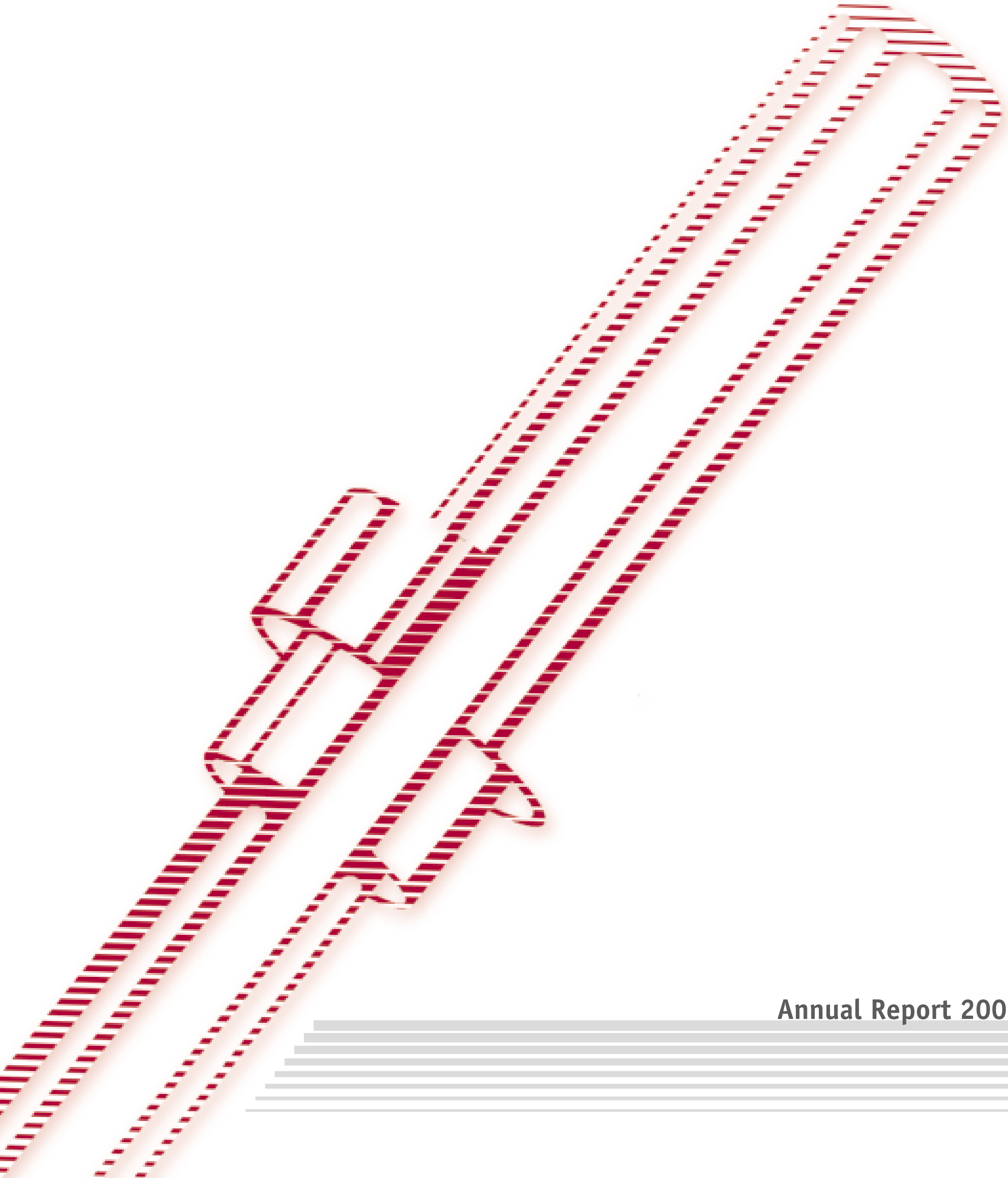
INTCERA High Tech Group Limited

(Stock Code: 8041)



Annual Report 2005

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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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this report.

This report, for which the directors (the "Directors") of Intcera High Tech Group Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to Intcera High Tech Group Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this report is accurate and complete in all material respects and not misleading: (2) there are no other matters the omission of which would make any statement in this report misleading: and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHENG Qing Bo *(Chairman)*
WONG Hon Kit
LI Fang

Non-executive Director

LIN Nan

Independent Non-executive Directors

LIU Zheng Hao
TAM B Ray Billy
LO Kin Chung
WOO Man Wah

COMPLIANCE OFFICER

CHENG Qing Bo

COMPANY SECRETARY

WONG Hon Kit

QUALIFIED ACCOUNTANT

WONG Hon Kit

AUDIT COMMITTEE

LIU Zheng Hao
TAM B Ray Billy
LO Kin Chung
WOO Man Wah

AUTHORISED REPRESENTATIVES

CHENG Qing Bo
WONG Hon Kit
LI Fang

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

LEGAL ADVISERS

As to Hong Kong Law

Hau, Lau, Li & Yeung

As to Cayman Islands Law

Conyers Dill & Pearman, Cayman

AUDITORS

Homan CPA Limited
Room 303, Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
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
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE

8041

WEBSITE

www.intcera.com

CHAIRMAN'S STATEMENT

RESUMPTION OF TRADING

The shares of the Company have been suspended from trading since 6 October 2003. The board of directors (the "Board") has and will commit themselves to apply for resumption of trading in year 2006.

The Board has confidence and faith on the resumption of trading on shares of the Company in year 2006. Should the Company be successful in the resumption of trading of shares, the Company will continue to improve its internal control in order to avoid any breach of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

CONTINUING BUSINESS

The principal business of the Group, which requires substantial technology updates, will continue and may expand subject to the funding requirement of the potential expansion, if any. The technical skills held by the Group will definitely an advantage as compared to the competitors in the market. The Board is of the view that the business of the Group will continue to grow with the support from the technology expertise of the management of the Group.

OUTLOOK

The global telecommunication and fiber optic network market are improving after a period of adjustment in the last couple of years. The PRC market is encouraging following China's accession to the World Trade Organization and the hosting of the 2008 Olympic Games in Beijing. The Beijing Organizing Committee for the Games of the 29th Olympia had announced an investment of RMB 6.6 billion to expand and upgrade the telecommunication network in Beijing. Both of the Shanghai municipality and Hubei province had also put forward similar proposal to develop their fiber optic telecommunication network. The Group's mission is to focus its efforts to build the brand "INTCERA" in ceramic ferrules and makes itself the major player in the production of ceramic ferrules and other related telecommunication cable peripheral products in the PRC.

The Group's competitive advantages are its state-of-the-art technology, leading-edge production facilities and the sophisticated management and production skill and experience accumulated in Taiwan. In order to strength the Group's financial position to achieve its PRC mission, the Group entered into an agreement with an independent party to lease part of its plant and machineries for leasing income in January 2006. The Group is also well positioned itself to capture the opportunity to set up its ceramic ferrule production in the PRC.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders of their tremendous support and to our management and staff to their dedication and contribution in the past year.

Cheng Qing Bo
Chairman

4 May, 2006

FINANCIAL HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK$711,000 for the year ended 31 December 2005 representing a decrease of approximately 90% over the corresponding period of 2004.

- The Group's gross profit amounted to approximately HK$175,000 for the year ended 31 December 2005 compared to a gross profit of approximately HK$361,000 in the corresponding period of 2004.

- Approximately HK$3,119,000 in technology rights licensing revenue was achieved for the year ended 31 December 2005.

- The Group has recorded a net loss attributable to shareholders for the year ended 31 December 2005 of approximately HK$15,675,000, representing a basic loss per share of HK$2.17 cents and a decrease of approximately 3% over the same period of 2004.

- The Directors do not recommend the payment of a dividend for the year ended 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group recorded a total turnover of approximately HK$711,000 representing a decrease of approximately 90% from approximately HK$7,076,000 for the year ended 31 December 2004. A gross profit of approximately HK$175,000 was recorded by the Group for the year ended 31 December 2005. The loss attributable to shareholders was approximately HK$15,675,000 when compared with that of approximately HK$16,090,000 for the same period in 2004.

OPERATIONS

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 2005, the Group had total assets of approximately HK$93,030,000 of which bank and cash balances of approximately HK$705,000. At the balance sheet date, the Group had unsecured convertible bonds of approximately HK$26,564,000. The Group has a current ratio of approximately 1.81 comparing to that of 1.88 as at 31 December 2004. As at 31 December 2005, the Group did not have any bank borrowings and the gearing ratio of 45% was calculated at by dividing total debt by the total assets (as at 31 December 2004 was 48%).

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 2005 and 2004, 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 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2005.

EMPLOYEES

As at 31 December 2005, the Group had 12 full time employees compared with that of 17 in 2004. The staff costs, including directors' remuneration, were approximately HK$2,087,000 (2004: HK$3,032,000). 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 2005, the Group did not have any material contingent liabilities or charges laid against its assets.

PROSPECTS

The global telecommunication and fiber optic network market are improving after a period of adjustment in the last couple of years. The PRC market is encouraging following China's accession to the World Trade Organization and the hosting of the 2008 Olympic Games in Beijing. The Beijing Organizing Committee for the Games of the 29th Olympia had announced an investment of RMB 6.6 billion to expand and upgrade the telecommunication network in Beijing. Both of the Shanghai municipality and Hubei province had also put forward similar proposal to develop their fiber optic telecommunication network. The Group's mission is to focus its efforts to build the brand "INTCERA" in ceramic ferrules and makes itself the major player in the production of ceramic ferrules and other related telecommunication cable peripheral products in the PRC.

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BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. CHENG Qing Bo

Aged 43, 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 Zhongji Industry (Group) 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. WONG Hon Kit

Aged 39, is the Financial Controller, Qualified Accountant as well as Company Secretary of the Group. He joined the Group in January 2005. Mr. Wong was appointed as an Executive Director of the Group in April 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 People's Republic of China (the "PRC").

Ms. LI Fang

Aged 30, is an Executive Director of the Group. She joined the Group in April 2005. Ms. Li is a member of the Certified Public Accountants in the PRC (non-practicing). She holds a degree in economic from Zhonguan University of Finance and Economic. Ms. Li has over 9 years of experience in the financing and accounting field in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. LIN Nan

Aged 42, is a Non-executive Director. 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 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.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TAM B Ray Billy

Aged 37, was appointed Independent Non-executive Director in April 2005. He has been a practising solicitor in Hong Kong for over 10 years. He is a currently a partner of Messrs. Ho & Tam. Mr. Tam has a Bachelor of Law degrees from King's College London University and Tsinghua University's and a Master of Laws degree from Hong Kong University.

Mr. LO Kin Chung

Aged 45, was appointed Independent Non-executive Director in March 2006. Mr. Lo is the company secretary of eCyberChina Holdings Limited. Mr. Lo is also an independent non-executive director of Art Textile Technology International Company Limited. He has over 15 years of experience in the accounting field. He holds a Bachelor of Business degree from the University of Southern Queensland in Australia and a Master of Business Administration from the University of Surry in the United Kingdom. Mr. Lo is a Certified Public Accountant (Practising) in Hong Kong and a certified practising accountant of CPA Australia.

Ms. WOO Man Wah

Aged 33, was appointed Independent Non-executive Director in March 2006. She is the financial controller of Art Textile Technology International Company Limited. Ms. Woo obtained a Bachelor degree in Business (Accountancy) from Queensland University of Technology, Australia and is a member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. Ms. Woo has over 10 years of experience in accounting and auditing 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.

SENIOR MANAGEMENT

Mr. TUNG Tai Yung

Age 40, is Chief Technology Officer 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.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to maintain high standards of corporate governance for the Company. Since 1 January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code Provision") of the Rules Governing the Listing of Securities on Growth Enterprise Market (the "GEM Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the Code Provision.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the GEM Listing Rules. All the directors of the Company (the "Directors") have confirmed that they have complied with the requirements as set out in the GEM Listing Rules for the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises eight members and their positions, as at the date of this report, are as follows:

Executive Directors
Cheng Qing Bo *(Chairman)*
Wong Hon Kit
Li Fang

Non-executive Director
Lin Nan

Independent Non-executive Directors
Tam B Ray Billy
Liu Zheng Hao
Lo Kin Chung
Woo Man Wah

Details of the backgrounds and qualifications of the Directors are set out in the section of "Biographical Information of Directors and Senior Management" on page 7 to 8 of the annual report for year ended 31 December 2005 (the "Annual Report"). All Directors bona fide have exercised due care, fiduciary duties to all the significant issues of the financial, operational, compliance and risk management of the Company and its subsidiaries (collectively the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner. None of the members of the Board have, in any respect, related to each other in any circumstances.

The Board held a full board meeting for six times for the financial year of 2005. Details of the attendance of the Board members are as follows:

Executive Directors	Attendance
Cheng Qing Bo	6/6
Tung Tai Yung	1/1
Wong Hon Kit	6/6
Li Fang	5/6
Non-executive Director	
Lin Nan	3/6
Independent Non-executive Directors	
Wan Ho Yuen, Terence	1/3
Tam B Ray Billy	4/6
Liu Zheng Hao	4/6
Lo Kin Chung	3/3
Woo Man Wah	3/3

Save for the above regular board meetings held for the financial year of 2005, the Board will commit to hold special meetings to discuss on any matters which would require a decision from them. Directors will be given opportunity, if necessary, to include matters in the agenda for regular board meetings. In respect of regular board meeting, an agenda would be sent in full to all Directors in a timely manner. Notices of board meeting and details of its agenda would be delivered in advance to the Board. Minutes of each board meeting would be sent to the Directors within reasonable time interval after the meeting.

All Directors are entitled to have full access to the relevant information from management in a timely manner to enable them to make informed decisions.

Segregation of the roles of Chairman of the Board and Managing Director

To improve the transparency and independency of the corporate governance of the Company, the fiduciary duties of the Chairman and the Managing Director of the Company are segregated and not executed by the same individual. The Chairman is responsible for the management of the Board and external corporate communication. The Managing Director is responsible for the day-to-day operation, including but not limited to, the implementation of the overall strategy of the Company.

Independent Non-executive Directors

In order to protect the interest of the shareholders of the Company (the "Shareholders"), the Company appointed four Independent Non-executive Directors with relevant and sufficient experience and qualification to perform their duties. The four Independent Non-executive Directors declared and confirmed with the Company on an annual basis of their independency with the Group in accordance with Rule 5.09 of the GEM Listing Rules. The Board has assessed and concluded that all the Independent Non-executive Directors are independent in appearance and in substance in view of the definition of the GEM Listing Rules. The Independent Non-executive Directors do not hold any office with any connected parties of the Company or have any financial interests other than those directors' remuneration as disclosed in the Report of the Directors from page 14 to page 24.

APPOINTMENT, RE-ELECTION AND RETIREMENT

Non-executive director and Independent Non-executive directors were appointed for a specific term, subject to re-election. Every director is subject to retirement by rotation at least once every three years.

The newly appointed directors of the Company – Mr. Wong Hon Kit, Ms. Li Fang, Mr. Wan Ho Yuen, Terence and Mr. Tam B Ray Billy received a comprehensive, formal and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the GEM Listing Rules, and other regulations.

On 1 May 2005, Mr. Tung Tai Yuen, resigned as Executive Director. Mr. Tung resigned with his frequent business travel overseas and the Board did not aware of any time which could affect his office continuity.

On 23 March 2006, Mr. Wan Ho Yuen, Terence resigned as Independent Non-executive Director. Mr. Wan resigned with his own causes and the Board did not aware of any issue which could affect his office continuity.

REMUNERATION OF DIRECTORS

On June 2005, the remuneration committee of the Company (the "Remuneration Committee") was established with specific written terms of reference which deal clearly with its authority and duties in accordance with the GEM Listing Rules. As at the date of this report, the Remuneration Committee comprises a majority members of Independent Non-executive Directors.

The Remuneration Committee has been held for once during the financial year of 2005. Details of the attendance of the Remuneration Committee meeting are as follows:

Committee members	Attendance
Executive Director	
Cheng Qing Bo	1/1
Independent Non-executive Directors	
Lo Kin Chung	1/1
Woo Man Wah	1/1
Tam B Ray Billy	1/1

The Remuneration Committee proposed to the chairman and Managing Director relating to the remuneration of other executive directors. The Remuneration Committee also recommended to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

NOMINATION COMMITTEE

Nomination committee of the Company is not considered necessary after the assessment of the current situation of the Company. The Board will review the profile of current Directors and nominated directors (if any) on a regular basis in order to ensure that the composition of the Board is capable to fulfill its obligation and be responsible for the Company.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee"). The primary duties of the Audit Committee is to communicate with the management of the Company from time to time, including but not limited to review the accounting principles and practices adopted by the Company, the effectiveness of its internal control systems, the interim and annual results of the Company. The Audit Committee is also responsible for considering the appointment, re-appointment and removal of the external auditors and reviewing the impairment to its independency with any non-audit services performed by the external auditors. During the year, KLL Associates CPA Limited ("KLL") resigned as the auditors of the Company after the combination of their practice with BDO McCabe Lo Limited ("BDO") on 1 August 2005, because the Company and BDO are not able to reach an agreement in relation to the auditors' remuneration for the year ended 31 December 2005. The Board proposed to appoint RSM Nelson Wheeler ("RSM") as the new auditors for the Group subject to the approval of the shareholders of the Company to fill the casual vacancy following the resignation of KLL on 15 February 2006. On 28 March 2006, the Board announced that RSM could not agree with the time that they need to complete their audit work. On 30 March 2006, the Board proposed to appoint Homan CPA Limited ("Homan") as the new auditors for the Group subject to the approval of the shareholders of the Company to fill the casual vacancy following the resignation of KLL, the auditors of the Company on 15 February 2006 and RSM, the nominated auditors of the Company on 29 March 2006. During the financial year of 2005, the Company contracted and paid HK$300,000 and HK$350,000 to the Company's auditors – Messrs RSM and Homan respectively for the provision of audit services.

All members of Audit Committee are Independent Non-executive Directors, which are as follows:

Tam B Ray Billy
Lo Kin Chung
Woo Man Wah
Liu Zheng Hao

The Audit Committee held four meetings during the financial year of 2005. Details of the attendance of the Audit Committee meetings are as follows:

Committee members	**Attendance**
Wan Ho Yuen, Terence (resigned on 23 March 2006)	1/1
Tam B Ray Billy	4/4
Lo Kin Chung (appointed on 22 March 2006)	3/3
Woo Man Wah (appointed on 22 March 2006)	3/3
Liu Zheng Hao	4/4

The Company's unaudited first quarterly results for the three months ended 31 March 2005, interim results for the six months ended 30 June 2005, third quarterly results for the nine months ended 30 September 2005 and audited annual results for the financial year ended 31 December 2005 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results have been complied with the applicable accounting standards.

INTERNAL CONTROL REVIEW

Proper internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to manage risk exposure of the Company. The Company is committed to the risk identification, risk assessment, evaluation of internal control system and monitoring of remediation plan to control deficiencies. The Audit Committee has met with the management of the Company on a regular basis to review the existing internal control practice on a regular basis.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The responsibilities of the Directors and Auditors are set out on page 25 of this Annual Report. The Directors acknowledge their responsibility to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Company, and present the interim results, annual financial statements, and announcements to the Shareholders. The Directors aim to present a fair and reasonable assessment of the Company's position and prospects to the Shareholders and the relevant information required under the GEM Listing Rules. As the Board is not aware of any material uncertainties relating to the events or conditions that may cause any significant doubt upon the going concern of the Company, the Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2005.

COMMUNICATIONS WITH SHAREHOLDERS

Individual resolution has been proposed by the Chairman in the general meeting in response to each substantial issue.

The Chairman, the chairman of Audit Committee and Remuneration Committee, in the absence of the chairman of such committees, another member of the committee attended and was available to answer questions in the annual general meeting and extraordinary general meeting.

VOTING BY POLL

In order to ensure compliance with the requirements on the poll voting procedures, the Company informs the Shareholders in respect of the procedures for voting by poll and the rights of the Shareholders to demand a poll in accordance with the article 66 of the Articles of Association of the Company.

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 2005.

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 20 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 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 28 to 70 of this annual report.

No interim dividend was paid during the year (2004: Nil). The directors do not recommend the payment of any final dividend for the year ended 31 December 2005 (2004: Nil).

SHARE CAPITAL

Details of share capital and share options of the Company are set out in notes 25 and 26 to the financial statements respectively.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 27 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 2005, in the opinion of the Directors, the Company's reserves available for distribution to shareholders amount to approximately HK$15,524,000 (2004: HK$22,278,000), representing the aggregate of share premium of approximately HK$61,597,000 (2004: HK$61,597,000) and accumulated losses of approximately HK$46,073,000 (2004: HK$39,319,000).

REPORT OF THE DIRECTORS

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2005:

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**711**	7,076	9,591	9,018	27,551
Net loss attributable to shareholders	**(15,675)**	(16,090)	(47,658)	(35,917)	(163,595)
Total assets	**93,030**	95,729	113,857	186,598	249,502
Total liabilities	**(43,607)**	(45,598)	(47,637)	(84,849)	(128,577)
Net assets	**49,423**	50,131	66,220	101,749	120,925

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 2005.

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 (2004: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

STAFF RETIREMENT BENEFITS

Details of staff retirement benefits are set out in note 36 to the financial statements.

BORROWINGS

Details of the Group's borrowings are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 26 to the financial statements.

Details of the share options outstanding as at 31 December 2005 which have been granted under the Old Scheme are as follow:

	Options held at 1 January 2005 *(Note a)*	Options lapsed during the year	Options held at 31 December 2005	Adjusted exercise price *HK$* *(Note a)*	Grant date
Ex–Directors					
Mr. King Chun Kong, Karl *(Note b)*	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 *(Note c)*	600,000	(600,000)	–	0.731	20 July 2000
Continuous contracted employees	45,000	(45,000)	–	0.738	22 April 2001

Notes: (a) 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.

(b) On 29 April 2005, Mr. King Chun Kong, Karl resigned as Independent non-executive director.

(c) On 31 March 2005, Mr. Tung Tai Yung agreed to waive 600,000 options.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the financial year and subsequently were:

Executive Directors

Mr. Cheng Qing Bo	(re-designated as non-executive director on 30 June 2005 and re-designated as executive director on 18 April 2006)
Mr. Tung Tai Yung	(resigned on 1 May 2005)
Mr. Hu Xue Jun	(resigned on 29 April 2005)
Mr. Wong Hon Kit	(appointed on 29 April 2005)
Ms. Li Fang	(appointed on 29 April 2005)

Non-executive Directors

Mr. Lin Nan	(re-designated as non-executive director on 29 April 2005)
Mr. King Chun Kong, Karl	(resigned on 29 April 2005)
Mr. Hu Shiang-Chi	(resigned on 29 April 2005)

Independent Non-executive Directors

Mr. Lai Kin Wai	(resigned on 29 April 2005)
Mr. Liu Zheng Hao	
Mr. Wu Min	(resigned on 29 April 2005)
Mr. Wan Ho Yuen, Terence	(appointed on 29 April 2005 and resigned on 23 March 2006)
Mr. Tam B Ray Billy	(appointed on 29 April 2005)
Mr. Lo Kin Chung	(appointed on 22 March 2006)
Ms. Woo Man Wah	(appointed on 22 March 2006)

In accordance with Article 87 of the Company's Articles of Association, Mr. Cheng Qing Bo, Mr. Wong Hon Kit and Mr. Tam B Ray Billy 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.

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other statutory compensation.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on Growth Enterprise Market (the "GEM Listing Rules"). The Company considers that they are independent under Rule 5.09 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the transactions as disclosed in note 31 to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE OF INTERESTS

Directors and Chief Executive's Interests in Securities

As at 31 December 2005, 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 relating to securities transaction by Directors, were as follows:

(i) Long positions in Shares

Name of Directors	**Number of Shares**	**Capacity**	**Type of Interest**	**Approximate percentage of issued share capital (%)**
Mr. Cheng Qing Bo ("Mr. Cheng")	180,000,000 *(Note 1)*	Beneficial owner	Corporate	24.89 *(Note 2)*

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. 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 2005.

Save as disclosed above, as at 31 December 2005, 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 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 2005 are as follows:

Name of Ex-Directors	*(Note a)* Number of aggregate share options	Date of grant	(Note a) Exercise price	Balance of options as at 31 December 2005
Mr. Tung Tai Yung *(Note b)*	600,000	20 July 2000	HK$0.731	–
Mr. King Chun Kong, Karl *(Note c)*	2,250,000	10 July 2001	HK$0.500	–
	2,250,000	10 October 2000	HK$0.789	–

Note:

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

b. Mr. Tung Tai Yung waived his right of option on 31 March 2005.

c. Mr. King Chun Kong, Karl resigned as independent non-executive director on 29 April 2005. Pursuant to the share option scheme, all share option granted should lapse on the date 3 months following the date of his resignation.

No share option was granted or exercised during the year.

Save as disclosed above, as at 31 December 2005, 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 2005, 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 2005, 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 19

2. see Note 2 on page 19

Save as disclosed above, as at 31 December 2005, 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 2005, 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 2005 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 31 to the financial statements, which also constitute connected transactions under the GEM Listing Rules, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, are as follows:

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**	**2005**	2004
		HK$'000	*HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi")	Sale of goods to Weiyi	**533**	4,236
	Management fee received from Weiyi	**–**	84
	Royalty fee income received from Weiyi	**3,119**	3,115

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 31 to the financial statements.

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	78%	–
Five largest customers in aggregate	100%	–
The largest supplier	–	35%
Five largest suppliers in aggregate	–	94%

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 2005, 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.

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 four independent non-executive directors, namely Mr. Lo Kin Chung, Ms. Woo Man Wah, Mr. Liu Zheng Hao and Mr. Tam B Ray Billy. The Group's annual results for the year ended 31 December 2005 have been reviewed by the audit committee.

COMPENSATION COMMITTEE

The Company's compensation committee was established during the period with written terms of reference to determine policy and structure for the remuneration of directors and senior management of the Company, assessing their performance and approving the terms of their service contracts. The compensation committee comprises at least three members, the majority of whom shall be independent non-executive directors of the Company. The current members of the compensation committee are Mr. Cheng Qing Bo, Mr. Lo Kin Chung, Ms. Woo Man Wah and Mr. Tam B Ray Billy.

NOMINATION COMMITTEE

The Company's nomination committee was established during the period with written terms of reference to review the structure, size and composition of the Board, identifying individuals suitable and qualified to become Board members and selecting or making recommendations to the Board on the election of, individuals nominated for directorship. The nomination committee comprises at least three members, the majority of whom shall be independent non-executive directors of the Company. The current members of the nomination committee are Mr. Cheng Qing Bo, Mr. Lo Kin Chung, Ms. Woo Man Wah and Mr. Tam B Ray Billy.

FINANCE COMMITTEE

The Company's finance committee was established during the period with written terms of reference to review and approve banking facilities to be granted or issued by the Company, provision of corporate guarantees by the Company for its subsidiaries and opening of bank or securities related accounts. The finance committee comprises at least three members. The current members of the finance committee are Mr. Cheng Qing Bo, Mr. Wong Hon Kit, Mr. Lo Kin Chung and Ms. Woo Man Wah.

CODE ON CORPORATE GOVERNANCE PRACTICES

Subject to the deviations as disclosed hereof, the Company has complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices (the "Code") to the GEM Listing Rules during the year under review.

Non-Executive Director

As at the approval date of the financial statements, the Company has four Independent Non-executive Directors, they were Mr. Tam B Ray Billy, Mr. Lo Kin Chung, Ms. Woo Man Wah and Mr. Liu Zheng Hao who were not appointed for specific terms, but they are subject to rotation, retirement and re-election at each annual general meeting in accordance with the Company's Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election was fair and reasonable, and therefore will not change the terms of appointment of these Independent Non-executive Directors.

REPORT OF THE DIRECTORS

Appointment and re-election of Directors

In according with the Articles of Association of the Company that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation. In addition, any Director at any time appoints any person as a director either to fill a causal vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until next following annual general meeting of the Company and shall then be eligible for re-election. These deviated from the Code of A.4.1 and A.4.2, which requires all directors appointed to fill causal vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years.

Remuneration of Directors

Under the Code provision B.1.1, a listed issuer should establish a remuneration committee with specific term of reference. It was not until June 2005 that the Company had established a remuneration committee with specific written terms of reference in compliance with the GEM Listing Rules.

AUDITORS

The Group's financial statements for the years ended 31 December 2003 and 2004 were audited by Messrs KLL Associates CPA Limited.

On 30 March 2006, Messrs Homan CPA Limited was nominated as the auditors of the Company and be approved and appointed in the extra-ordinary general meeting held on 2 May 2006.

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint the auditors, Homan CPA Limited.

On behalf of the Board

Cheng Qing Bo
Chairman

Hong Kong, 4 May 2006

AUDITORS' REPORT

康文會計師事務所有限公司
HOMAN CPA LIMITED
Room 303, Carpo Commercial Building, 18-20 Lyndhurst Terrace, Central, Hong Kong
香港中環擺花街18-20號嘉寶商業大廈303室

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

We have audited the consolidated financial statements of Intcera High Tech Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") from pages 28 to 70 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. However, the evidence available to us was limited as follows.

Opening balances

We are nominated to audit the financial statements of the Group for the year ended 31 December 2005 on 30 March 2006. We did not report on the financial statements of the Group for the year ended 31 December 2004. We are unable to obtain sufficient reliable financial information in respect of the balances as at 1 January 2005. We were unable to carry out audit procedures in respect of the opening net assets of the Group of HK$50,131,000 as at 1 January 2005. Accordingly, we were unable to satisfy ourselves as to whether there was any material misstatement of the opening balances as at 1 January 2005. It follows that we were also unable to satisfy ourselves that the comparative figures as at 31 December 2004 and for the year then ended are free from material misstatement. Any adjustment to the opening net assets of the Group at 1 January 2005 would have a consequential effect on the result of and cash flows of the Group for the year ended 31 December 2005.

AUDITORS' REPORT

BASIS OF OPINION *(continued)*

Carrying value of property, plant and equipment

The carrying values of the Group's property, plant and equipment as at 31 December 2004 amounted to HK$60,665,000. Due to the limitation of scope of work regarding on the opening balances as at 1 January 2005, there was no sufficient financial information available for our inspection. In the opinion of the directors, the turnover of the Group is mainly derived from the trading of products for the year ended 31 December 2005. The recoverability of the carrying values of these property, plant and equipment amounted to HK$50,912,000 as at 31 December 2005 depends upon the ability of the Group to obtain additional financial resources to establish the operations of manufacturing and thereafter, sufficient sales orders to attain profitable and positive cash flow operations, for its operations in the People's Republic of China. However, as more disclosure in note 17 to the financial statements, the Group's plant and machinery were revalued by an independent qualified valuer as at 31 December 2005. There were no other practicable audit procedures that we could adopt to ascertain whether as at 31 December 2005, the carrying value of property, plant and equipment of HK$50,912,000 and the extent of any depreciation and impairment of these property, plant and equipment for year ended 31 December 2005 were free from material misstatement.

Receivable from a related company

As more disclosure in note 24 to the financial statements, the amount of HK$18,709,000 due from a related company, Shenzhen Weiyi Optical Communication Technology Limited ("Shenzhen Weiyi") which Mr. Cheng Qing Bo, the Chairman and the substantial shareholder of the Company has beneficial interest. The amount due from Shenzhen Weiyi is unsecured and HK$9,700,000 was settled in respect thereof up to the date of this report. In the opinion of the directors, the Group is likely to recover the amount of HK$9,009,000 in full and no allowance for the bad and doubtful debts against the remaining balance is necessary. We are unable to satisfy ourselves as to the nature and propriety of the amount of such advance to Shenzhen Weiyi. In addition, we are impracticable to quantify the amount of the sufficient allowance for bad and doubtful debts to be made and the amount of this allowance which should have been charged to the income statement of the current and prior years. If sufficient allowance had been made, the Group's loss before tax for the current and prior years would have been reduced by the amount of the allowance relating to the respective years, the Group's net assets as at 31 December 2005 would have been reduced by the aggregate amount thereof.

Disposal of a subsidiary

As disclosed in note 30 to the financial statements, the Group disposed of its entire interest in a subsidiary, 大陶精密科技(深圳)有限公司 ("Shenzhen Intcera"), during the year. As Shenzhen Intcera's contribution to the loss for the year was HK$15,000 based on unaudited management accounts for the eleven months ended 30 November 2005, we were unable to satisfy ourselves that these amounts, together with the gain arising on disposal of HK$19,000, are free from material misstatement. Any adjustments found to be necessary to the above amounts would affect the classification of the consolidated income statement and consolidated cash flow statement. Similarly, we were unable to satisfy ourselves that the analysis of net asset of HK$935,000 of Shenzhen Intcera at the date of disposal, as disclosed in note 30 to the financial statements, is free from material misstatement.

AUDITORS' REPORT

BASIS OF OPINION *(continued)*

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosure made in note 5 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 5 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support by the Group's substantial shareholders, the successful completion and outcome of the conversion of convertible bonds of the Group, the availability of additional external funding and the attainment of profitable and positive cash flow operations to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustment that may be necessary should the implementation of such measures to be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether going concern basis is appropriate is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the fundamental uncertainties relating to the carrying value of the property, plant and equipment, receivable from the related company, disposal of a subsidiary and relating to the going concern basis and because of the limitations in the scope of work described in the basis of opinion section of this report, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 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.

In respect alone of the limitations on our work relating to the matters described in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In respect alone of the limitations on our work relating to opening balances, carrying value of property, plant and equipment, receivable from the related company and disposal of a subsidiary described in the basis of opinion section of this report, we were unable to determine whether proper books and records had been kept.

Homan CPA Limited
Certified Public Accountants
Hong Kong
24 April 2006
Luk Wai Hong
Practising Certificate Number P03704

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Revenue	8	**711**	7,076
Cost of sales		**(536)**	(6,715)
Gross profit		**175**	361
Other income	9	**3,195**	3,273
Selling and distribution expenses		**(43)**	(15)
Administrative expenses		**(3,738)**	(3,635)
Depreciation for property, plant and equipment		**(9,682)**	(10,237)
Other operating expenses		**(4,050)**	(5,289)
Finance costs	10	**(1,532)**	(548)
Loss before tax	11	**(15,675)**	(16,090)
Income tax expense	14	**–**	–
Loss for the year		**(15,675)**	(16,090)
Dividends	15	**–**	–
Loss per share			
Basic	16	**HK(2.17) cents**	HK(2.23) cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	17	**65,475**	23,573
Plant and equipment held for proposed capital injection	18	**–**	37,092
Club debenture	19	**200**	830
		65,675	61,495
Current assets			
Deposit paid for property, plant and equipment		**4,000**	–
Trade and other receivables	21	**3,941**	5,642
Due from a related company	24	**18,709**	–
Bank balances and cash		**705**	28,592
		27,355	34,234
Current liabilities			
Trade and other payables	22	**13,551**	12,537
Due to directors	23	**1,536**	3,533
Due to a related company	24	**–**	2,128
		15,087	18,198
Net current assets		**12,268**	16,036
		77,943	77,531
Capital and reserves			
Share capital	25	**7,231**	7,231
Reserves		**42,192**	42,900
Equity attributable to equity holders of the parent		**49,423**	50,131
Non-current liabilities			
Convertible bonds	28	**26,564**	27,400
Deferred tax liabilities	29	**1,956**	–
		77,943	77,531

The financial statements on page 28 to 70 were approved and authorised for issue by the Board of Directors on 24 April 2006 and signed on its behalf by:

Cheng Qing Bo	**Wong Hon Kit**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Revaluation reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	7,231	61,597	–	–	–	(2,608)	66,220
Exchange differences arising from translation of financial statement of operation outside Hong Kong	–	–	1	–	–	–	1
Net income recognised directly in equity	–	–	1	–	–	–	1
Loss for the year	–	–	–	–	–	(16,090)	(16,090)
Total recognised income and expense for the year	–	–	1	–	–	(16,090)	(16,089)
At 31 December 2004	7,231	61,597	1	–	–	(18,698)	50,131
Effects on changes in accounting policies *(note 3)*	–	–	–	–	1,948	–	1,948
At 31 December 2004 (restated)	7,231	61,597	1	–	1,948	(18,698)	52,079
Exchange differences arising from translation of financial statement of operation outside Hong Kong	–	–	18	–	–	–	18
Surplus on revaluation of property, plant and equipment	–	–	–	14,563	–	–	14,563
Deferred tax liability on revaluation of property, plant and equipment	–	–	–	(1,714)	–	–	(1,714)
Reversal of deferred tax liability on the convertible bonds	–	–	–	–	171	–	171
Net income recognised directly in equity	–	–	18	12,849	171	–	13,038
Loss for the year	–	–	–	–	–	(15,675)	(15,675)
Total recognised income and expense for the year	–	–	18	12,849	171	(15,675)	(2,637)
Disposal of a subsidiary	–	–	(19)	–	–	–	(19)
At 31 December 2005	**7,231**	**61,597**	**–**	**12,849**	**2,119**	**(34,373)**	**49,423**

In the opinion of the directors, the revaluation reserve and convertible bonds reserve are not available for distribution to the Company's shareholders.

BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment		–	32
Interests in subsidiaries		–	71,423
		–	71,455
Currents assets			
Due from subsidiaries		**58,034**	–
Due from a related company		**9,483**	–
Trade and other receivables		**7,200**	794
Bank balances and cash		**5**	99
		74,722	893
Current liabilities			
Trade and other payables		**10,027**	4,865
Due to directors		**6,015**	10,574
Due to a shareholder		**7,000**	–
		23,042	15,439
Net current assets/(liabilities)		**51,680**	(14,546)
		51,680	56,909
Capital and reserves			
Share capital	*25*	**7,231**	7,231
Reserves	*27*	**17,643**	22,278
Equity attributable to equity holders of the parent		**24,874**	29,509
Non-current liabilities			
Convertible bonds		**26,564**	27,400
Deferred tax liabilities		**242**	–
		51,680	56,909

The financial statements on pages 28 to 70 were approved and authorised for issue by the Board of Directors on 24 April 2006 and are signed on its behalf by:

Cheng Qing Bo
Director

Wong Hon Kit
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(15,675)**	(16,090)
Adjustments for:			
Finance costs		**1,532**	548
Interest income		**(12)**	(74)
Depreciation and amortisation of property, plant and equipment		**9,682**	10,237
Gain on disposal of a subsidiary		**(19)**	–
Impairment in value of club membership		**630**	–
Loss on disposal of property, plant and equipment		**46**	–
Allowance for bad and doubtful debts		**682**	–
Operating cash flows before movements in working capital		**(3,134)**	(5,379)
Decrease in inventories		**–**	2,590
Increase in deposit paid for property, plant and equipment		**(4,000)**	–
Decrease in trade and other receivables		**1,019**	7,135
Increase in amount due from a related company		**(20,837)**	–
Increase/(decrease) in trade and other payables		**1,014**	(428)
(Decrease)/increase in amount due to directors		**(1,997)**	2,333
Increase in amount due to a related company		**–**	2,128
Cash (used in) generated from operations		**(27,935)**	8,379
Hong Kong Profits Tax paid		**–**	–
Taxation in other jurisdictions paid		**–**	–
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(27,935)**	8,379
INVESTING ACTIVITIES			
Interest received		**12**	74
Disposal of a subsidiary	30	**–**	–
Proceeds on disposal of property, plant and equipment		**25**	–
Purchase of property, plant and equipment		**–**	(3,006)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**37**	(2,932)
FINANCING ACTIVITIES			
Interest paid		**(7)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(7)**	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(27,905)**	5,447
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**28,592**	23,144
Effect of foreign exchange rate changes		**18**	1
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented bank balances and cash		**705**	28,592

1. GENERAL

The Company is incorporated in Cayman Island as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In December 2005, the Company had been placed in the third stage of delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 20.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Group is mainly Hong Kong dollars ("HKD") which is the same as the presentation currency of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of the standard had no material impact on how financial instruments of the Group are presented for current or prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Convertible bonds

Previously, the convertible bonds were classified as liabilities and recorded at the proceeds received on the balance sheet. Convertible bonds are currently regarded as compound instruments, consisting of a liability component and an equity component at initial recognition by recognising the liability component at fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at the amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or bond is redeemed (in which case it is released directly to retained profits).

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "Financial assets at fair value through profit or loss", "Available-for-sale financial assets", "Loans and receivables" or "Held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Other financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Financial liabilities are carried at amortised cost using the effective interest method after initial recognition. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, in accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 January 2005. As all outstanding share options of the Group were granted and vested before 1 January 2005, the application of HKFRS 2 has had no financial impact on the results of the Group for current or prior accounting periods.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	HK$'000
Increase in interest expenses of convertible bonds	**977**	–
Decrease in profit for the year	**977**	–

The cumulative effects of the changes in accounting policies on 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004	HKAS 39 Adjustment	**1 January 2005 (Restated)**
	HK$000	*HK$000*	***HK$'000***
Balance sheet items affected:			
Convertible bonds	(27,400)	2,361	**(25,039)**
Deferred tax liabilities	–	(413)	**(413)**
Total effects on assets and liabilities	(27,400)	1,948	**(25,452)**
Convertible bonds reserve	–	1,948	**1,948**
Total effects on equity	(27,400)	1,948	**1,948**

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARD NOT YET EFFECTIVE

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[4]

[1] *Effective for annual periods beginning on or after 1 January 2007.*

[2] *Effective for annual periods beginning on or after 1 January 2006.*

[3] *Effective for annual periods beginning on or after 1 December 2005.*

[4] *Effective for annual periods beginning on or after 1 March 2006.*

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of financial statement

At 31 December 2005, the Group had net current liabilities of HK$6,441,000, excluding the amount due from a related company to HK$18,709,000. The Group incurred a loss from operating activities of HK$15,675,000 and reported a net cash outflow from operating activities of HK$27,935,000 for the year ended 31 December 2005.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

(a) Bright Castle Investments Limited, the substantial shareholder of the Company, which was incorporated in British Virgin Islands, has undertaken to the Company, during the period up to April 2007, to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group;

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) The bondholders of the convertible bonds of HK$26,564,000 has agreed to extend the maturity date to 30 April 2007. The directors of the Company are in ongoing negotiations with the Group's bondholders to reschedule the repayment of the convertible bond and to seek their support to the Group;

(c) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company. The directors of the Company are in ongoing negotiations with the Stock Exchange to apply for the resumption of the listing status of the Company in the Stock Exchange;

(d) The directors of the Company continue to take action to tighten cost controls over general and administrative expenses, and are actively seeking new investment and business opportunity with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2005.

Should the Group be unable to continue as a going concern, adjustment would have to be made in the financial statements to reduce the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current asset and liabilities as current assets and liabilities, respectively. The consequential effects of these potential adjustments may have significant effect on the loss of the Group for the year and the net assets of the Group as at 31 December 2005.

Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items 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	11%
Furniture, fixtures and office equipment	20%-33%
Motor vehicles	20%

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent derecognition of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Club debenture

Club debenture is stated at cost less any accumulated impairment losses, and is tested annually for impairment.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables and convertible bonds are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives financial instruments of the Group do not qualify for hedge accounting thus they are deemed as financial liabilities.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue represents the fair value of the amounts received and receivable for goods sold by the Group, less returns, to outside customers.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from club membership debenture under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Royalty income is recognised on a time proportion basis accordance with the terms and conditions of the royalty agreement.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT 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 is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense as they fall due.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong dollars at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 5, management makes various estimations based on past experiences, expectations of the future and other information. The key source of estimation uncertainty and the judgement that may significantly affect the amounts recognised in the financial statements are disclosed below:

Property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Property, plant and equipment *(continued)*

The Group's plant and machinery included in the property, plant and equipment of HK$65,386,000 were stated at fair market value in accordance with the accounting policy stated in note 5. The fair market value of plant and machinery included in the property, plant and equipment are determined by GA Appraisal Limited, a firm of independent property valuers and the fair value of property, plant and equipment as at respective year end were set out in note 17. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Impairment of trade and other receivable

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debts, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2005, HK$682,000 had been made for an allowance for bad and doubtful debts.

Income taxes

The Group is subject to income taxes in Hong Kong and PRC jurisdictions. Recognition of deferred tax assets, which principally related to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilized. The outcome of their actual utilization may be different.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include deposit paid for plant and equipment, trade and other receivables, amount due from a related company, bank balances and cash, trade and other payables and amount due to directors and. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 is the carrying amount of trade and other receivables and amount due from a related company, as stated in the consolidated balance sheet. For amount due from a related company, and trade and other receivables, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Foreign exchange risk

Most of the transactions entered into by the Company are denominated in Hong Kong dollar, its exposure to foreign currency risk is minimal.

8. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, and is stated net of value-added tax and sales returns during the year.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

No analysis on business segment is provided as all entire Group's turnover and contribution to profit for the year were derived from the manufacturing and trading of ceramic blanks and ferrules.

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical segments

The Group's operations are located in the Peoples' Republic of China (the "PRC"), other than Taiwan and Hong Kong, Hong Kong and Taiwan and the following table provides an analysis of the Group's sales, total assets and capital expenditure by geographical market:

	Revenue		Total assets		Capital Expenditure	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
PRC, other than Taiwan and Hong Kong	**711**	4,236	**65,387**	66,617	**–**	3,000
Hong Kong	**–**	2,840	**27,643**	28,674	**–**	6
Taiwan	**–**	–	**–**	438	**–**	–
TOTAL	**711**	7,076	**93,030**	95,729	**–**	3,006

9. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Bank interest income	**12**	74
Gain on disposal of a subsidiary	**19**	–
Royalty fee	**3,119**	3,115
Sundry income	**45**	84
	3,195	3,273

10. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**7**	–
Convertible bonds	**1,525**	548
	1,532	548

11. LOSS BEFORE TAX

	2005	2004
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Salaries and allowances, including those of directors	**2,029**	2,961
Contribution to retirement benefits schemes, including those of directors	**58**	71
Total employee benefits expense including those of directors	**2,087**	3,032
Depreciation for property, plant and equipment	**9,682**	10,237
Allowance for bad and doubtful debts	**682**	1,500
Auditors' remuneration		
– current year	**650**	200
– underprovision in prior years	**100**	–
Total audit fee	**750**	200
Cost of inventories recognised as expense	**536**	6,715
Impairment for club debenture	**630**	–
Loss on disposal of property, plant and equipment	**46**	–
Operating lease rentals in respect of land and buildings	**376**	385
and after crediting:		
Gain on disposal of a subsidiary	**19**	–
Gross rental income from club membership*	**45**	–

* *The Group had no significant outgoings in respect of the rental income from club membership generated for the year.*

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the thirteen (2004: ten) directors were as follows:

	2005				2004			
	Directors' fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**	Directors' fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Cheng Qing Bo	**96**	**–**	**–**	**96**	96	–	–	96
Mr. Wong Hon Kit *(note 1)*	**203**	**117**	**–**	**320**	–	–	–	–
Mr. Lin Nan	**180**	**–**	**–**	**180**	30	–	–	30
Ms. Li Fang	**63**	**–**	**–**	**63**	–	–	–	–
Mr. Tung Tai Yung *(Note 2)*	**32**	**–**	**–**	**32**	96	96	12	204
Mr. Hu Xue Jun *(note 3)*	**32**	**–**	**–**	**32**	96	–	–	96
Mr. King Chun Kong, Karl *(note 3)*	**32**	**–**	**–**	**32**	96	–	–	96
Mr. Hu Shiang-Chi *(note 3)*	**32**	**–**	**–**	**32**	96	–	–	96
Mr. Lai Kin Wai *(note 3)*	**21**	**–**	**–**	**21**	18	–	–	18
Mr. Wu Min *(note 3)*	**32**	**–**	**–**	**32**	96	–	–	96
Mr. Liu Zheng Hao	**20**	**–**	**–**	**20**	5	–	–	5
Mr. Wan Ho Yuen, Terence	**66**	**–**	**–**	**66**	–	–	–	–
Mr. Tam B Ray Billy	**66**	**–**	**–**	**66**	–	–	–	–
Mr. Huang Zhi Jia *(note 4)*	**–**	**–**	**–**	**–**	76	–	–	76
Total emoluments	**875**	**117**	**–**	**992**	705	96	12	813

Note:
1. Mr. Wong Hon Kit appointed on 29 April 2005.
2. Mr. Tung Tai Yung resigned on 1 May 2005.
3. Mr. Hu Xue Jun, Mr. King Chun Kong, Karl, Mr. Hu Shiang-Chi, Mr. Lai Kin Wai, Mr. Wu Min resigned on 29 April 2005.
4. Mr. Huang Zhi Jia resigned on 15 October 2004.

During the two years ended 31 December 2005 and 31 December 2004, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments for the two years ended 31 December 2005, except, on 31 March 2005, Mr. Tung Tai Yung has waived his right of 600,000 options at the exercise price of HK$0.731, which granted on 20 July 2000.

During the year, no share option was granted to the directors.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2004: none) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The remaining three (2004: five) individuals were as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and allowances	**466**	1,577
Contributions to retirement benefits schemes	**–**	54
	466	1,631

Their emoluments were within the following bands:

	2005 **No. of employees**	2004 No. of employees
HK$ nil to HK$1,000,000	**3**	5

During the two years ended 31 December 2005, no emoluments were paid by the Group to any of the highest paid employees, as an inducement to join or upon joining the Group or as compensation for loss of office.

14. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for both years ended 31 December 2005 and 31 December 2004.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

大陶精密科技(深圳)有限公司 is the subsidiary of the Group established in the PRC which is exempted from the Enterprise Income Tax (the "EIT") for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from EIT for the following three years under the income tax law of the PRC. No provision for EIT has been made since it has not generated any assessable profits since its incorporation. On 30 November 2005, the Group has disposed all its interests in大陶精密科技(深圳)有限公司.

14. INCOME TAX EXPENSE *(continued)*

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before tax	**(15,675)**	(16,090)
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	**(2,743)**	(2,816)
Tax effect of expenses not deductible for tax purpose	**2,190**	953
Tax effect of income not taxable for tax purpose	**(552)**	–
Tax effect of tax losses not recognised	**1,105**	1,863
Tax charge for the year	**–**	–

Details of deferred tax are set out in note 29.

15. DIVIDENDS

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: nil).

16. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company is based on the following data:

	2005	2004
Loss for the year and loss for the purposes of the basic and diluted loss per share	**HK$15,675,000**	HK$16,090,000
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**723,087,310**	723,087,310
Effect of dilutive potential ordinary shares in respect		
(i) Share options	**–**	–
(ii) Convertible bonds	**–**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**723,087,310**	723,087,310

16. LOSS PER SHARE *(continued)*

The adjustment to comparative basic loss per share, arising from the changes in accounting policies shown in note 3, is as follows:

	Impact on basic loss per share HKcents 2005	Impact on basic loss per share HKcents 2004
Reconciliation of 2005 loss per share:		
Reported figure before adjustment	**(2.03)**	(2.23)
Adjustment arising from the adoption of HKAS 39	**(0.14)**	–
Restated	**(2.17)**	(2.23)

Diluted earnings per share for the year ended 31 December 2005 has not been presented as the exercise price of the Company's convertible bonds were higher than the average market price for shares. As at 31 December 2005, there was no outstanding share option.

Diluted earnings per share for the year ended 31 December 2004 has not been presented as the exercise price of the Company's convertible bonds and share options were higher than the average market price for shares.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST OR VALUATION					
At 1 January 2004	1,331	92,656	1,318	104	95,409
Additions	–	3,000	6	–	3,006
Disposals	–	(9,933)	–	–	(9,933)
Transfer	–	(58,982)	–	–	(58,982)
At 31 December 2004	1,331	26,741	1,324	104	29,500
Transfer	–	58,982	–	–	58,982
Disposals	–	–	–	(104)	(104)
Adjustment on valuation	–	(20,337)	–	–	(20,337)
At 31 December 2005	1,331	65,386	1,324	–	68,041
Comprising:					
At cost	1,331	–	1,324	–	2,655
At valuation – 2005	–	65,386	–	–	65,386
	1,331	65,386	1,324	–	68,041
DEPRECIATION AND AMORTISATION AND IMPAIRMENT					
At 1 January 2004	1,219	18,677	994	3	20,893
Provided for the year	39	7,262	184	21	7,506
Eliminated on disposals	–	(3,313)	–	–	(3,313)
Transfer	–	(19,159)	–	–	(19,159)
At 31 December 2004	1,258	3,467	1,178	24	5,927
Provided for the year	39	2,990	91	9	3,129
Eliminated on disposals	–	–	–	(33)	(33)
Transfer	–	28,443	–	–	28,443
Adjustment on valuation	–	(34,900)	–	–	(34,900)
At 31 December 2005	1,297	–	1,269	–	2,566
CARRYING VALUES					
At 31 December 2005	34	65,386	55	–	65,475
At 31 December 2004	73	23,274	146	80	23,573

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's property, plant and equipment were revalued at HK$65,386,000 as at 31 December 2005 by GA Appraisal Limited, independent qualified valuers, by using fair market value.

18. PLANT AND EQUIPMENT HELD FOR PROPOSED CAPITAL CONTRIBUTION

	HK$'000
COST	
At 1 January 2004	–
Transfer	58,982
At 31 December 2004	58,982
Transfer	(58,982)
At 31 December 2005	–
DEPRECIATION	
At 1 January 2004	–
Transfer	19,159
Provided for the year	2,731
At 31 December 2004	21,890
Provided for the year	6,553
Transfer	(28,443)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	–
At 31 December 2004	37,092

The amounts at 31 December 2004 represented plant and equipment held for proposed capital contribution in respect of the establishment of a sino-foreign equity joint venture (the "Joint Venture") company in the PRC.

18. PLANT AND EQUIPMENT HELD FOR PROPOSED CAPITAL CONTRIBUTION *(continued)*

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 Zhongji Industry (Group) Co., Ltd (formerly known as Shenzhen China Technology Industry Development Co., Ltd) ("Shenzhen China Technology"), which is beneficially held as to 34% by Mr. Cheng Qing Bo, Chairman and 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-foregin 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.

On 28 October 2003, 湖南大陶精密科技有限公司was incorporated under 湖南省工商行政管理局.

At 31 December 2004, the agreement had not completed as it is subject to approval from the general meeting of shareholders of the Company.

On 26 June 2005, the Group has fulfilled its obligation to contribute 70% of the registered capital of 湖南大陶精密科技有限公司 by the injection of machineries of the amount of plant and machinery (the "Injected Machinery") with net book value of approximately HK$33,815,000. The Directors of the Company considered and estimated the carrying value of the Injected Machinery was approximately US$13,656,000 as at June 2005. However, the establishment of 湖南大陶精密科技有限公司 has not been approved by the Board of Directors and shareholders at the general meeting.

On 30 November 2005, Intcrea (HK) and Real Move Profits Limited ("Real Move") have entered into a share transfer agreement to dispose 70% interest in 湖南大陶精密科技有限公司.

On the same date, another agreement (the "2nd agreement") was entered into between Intcera (HK), 湖南大陶精密科技有限公司 and Real Move. Pursuant to the 2nd agreement, Intcera agreed to dispose 70% interest in 湖南大陶精密科技有限公司 at the consideration of returning Injected Machinery by 湖南大陶精密科技有限公司.

Pursuant to the other agreement (the "3rd agreement") dated 30 November 2005 entered between Intcera (HK) and Shenzhen China Technology , the operating results of 湖南大陶精密科技有限公司 were borne by the joint venture partner since the incorporation of 湖南大陶精密科技有限公司. Accordingly, no operating results and net assets were contributed by 湖南大陶精密科技有限公司 for the year 31 December 2005.

19. CLUB DEBENTURE

	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	830
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	–
Impairment	–
At 31 December 2004	–
Impairment	630
At 31 December 2005	630
CARRYING VALUES	
At 31 December 2005	200
At 31 December 2004	830

For the year ended 31 December 2005, impairment loss of HK$630,000 was recognised as an expense.

20. INTERESTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company *(Note)*	Principal activities and place of operation
Optical Crystal (BVI) Limited	British Virgin Islands ("BVI")	US$1,000 ordinary shares	100%	Investment holding in Hong Kong
Opcom Holdings (BVI) Limited	BVI	US$1,000 ordinary shares	100%	Investment holding in Hong Kong
Intcera High Tech (BVI) Limited	BVI	US$100 ordinary shares	100%	Investment holding in Hong Kong
Great Route Limited	Hong Kong	HK$100 ordinary shares	100%	Investment holding in Hong Kong
Aoptic (BVI) Inc.	BVI	US$10 ordinary shares	100%	Investment holding in Hong Kong
Optical ConnX Company Limited	Hong Kong	HK$100 ordinary shares	100%	Trading of ceramic blanks and ferrules in the PRC and Hong Kong
Intcera High Tech (HK) Limited	Hong Kong	HK$100 ordinary shares	100%	Investment holding and provision of management services in Hong Kong

Note: The Company directly holds the interest in Optical Crystal (BVI) Limited, Opcom Holdings (BVI) Limited and Intcera High Tech (BVI) Limited; all other interests shown above are indirectly held by the Company.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

21. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables there was no trade receivables as at 31 December 2005 (2004: HK$78,000) and their aged analysis is as follows:

	2005	2004
	HK$'000	*HK$'000*
Over 360 days	**–**	78
Trade receivables	**–**	78
Other receivables	**3,941**	5,564
	3,941	5,642

The directors consider that the carrying amount of the Group's trade and other receivables approximates their fair value.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$470,000 (2004: HK$770,000) and their aged analysis is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**130**	204
31 to 90 days	**1**	–
91 to 180 days	**–**	396
181 to 360 days	**–**	170
Over 360 days	**339**	–
Trade payables	**470**	770
Other payables	**13,081**	11,767
	13,551	12,537

The directors consider that the carrying amount of the Group's trade and other payables approximates their fair value.

23. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and repayable on demand.

24. DUE FROM/(TO) A RELATED COMPANY

Particulars of the amount due from a related company of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of related company	At 31 December 2005	Maximum amount outstanding during the year	At 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi")	**18,709**	**18,709**	**(2,128)**

Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company.

The amount due from/(to) a related company was unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates to their fair value. Subsequent to the balance sheet date, approximately HK$9,700,000 was settled by Weiyi.

25. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	723,087,310	7,231

26. SHARE OPTIONS

The Company adopted a share option scheme on 21 June 2000 (the "Old Scheme") for the primary purpose of providing incentives to directors and eligible employees and will expire on 20 June 2010. Under the Old Scheme, the board of directors (the "Board") of the Company may grant options to eligible employees (whether full time or part time), including directors of the Company and its subsidiaries, 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 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 is determined 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 determined 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.

The total number of shares in respect of which options may be granted under the Old Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of shares issued and issuable under all the options which may be granted under the Old Scheme at the time it is proposed to grant the said option to that person.

An option may be exercised in accordance with the terms of the Old Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted for less than 3 years and more than 10 years after the date of approval of the Old Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Old Scheme shall be valid and effective for a period of 10 years after the date of adoption of the Old Scheme by shareholders of the Company by resolution at a general meeting.

26. SHARE OPTIONS *(continued)*

The following table discloses details of the Company's share options held by the directors and employees and movements in such holdings under the Old Scheme during the two years:

	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.1.2004	Granted during the year	Lapsed during the year	Outstanding at 31.12.2004	Granted during the year	Lapsed during the year	Outstanding at 31.12.2005
Directors	20.7.2000	20.7.2000 – 19.7.2010	0.731	600,000	–	–	600,000	–	(600,000)	–
	10.10.2000	10.10.2000 – 9.10.2010	0.789	2,250,000	–	–	2,250,000	–	(2,250,000)	–
	10.7.2001	10.7.2001 – 9.7.2011	0.500	2,250,000	–	–	2,250,000	–	(2,250,000)	–
Employee	20.7.2000	20.7.2000 – 19.7.2010	0.731	7,425,000	–	(7,425,000)	–	–	–	–
	10.10.2000	10.10.2000 – 9.10.2010	0.789	1,872,500	–	(1,872,500)	–	–	–	–
	10.7.2001	10.7.2001 – 9.7.2011	0.500	7,500,000	–	(7,500,000)	–	–	–	–
	22.4.2001	22.4.2001 – 21.4.2011	0.738	442,491	–	(397,491)	45,000	–	(45,000)	–
				22,339,991	–	(17,194,991)	5,145,000	–	(5,145,000)	–

On 31 March 2005, Mr. Tung Tai Yung has agreed to waive 600,000 options, granted on 20 July 2000. In addition, Mr. King Chun Kong (Mr. King) resigned as independent non-executive director on 29 April 2005. Pursuant to the Old Scheme, Mr. King's 4,500,000 share options were lapsed during the year. Furthermore, 45,000 share option were also elapsed as the employee resigned during the year.

As a result of the amendments of Chapter 23 of the Rules Governing the Listing Rules 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 Listing Rules and the Company can no longer grant any further options under the Old Scheme without being in breach of the 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 primary purpose of providing incentives to directors and eligible participants 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.

26. SHARE OPTIONS *(continued)*

According to the New Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, 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 in respect of which options may be granted under the New Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in 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 shareholders or any of its 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 its 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. No option may be granted more than 10 years after the date of approval of the New Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the New Scheme shall be valid and effective for a period of 10 years after the date of adoption of the New Scheme. 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 shares on the date of grant, (ii) the average closing price of the 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 during the year under the New Scheme since its adoption.

27. RESERVES OF THE COMPANY

	Share premium HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	61,597	–	(34,955)	26,642
Loss for the year	–	–	(4,364)	(4,364)
At 1 January 2005	61,597	–	(39,319)	22,278
Effect on changes in accounting policies *(note 3)*	–	1,948	–	1,948
At 1 January 2005 (restated)	61,597	1,948	(39,319)	24,226
Reversal of deferred tax liability on the convertible bonds	–	171	–	171
Net income recognised directly in equity	–	171	–	171
Loss for the year	–	–	(6,754)	(6,754)
Total recognised income and expense for the year	–	171	(6,754)	(6,583)
At 31 December 2005	61,597	2,119	(46,073)	17,643

28. 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 is payable yearly in arrears on 31 December in each year. 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.

28. CONVERTIBLE BONDS *(continued)*

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 liability at 31 December 2004.

On 26 December 2005, the Company entered into agreements with the bond holders to extend the maturity date to 30 April 2007, with the existing terms and conditions remained unchanged. Accordingly, the amount is classified as non-current at 31 December 2005.

Following the adoption of HKAS 39 on 1 January 2005, the Convertible Bonds were redesignated as Other financial liabilities on initial recognition. There was no such redesignation on 31 December 2004 as retrospective application of HKAS 39 is not required.

The proceeds received from the issue of the convertible bonds have been split between the liability component and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	2005
	HK$'000
Nominal value of convertible bonds issued	**27,400**
Equity component	**(1,948)**
Deferred tax liability	**(413)**
Liability component at 1 January 2005	**25,039**
Interest charged	**1,525**
Liability component at 31 December 2005	**26,564**

The interest charged for the year is calculated by applying an effective interest rate of 6.09 per cent to the liability component for the year since the convertible bonds were issued.

The directors estimate the fair value of the liability component of the convertible bonds at 31 December 2005 to be approximately HK$26.5 million. This fair value has been calculated by discounting the future cash flows at the market rate.

29. DEFERRED TAX

The following are the major deferred tax liabilities (assets) provided (recognised) by the Group, and the movements thereon, during the current and prior years:

	Accelerated tax depreciation	Convertible bonds-equity component	Revaluation of plant and equipment	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	8,185	–	–	(8,185)	–
Charge (credit) to the profit or loss for the year	(8,007)	–	–	8,007	–
At 31 December 2004 and 1 January 2005	178	–	–	(178)	–
Effects of changes in accounting policies *(note 3)*	–	413	–	–	413
At 1 January 2005 (restated)	178	413	–	(178)	413
Charge (credit) to the profit or loss for the year	5,310	–	–	(5,310)	–
Credit to equity for the year	–	(171)	1,714	–	1,543
At 31 December 2005	5,488	242	1,714	(5,488)	1,956

The following is the analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Deferred tax liabilities	**7,444**	591
Deferred tax assets	**(5,488)**	(178)
	1,956	413

At the balance sheet date, the Group has unused tax losses of HK$72,051,000 (2004: HK$84,546,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK$31,363,000 (2004: HK$1,017,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK$40,688,000 (HK$83,529,000) due to the unpredictability of future profits streams. All losses may be carried forward indefinitely subject to the approvals of tax authorities in respective jurisdictions.

30. DISPOSAL OF A SUBSIDIARY

On 30 November 2005, the Group has disposed its wholly-owned subsidiary, 大陶精密科技（深圳）有限公司 at the consideration of HK$1 and the settlement of amount due from an immediate holding company. The net assets of 大陶精密科技（深圳）有限公司at the date of disposal was as follows:

	2005	2004
	HK$'000	*HK$'000*
Amount due from an immediate holding company	**935**	–
Net assets disposed of	**935**	
Translation reserve realised	**(19)**	–
Gain on disposals of a subsidiary	**19**	–
Total consideration	**935**	–
Satisfied by:		
Cash	**–**	–
Amount due from an immediately holding company	**935**	–
	935	–
Cash outflow arising on disposal:		
Cash consideration received	**–**	–
Cash and cash equivalents disposed of	**–**	–
	–	–

The subsidiary disposed during the year ended 31 December 2005 did not contribute significantly to the turnover, operating results or cash flows of the Group.

30. DISPOSAL OF A SUBSIDIARY *(continued)*

The income statement of 大陶精密科技(深圳)有限公司for the period from 1 January 2005 to 30 November 2005, based on the unaudited management accounts, is analysed as follows:

	HK$'000
Turnover	–
Other income	11
Administrative expense	(26)
Loss for the period	(15)

31. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The transactions during the year and balances with them at the balance sheet date, are as follows:

(a) Transactions with connected or related parties:

Name of party	**Nature of transactions**	**2005** **HK$'000**	2004 *HK$'000*
Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") *(note i)*	Sales made by the Group *(note ii)*	**553**	4,236
	Management fee received by the Group *(note ii)*	**–**	84
	Royalty fee received by the Group *(note iii)*	**3,119**	3,115

The amounts are unsecured, interest-free and repayable on demand.

31. CONNECTED AND RELATED PARTY DISCLOSURES *(continued)*

(b) Compensation of key management personnel

The remuneration of directors as key management of the Group during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**992**	801
Post-employment benefits	**–**	12
	992	813

The remuneration of directors and key executives is decided by the directors and authorised by the shareholders having regard to the performance of the individuals and market trends.

(c) Details of the balances with related parties are set out on the balance sheets and notes 23 and 24. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Notes:

i. Weiyi is controlled by Mr. Cheng Qing Bo, the Chairman and executive director as well as the substantial shareholder of the Company.

ii. These transactions were carried out with reference to market price or, where no market price was available, at terms determined and agreed by both parties.

iii. The royalty were charged in accordance with the relevant royalty agreements agreed by both parties.

32. NON-CASH TRANSACTIONS

For the year ended 31 December 2005, HK$4,000,000 (2004: Nil) were paid by Weiyi to purchase of plant and machinery on behalf of the Group.

For the year ended 31 December 2004, 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.

33. LITIGATION

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 approximately HK$594,000 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 dispute between the Company and the ex-senior employees. The unsettled amounts of HK$594,000 not yet paid up to 31 December 2005 were fully accrued in trade and other payables at the balance sheet date.

On 9 July 2005, ASK Co., Ltd filed complaints to the District Court of the Hong Kong Special Administrative Region against Optical ConnX Company Limited ("Optical ConnX"), a wholly owned subsidiary of the Company, claiming for payment in the sum approximately US$118,350 (equivalent to approximately HK$923,000). On 25 November 2005, Optical ConnX was ordered by the District Court to pay ASK Co., Ltd for the sum of US$118,350 together with the interest on the said sum of US$118,350 from 9 July 2005 to the date of payment. The unsettled amounts of US$118,350 not yet paid up to 31 December 2005 were fully accrued in the trade and other payables at the balance sheet date.

On 14 April 2005, a Writ of Summons was served on Intcera High Tech (HK) Ltd ("Intcera HK") by The Center (47) Limited, for the payment of outstanding rentals of the office premises in the amount of approximately HK$46,120. On 31 May 2005, the High Court ordered Intcera HK to settle the claim in full. During the year, Intcera HK has settled the amount in full.

On 21 December 2005, a Writ of Summons was served on Intcera HK by The Center (47) Limited, for the payment of outstanding rentals of the office premises in the amount of approximately HK$14,200. On 10 January 2006, the High Court ordered Intcera HK to settle the claim in full. The unsettled amounts of HK$14,200 not yet paid up to 31 December 2005 were fully accrued in trade and other payables at the balance sheet date. Subsequent to the balance sheet, the amount was settled.

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating lease, which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**313**	376
In the second to fifth year inclusive	**–**	282
	313	658

34. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessee *(continued)*

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease is negotiated for fixed term of three years.

The Group as lessor

The Group rents outs its club debenture under operating leases. The leases are negotiated for a term of two years. The rental income is HK$36,000 per year.

At the balance sheet date, the Group had contracted with lessee for the following future minimum lease payments:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**23**	–
In the second to fifth year inclusive	**4**	–
	27	–

35. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Commitments for acquisition of property, plant and equipment	**451**	49,057
Capital injection in a joint venture company	**–**	65,520

36. RETIREMENT BENEFIT SCHEME

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

37. POST BALANCE SHEET EVENT

On 10 January 2006, a Writ of Summons was served on the Company by KLL Associates CPA Limited for repayment of outstanding professional fee in the amount of approximately HK$106,000. The unsettled amounts of HK$106,000 not yet paid up to 31 December 2005 were fully accrued in trade and other payables at the balance sheet date. On 15 March 2006, the amount was fully settled.

On 18 February 2006, a Writ of Summons was served on the Company by Elegance Finance Printing Services Limited for repayment of outstanding printing charges in the amount of approximately HK$110,000. The unsettled amounts of HK$110,000 not yet paid up to 31 December 2005 were fully accrued in trade and other payables at the balance sheet date. On 17 March 2006, the amount was fully settled.

On 26 January 2006, Trinity Emmanuel Consultant Limited has claimed against Intcera High Tech (HK) Limited for repayment of outstanding services fee in the amount of HK$18,500. The unsettled amounts of HK$18,500 not yet paid up to 31 December 2005 were fully accrued in trade and other payables at the balance sheet date.

On 10 January 2006, the Group enters into operating lease arrangement for certain of its plant and machinery to an independent third party, 上海金展電腦網絡有限公司 with consideration of US$3,380,000 (equivalent to approximately HK$26,364,000). All leases are denominated in US dollars. The term of operating lease entered into is three years from 1 May 2006 to 30 April 2009.