,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$83,529,000 (2003: HK$72,881,000) due to the unpredictability of future profits steams. All the losses can be carried forward indefinitely subject to the approval of tax authorities in respective jurisdictions.

Company

At the balance sheet date, the Company has deductible temporary differences of HK$8,000 (2003: HK$1,069,000) and unused tax losses of HK$14,226,000 (2003: HK$11,736,000). 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.

24. SHARE CAPITAL

Ordinary shares of HK$0.01 each	Number of shares *'000*	Total value *HK$'000*
Authorised:		
As at 31 December 2003 and 31 December 2004	50,000,000	500,000

	Number of shares *'000*	Total value *HK$'000*
Issued and fully paid:		
As at 31 December 2003 and 31 December 2004	723,087	7,231

25. SHARE OPTION SCHEMES

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.

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.

25. SHARE OPTION SCHEMES *(continued)*

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

	2004 **Number**	2003 *Number*
Options vested as at 1 January	**22,339,991**	41,375,616
Lapsed	**(17,194,991)**	(19,035,625)
Options vested as at 31 December	**5,145,000**	22,339,991

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

Exercise period	**Exercise price**	**2004** **Number**	2003 *Number*
20 July 2000 to 19 July 2010	HK$0.731	**600,000**	8,025,000
10 October 2000 to 9 October 2010	HK$0.789	**2,250,000**	4,122,500
22 April 2001 to 21 April 2011	HK$0.738	**45,000**	442,491
10 July 2001 to 9 July 2011	HK$0.500	**2,250,000**	9,750,000
		5,145,000	22,339,991

The exercise in full of the outstanding vested options would have, with the capital structure of the Company as at 31 December 2004, resulted in the issue of additional 5,145,000 shares.

As a result of the amendments of Chapter 23 of the Rules Governing the Listing of Securities on the GEM 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.

25. SHARE OPTION SCHEMES *(continued)*

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.

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 shareholder's 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.

26. RESERVES

Group

The movement of the Group's reserves for the years ended 31 December 2004 and 2003 are presented in the consolidated statement of changes in equity.

Company

	Share premium	Retained profits/ (accumulated losses)	Total
	HK'000	*HK$'000*	*HK$'000*
As at 1 January 2003	46,306	106,047	152,353
Issue of shares	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
Net loss of the year	–	(4,364)	(4,364)
As at 31 December 2004	**61,597**	**(39,319)**	**22,278**

Note:

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders, subject to a solvency test. At 31 December 2004, in the opinion of the directors, the Company's reserves available for distribution to shareholders amount to approximately HK$22,278,000 (2003: HK$26,642,000), representing the aggregate of share premium of approximately HK$61,597,000 (2003: HK$61,597,000) and accumulated losses of approximately HK$39,319,000 (2003: HK$34,955,000).

27. DISPOSAL OF SUBSIDIARIES

No subsidiary was disposed during the year.

At 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.

	2004	2003
	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)

27. 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:

	2004	2003
	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)

28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into an agreement with a sub-contractor in respect of the settlement of the amount due to the sub-contractor of HK$6,620,000 through disposal of machineries with net book value of HK$6,620,000.

29. CONNECTED AND RELATED PARTY TRANSACTIONS

(i) During the year, the Group had 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	2004 HK$'000	2003 HK$'000
Weiyi	Sale of goods to Weiyi *(Note (i))*	**4,236**	9,514
	Sale of property, plant and equipment held for resale to Weiyi *(Note (i))*	**–**	292
	Management fee received from Weiyi *(Note (i))*	**84**	1,151
	Royalty fee income received from Weiyi *(Note (ii))*	**3,115**	3,120

Notes:

(i) The transactions were carried out on terms determined and agreed by both parties.

(ii) The transactions were carried out in accordance with the relevant agreement.

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

	2004 HK$'000	2003 HK$'000
Within one year	**376**	582
In the second to fifth year inclusive	**282**	1,470
	658	2,052

As at the balance sheet date, the Company did not have any significant operating lease commitment (2003: Nil).

31. CAPITAL COMMITMENT

(i)

	Group	
	2004	2003
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**49,057**	–

(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 34% by Mr. Cheng Qing Bo, a director as well as the substantial shareholder of the Company, pursuant to which Intcera (HK) 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 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. At 31 December 2004, the agreement has not yet completed as it is subject to approval from the general meeting of shareholders of the Company.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation.