

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 nine months ended 30th September, 2000

** For identification purpose only*

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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 (UNAUDITED)

The board of directors (the "Board" and "Directors") of Intcera High Tech Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30th September, 2000, together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

		Three months ended		Nine months ended	
		30th September		30th September	
		2000	1999	2000	1999
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<u>12,176</u>	<u>—</u>	<u>19,702</u>	<u>—</u>
Loss from operations		(4,976)	(3,914)	(26,331)	(9,644)
Other income		3,495	807	5,347	2,193
Finance costs		<u>(1,689)</u>	<u>(589)</u>	<u>(3,434)</u>	<u>(1,366)</u>
Loss before taxation		(3,170)	(3,696)	(24,418)	(8,817)
Taxation	3	<u>—</u>	<u>—</u>	<u>—</u>	<u>(28)</u>
Loss after taxation		(3,170)	(3,696)	(24,418)	(8,845)
Minority interests		<u>5</u>	<u>8</u>	<u>50</u>	<u>19</u>
Loss attributable to shareholders		<u>(3,165)</u>	<u>(3,688)</u>	<u>(24,368)</u>	<u>(8,826)</u>
Basic loss per share	4	<u>(0.80)</u>	<u>(1.15)</u>	<u>(7.05)</u>	<u>(2.75)</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 the 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 the Company 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 a subsidiary of the Company 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 period.

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 basic losses per share for the three months and nine months ended 30th September, 2000 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$3,165,000 and HK\$24,368,000 (1999: HK\$3,688,000 and HK\$8,826,000) and the weighted average number of 395,561,832 and 345,852,612 (1999: 320,724,875 and 320,724,875) ordinary shares outstanding 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.

The exercise of the share options granted by the Company would have an anti-dilutive effect on the loss per share for the three months and nine months ended 30 September, 2000.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2000.

BUSINESS REVIEW

For the nine months ended 30th September, 2000, the Group recorded a turnover of approximately HK\$19,702,000. Loss attributable to shareholders of the Group for the nine months ended 30th September, 2000 was approximately HK\$24,368,000 as the Group's business continued to incur substantial overheads, which included fixed assets depreciation, rental expenses, research and development expenses and staff costs.

The ferrule produced by the Group was awarded the Third Outstanding Photonics Award in July 2000 by the Photonics Industry and Technology Development Association (“PIDA”), commissioned by the Taiwan’s Ministry of Economic Affairs for the selection of candidates for this award. The candidates for the award included products from leading manufacturers in industry in Taiwan. Award winning products were exhibited at designated area in the Photonics Taiwan Exhibition, a large scale, international exhibition held in Taiwan with participation of reputable international photonics manufacturers. As one of the winning manufacturers, the Board expects worldwide recognition of its products and greater business opportunities to work with other multinational photonics manufacturers and enhance the Group’s opportunities in exploring global market.

Research and Development

The Group successfully produced APC ferrules (a type of ceramic ferrules used in “angled physical contact” connectors, which is a type of fibre optic connectors) and commenced the mass production of APC ferrules in July 2000. Up to 30th September, 2000, the Group has recorded a turnover of approximately HK\$5.56 million from sales of APC ferrules. This new product has enhanced the gross profit margin of the Group.

The Group also successfully developed and introduced into production a new type of ceramic powder mixture in September 2000. The Board believes that this new type of ceramic powder mixture will result in a reduction of approximately 12 per cent. in the Group’s materials cost. The Group is also undergoing research and development for several new types of ceramic powder mixtures to further decrease its materials cost and expand its material supply source.

Licence and manufacturing agreement

As disclosed in the Company’s announcements on 26th October, 2000 and 31st October, 2000, Taicera High Tech Co., Ltd. (“Taicera”), a 99.8 per cent. owned subsidiary of the Company, has entered into a licence and manufacturing agreement (the “Agreement”) with Goodfield Limited (“Goodfield”), an independent third party, on 11th September, 2000, under which Taicera will grant a licence to Goodfield for using the technology and technical know-how for the manufacture of ceramic blanks and ferrules developed by Taicera in return for royalty fee payments. Goodfield is a subsidiary of Foxconn Precision Components Co., Ltd. (“Foxconn”). Foxconn is a Taiwan company in which Hon Hai Precision Industry Co., Ltd. (“Hon Hai”) owns a 48.25 per cent. shareholding and the board of directors of Foxconn is also majority-controlled by Hon Hai. Foxconn’s principal business activities are the manufacture of thermal products and tooling for computers and communication components. Hon Hai is currently one of the top 10 customers of the Group. While Goodfield will be able to manufacture ferrules using Taicera’s technology for internal consumption by not more than 5 members of the Hon Hai group, the Directors expect that it will continue to purchase ferrules from the Group and continue to be one of the Group’s major customers. The Board are of the view that the Agreement will foster closer ties between the Group and Hon Hai, resulting in long-term business and financial benefits to the Group.

Production facilities

The designed production capacity of the existing production facilities in Taiwan has been increased to approximately 1.2 million ceramic blanks and approximately 0.9 million ceramic ferrules per month at the end of the 3rd quarter of year 2000. Upon completion of setting up another production line of ceramic blanks and ferrules in the 4th quarter of year 2000, the Board expects that the production capacity of the Taiwan plant will exceed the previous objective as stated in the prospectus of the Company dated 27th June 2000, which is resulted from the improvement of production process and shortening of production cycle time.

The Group is in the final stage of selecting the location of its new production facilities in the PRC. The Board expects the new facilities will be located in Shenzhen, the PRC and the relevant lease agreement will be entered into in November 2000.

Sales and promotion

Up to 30th September, 2000, the Group has received approximately HK\$46.5 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 24 per cent. The value of confirmed orders for delivery during year 2001 amounted to approximately HK\$60.8 million as at 30th September, 2000.

The Group has been promoting its products to multinational companies and has successfully obtained purchase orders from two multinational companies. One of them is a producer of connecting hardware and complementary accessories for both Wide Area Network and Local Area Network environments. It was founded in Switzerland and has ten subsidiaries with over fifty distributors worldwide. Another is one of the largest manufacturers of interconnect products in the world. It designs, manufactures and markets electrical, electronic and fiber optic connectors, coaxial and flat-ribbon cable, and interconnect systems. Its headquarters is in U.S.A. and has nearly thirty subsidiaries worldwide including North America, Europe, Hong Kong, Korea, India, Great Britain and Scotland.

Taicera has registered in the suppliers list of International Trade Association in Taiwan (website: <http://www.trade-taiwan.org>) and in the "Taiwan Photonics Buyer's Guide" of PIDA (website: <http://www.pida.org.tw>). The Group has also advertised its products on the DigiTimes, which is the first Chinese newspaper specialising in electronic industry including computers, ICs, components, networking, internet and telecommunication (website: <http://www.digitimes.com.tw>).

Manpower

The Group fully recognises the importance of building up its competence and competitiveness through the people it employs, both in quality and quantity. During the period from 1st May, 2000 to 30th September, 2000, the Group employed 77 additional staff for its production operations, which resulted in a total of 178 employees engaged in the Group's production operations as at 30th September, 2000.

PROSPECTS

Fueled by the booming internet industry, the demand for broadband has risen dramatically. As the best transmission method to satisfy the demand for high-speed and huge-capacity data communication, the global market for fiber optic communications has grown rapidly during these two years with an annual growth rate of approximately 20 per cent.. It is expected to grow at even higher rate in the near future due to the trend of utilizing optical fiber to replace traditional copper wire as the medium for transmission.

Driven by the accelerating growth rate in the fiber optic industry, there have been shortages of ceramic ferrules, the critical component of fiber optic connector. The Group will soon expand its production capacity in the PRC to meet the increasing demands for its products.

To further improve production yield rate, cut down production cost and enhance profit margin, the Group's research and development team in Taiwan has been working on development of new types of ferrules with higher profit margin, improvement of production process and development of lower cost moulds and ceramic powder mixture.

The Board is optimistic about the Group's future performance as the Group is currently position well in the fiber optic market and will capture the market growth through its expansion in PRC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

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

Name	Personal Interest	Family Interest (No. of shares)	Corporate Interest	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 (Note 3)	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.
3. Mr. King Chun Kong, Karl resigned as a non-executive director of the Company and was appointed as an executive director of the Company with effect from 1st September 2000.

Pursuant to the share option scheme adopted by the Company on 21st June, 2000, the following directors and chief executive of the Company were granted option on 20th July, 2000 to subscribe for the shares of the Company at an exercise price of HK\$1.13 per share exercisable during the period from 20th July, 2000 to 19th July, 2010. The number of options over the shares of the Company for each director and chief executive is listed as follows:

Name	Number of Options over Shares
Mr. Tung Tai Yung	400,000
Mr. Koh Tat Lee	10,000,000
Mr. Shih Wen Hao	2,000,000

Save as disclosed above, none of the directors or chief executive of the Company or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate, or had exercised any such right as at 30th September, 2000.

SUBSTANTIAL SHAREHOLDERS INTERESTS

As at 30th September, 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 of the Company in issue as at 30th September, 2000.

MANAGEMENT SHAREHOLDERS INTERESTS

Other than the interest disclosed above in respect of the substantial shareholders, directors and chief executive of the Company and their associates, as at 30th September, 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 (Note 4)
Symanet Co., Ltd.	26,000,000	6.47%
Mr. Hoon Siang Book (Note 1)	100,000	0.02%
Mr. Man Chi Kwong (Note 1)	500,000	0.12%
Mr. Chen Chung Sen (Note 1)	100,000	0.02%
Mr. Wu Chien Yung (Note 1)	40,000	0.01%
Ms. Yang Ling Ling (Note 1)	700,000	0.17%
Ms. Yang Wu Pi (Note 2)	150,000	0.04%
Ms. Yang Jung Jung (Note 2)	200,000	0.05%
Ms. Lee Tsai Yeh (Note 2)	150,000	0.04%
Hotung International Company Ltd. (Note 3)	12,500,000	3.11%
Daitung Development and Investment Corporation (Note 3)	16,000,000	3.98%
Asiacorp Group Co., Ltd. (Note 3)	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 of the Company in issue as at 30th September, 2000.

Save as disclosed herein, the directors of the Company are not aware of, as at 30th September, 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 OPTIONS

On 21st June, 2000, the Company adopted a share option scheme (the “Share Option Scheme”), the principal terms of which are set out in the section headed “Share Option Scheme” in appendix V to the Company’s prospectus dated 27th June, 2000. In addition to options granted under the Share Option Scheme to directors of the Company as disclosed in the section headed “Directors’ and chief executives’ interests in securities” above, the Company has granted options under the Share Option Scheme to 176 full-time employees of the Company to subscribe for an aggregate of 17,570,000 shares of the Company at HK\$1.13 on 20th July, 2000.

No option granted under the Share Option Scheme had been exercised, cancelled or lapsed during the period from 20th July, 2000 to 30th September, 2000. As at 30th September, 2000, options comprising a total of 29,970,000 underlying shares, representing approximately 7.5 per cent. of an aggregate 401,724,875 shares of the Company in issue at the same date, were outstanding.

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

Up to 30th September, 2000, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

INTEREST OF SPONSOR

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

Save as Mr. Michael Chum, an executive director of Yuanta Securities, who holds 10,000 shares of the Company, none of Yuanta Securities, its directors, employees and associates, at 30th September, 2000, has 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.

COMPETING INTERESTS

As at 30th September, 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. The audit committee has met once since its formation in June 2000.

By Order of the Board
Tung Tai Yung
Chairman

Hong Kong, 10th November, 2000