

INTCERA

Intcera High Tech Group Limited
大陶精密科技集團有限公司 *

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

For the six months ended 30th June 2000

* *For identification purpose only*

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.

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This report, for which the directors of Intcera High Tech Group Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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.

RESULTS

The Board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six and three months ended 30th June 2000, together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	4,624	—	7,526	—
Loss from operations		(10,654)	(3,003)	(21,355)	(5,730)
Other income		1,126	1,004	1,852	1,386
Finance costs		(887)	(338)	(1,745)	(777)
Loss before taxation		(10,415)	(2,337)	(21,248)	(5,121)
Taxation	3	—	(6)	—	(28)
Loss after taxation		(10,415)	(2,343)	(21,248)	(5,149)
Minority interests		22	5	45	11
Loss attributable to shareholders		<u>(10,393)</u>	<u>(2,338)</u>	<u>(21,203)</u>	<u>(5,138)</u>
Basic loss per share (cents)	4	<u>(3.24)</u>	<u>(0.73)</u>	<u>(6.61)</u>	<u>(1.60)</u>

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 1st September, 1999 with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 7th July 2000.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of Intcera's shares on GEM, Intcera became the ultimate holding company of the Group on 29th February 2000. Details of the Reorganisation are set out in the Prospectus of Intcera dated 27th June 2000. The results of the Group comprise the results of all companies now comprising the Group using the merger basis of accounting as if the current group structure had been in existence since 1st January 1999, and where applicable, from their respective dates of incorporation or acquisition by the Group, whichever is later.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. Turnover

Turnover comprised the net invoiced value (excluding value-added tax) of merchandise sold net of allowances for returns and discounts

3. Taxation

Taxation represents Taiwan tax at the rates of 20 per cent on the interest income of an Intcera's subsidiary earned from commercial paper. The Taiwan subsidiary was granted a tax holiday in which the profit from sales of its products are exempted from Taiwan income tax for the first five years of profit. The Group has not yet utilised the tax holiday as the business has been loss making.

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the six months ended 30th June 2000 and the six months ended 30th June 1999.

No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

4. Loss per share

The calculation of the basis loss per share for the three months and six months ended 30th June 2000 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$10,393,000 and HK\$21,203,000 (1999: HK\$2,338,000 and HK\$5,138,000) and a total of 320,724,875 shares issued on the establishment of the Company and on the Reorganisation of the Group is deemed to have been in issue since 1st January 1999.

Diluted earnings per share is not presented because there was no dilutive potential ordinary shares in existence during the periods.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

For the six months ended 30th June, 2000, the Group recorded a turnover of approximately HK\$7,526,000. Loss attributable to shareholders of the Group for the six months ended 30th June, 2000 was amounted to approximately HK\$21,203,000 as the Group's business continued to incur substantial overheads, which included fixed assets depreciation, rental expenses, research and development expenses and staff costs.

Business and operations

Development of new product

The Group completed the trial production and commenced the commercial production of APC ferrules (a type of ceramic ferrules used in "angled physical contact" connectors, which is a type of fibre optic connectors) in June 2000. Sales of APC ferrules were also commenced in June 2000 with the first shipment of 5,000 pieces, which is expected to increase substantially in the future. The Board estimates that the gross profit margin of APC ferrules manufactured by the Group is higher than that of the Group's other products.

Development of new raw materials

A new type of ceramic powder mixture was successfully developed in 2nd Quarter 2000 and is expected to be used in the production in September 2000. The Board forecasts that this new type of ceramic powder mixture will result in a reduction of approximately 12% in material cost.

Production

As at 30th June, 2000, the Group's existing production facilities in Taiwan had a designed production capacity of approximately 450,000 ceramic blanks and 380,000 ceramic ferrules per month, and the Group was operating at approximately 99% and 79% of its designed capacity for the production of ceramic blanks and ferrules respectively. There is a significant increase in the utilisation rate of the Group production capacity as compared to that at the end of April 2000 as disclosed in the prospectus of the Company dated 27th June, 2000.

Sales

Up to 30th June, 2000, the Group has received approximately HK\$41.5 million worth of purchase orders for its products, all of which stipulate for delivery by 31st December, 2000. Among these purchase orders, the new APC ferrules produced by the Group comprise of approximately 27 per cent.

Prospects

Couple with the growing prominence of All Optical Network that is spreading over a wide market spectrum assisted by the liberalization of major telecommunication market, the Group is accelerating its expansion plans to meet the increase demands for its products.

Based on the experience gained from its existing production plant in Taiwan, the Group will set up a new production plant in PRC with larger production scale and more aggressive expansion schedule than the plant in Taiwan. Meanwhile, the Group will continue the research and development for new products, new moulds for ceramic blank production and new ceramic powder mixtures in Taiwan.

With the Group's know how and experience, the Board believes that the Group is well positioned in capitalizing on the impending market demands for fiber optic connectors, hence, ceramic ferrules. The Company is optimistic of its future prospects, in achieving its mission to grow and be engaged as one of the largest suppliers of ceramic ferrules in the world.

DIRECTORS' AND CHIEF EXECUTIVE' INTERESTS IN SECURITIES

As at 30th June, 2000 and as at the date of this report, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the directors and chief executive of the Company and their associates in shares of the Company were as follows:

Name	Personal Interest	Family Interest	Corporate interest (No. of shares)	Other Interest	Total Interest
Mr. Tung Tai Yung	20,225,000	—	104,506,625 (Note 1)	—	124,731,625
Mr. Koh Tat Lee	1,700,000	3,275,000 (Note 2)	—	—	4,975,000
Mr. Shih Wen Hao	3,183,000	—	—	—	3,183,000
Mr. King Chun Kong, Karl	5,500,000	—	—	—	5,500,000

Notes:

1. These Shares are held through Taiping Enterprise Co., Ltd. ("Taiping") and Mamcol Taiwan Company Limited ("Mamcol"), which is a subsidiary of Taiping. These shares are attributable to Mr. Tung Tai Yung under the SDI Ordinance, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung Tai Yung's directions or instructions and Taiping in turn holds more than one third of the issued shares in Mamcol.
2. These Shares are held by the wife of Mr. Koh Tat Lee, Ms. Eva Wong.

Save as disclosed above, none of the directors and chief executive of the Company or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVE' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30th June, 2000, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons (in addition to interest of Mr. Tung Tai Yung disclosed above) were interested in 10 per cent. or more of the issued share capital of the Company:

Name	Number of shares	Percentage of issued share (Note 2)
Taiping Enterprise Co., Ltd.	104,506,625 (Note 1)	26.01

Notes:

1. These Shares are held as to 104,011,625 directly by Taiping Enterprise Co., Ltd. ("Taiping") and as to 495,000 through Mamcol Taiwan Company Limited, which is a subsidiary of Taiping.
2. The percentage of issued shares has been arrived at on the basis of a total of 401,724,875 shares in issue immediately after the completion of the placing as disclosed in the Company's prospectus dated 27th June, 2000.

MANAGEMENT SHAREHOLDERS

Other than the interests disclosed above in respect of the substantial shareholders, directors and chief executive of the Company and their associates, as at 30th June, 2000, the following persons are individually and/or collectively entitled to exercise or control the exercise of five per cent. or more of the voting power at the general meetings of the Company and are able, as a practicable manner, to direct or influence the management of the Company:

Name	Number of Shares directly held	Approximate percentage of issued shares <i>(Note 4)</i>
Symanet Co., Ltd.	26,000,000	6.47%
Mr. Hoon Siang Book <i>(Note 1)</i>	100,000	0.02%
Mr. Man Chi Kwong <i>(Note 1)</i>	500,000	0.12%
Mr. Chen Chung Sen <i>(Note 1)</i>	100,000	0.02%
Mr. Wu Chien Yung <i>(Note 1)</i>	40,000	0.01%
Ms. Yang Ling Ling <i>(Note 1)</i>	700,000	0.17%
Ms. Yang Wu Pi <i>(Note 2)</i>	150,000	0.04%
Ms. Yang Jung Jung <i>(Note 2)</i>	200,000	0.05%
Ms. Lee Tsai Yeh <i>(Note 2)</i>	150,000	0.04%
Hotung International Company Ltd. <i>(Note 3)</i>	12,500,000	3.11%
Daitung Development and Investment Corporation <i>(Note 3)</i>	16,000,000	3.98%
Asiacorp Group Co., Ltd. <i>(Note 3)</i>	6,050,000	1.51%

Notes:

1. Mr. Hoon Siang Book, Mr. Man Chi Kwong, Mr. Chen Chung Sen, Mr. Wu Chien Yung and Ms Yang Ling Ling ("Ms. Yang") are senior management employees of the Group.
2. Ms. Yang Wu Pi is Ms. Yang's mother. Ms. Yang Jung Jung is Ms. Yang's sister. Ms. Lee Tsai Yeh is Ms. Yang's mother-in-law.
3. Hotung International Company Ltd., Daitung Development and Investment Corporation and Asiacorp Group Co., Ltd. are independent investors who have appointed representatives as non-executive directors of the Company, and are treated as initial management shareholders of the Company for lock-up purpose only.
4. The percentage of issued shares has been arrived at on the basis of a total of 401,724,875 shares in issue immediately after the completion of the placing as disclosed in the Company's prospectus dated 27th June, 2000.

Save as disclosed herein, the directors of the Company are not aware of, as at 30th June, 2000, any business or interest of each director, substantial shareholders and management shareholder of the Company and their respective associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

OUTSTANDING SHARE OPTION

On 21st June, 2000, the Company conditionally adopted the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 27th June, 2000.

During the period from 1st January, 2000 to 30th June, 2000, no option was granted by the Company under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from 30th June 2000 to 7th July, 2000 (date of listing of the Company), there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

INTEREST OF SPONSOR

The Sponsor of the Company, Yuanta Securities (Hong Kong) Company Limited, its directors, employees and associates, at 30th June, 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Yuanta Securities (Hong Kong) Company Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Yuanta Securities (Hong Kong) Company Limited will act as the Company's continuing sponsor for the period from 7th July, 2000 to 31st December, 2002.

COMPETING INTERESTS

During the period from 1st January 2000 to 30th June, 2000, none of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

By Order of the Board
Tung Tai Yung
Chairman

Hong Kong, 14th August, 2000