



INTCERA

Intcera High Tech Group Limited

大陶精密科技集團有限公司*

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

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This report, for which the directors at Intcera High Tech Group Limited collectively and individually accept full 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 at 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.

FIRST QUARTERLY RESULTS

The board of directors (the "Board") of Intcera High Tech Group Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31st March, 2001, together with the comparative unaudited figures for the corresponding period in 2000 as follows:

	Notes	Three months ended 31st March	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	17,399	2,902
Cost of sales		<u>(14,690)</u>	<u>(3,315)</u>
Gross profit/ (loss)		2,709	(413)
Other revenues	2	1,881	680
Selling and distribution expenses		(230)	(217)
Administrative expenses		(10,709)	(8,134)
Other operating expenses		<u>(952)</u>	<u>(2,043)</u>
Operating loss		(7,301)	(10,127)
Finance costs		<u>(1,463)</u>	<u>(706)</u>
Loss before taxation		(8,764)	(10,833)
Taxation	3	—	—
Loss after taxation		(8,764)	(10,833)
Minority interests		—	(23)
Loss attributable to shareholders		<u>(8,764)</u>	<u>(10,810)</u>
Basic loss per share (in cents)	4	<u>(2.18)</u>	<u>(3.37)</u>

Notes:

1. Group reorganisation and basis of preparation

- The Company was incorporated in the Cayman Islands on 1st September, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.
- On 29th February, 2000, pursuant to a group reorganisation to rationalise the structure of the Group which included exchanges of shares in preparation for the listing of the shares of the Company on GEM, the Company became the holding company of the Group. The Company's shares were listed on GEM on 7th July, 2000.
- The results of the Group for the three months ended 31st March, 2000 comprise the results of the Company and its subsidiaries using the merger accounting basis as if the Company had always been the holding company of the Group.
- The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.
- Certain comparative figures have been reclassified to conform with the current year's presentation.

2. Revenue and turnover

	Three months ended 31st March	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of goods, net of discounts, returns and business tax	17,399	2,902
Other revenues		
Interest income	1,879	305
Other income	<u>2</u>	<u>375</u>
	<u>1,881</u>	<u>680</u>
Total revenues	<u>19,280</u>	<u>3,582</u>

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profit in Hong Kong for the period and prior period.

The Taiwan subsidiary was granted a tax holiday since commencing operation from 1st November, 1999 in which the profit from sales of its products are exempted from Taiwan income tax for the first five years of profit.

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 Group's basic loss per share for the three months ended 31st March, 2001 is based on the Group's loss attributable to the shareholders of HK\$8,764,000 (2000: HK\$10,810,000) and a total of 401,724,875 shares outstanding (2000: 320,724,875 shares) during the respective period.

In calculating the number of shares in the respective period of last year, 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, 2000.

No diluted loss per share has been presented because the exercise of the outstanding potential ordinary shares would have anti-dilutive effect for the period and prior period.

INTERIM DIVIDEND

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the three months ended 31st March, 2001 (2000: Nil).

BUSINESS REVIEW AND OUTLOOK

In the first quarter of 2001, the Group recorded a turnover of HK\$17,399,000, up approximately 499.6% as compared to the same period in 2000. The Group recorded a gross profit of HK\$2,709,000 in the first quarter of 2001, which represents a gross profit margin of approximately 15.6%, up from a gross loss in the corresponding period in 2000. The loss attributable to shareholders of the Group for the three months ended 31st March, 2001 was HK\$8,764,000, an improvement of approximately 18.9% over the loss in the corresponding period in the previous year. The main reason for the loss in the first quarter was the start-up costs incurred in China being directly written off. The Group began to renovate the factory premises, install machinery and recruit personnel in the first quarter of the year. The Group anticipates that commercial operations will commence in June 2001. As at the end of March, the Group had net cash amounting to approximately HK\$53 million, down from the approximately HK\$100 million at the end of 2000 due to the capital expenditure incurred at the new China facility.

The outlook for the Group and its products remains very positive. In March 2001, the Group was an exhibitor at OFC (Optical Fiber Communication Conference and Exhibition) in Anaheim, California. Management who attended the conference noted the slowing of orders for fiber optic components in general but was reassured that this will not affect the demand for the Group's products. The Directors believe that one of the reasons behind the strength in demand is that the ferrules produced by the Group are key components in supplying services to end customers. Even when the industry is suffering a slowdown, the Group believes that it is vitally important for service providers to link to end customers. The Group therefore believes that demand for its products is unlikely to show the same decline as has been seen for some other optical components.

PRODUCTION

The Taiwan plant is still approaching full capacity and the Group anticipates that this should be achieved by the end of the second quarter of 2001. In addition, the Group produced the first sample of the miniature ceramic ferrule in the first quarter of 2001. Commercial production of this new, higher value-added product is due to commence in the third quarter of 2001 at the Group's Taiwanese facility.

CHINA PLANT

The Group commenced the installation of machinery in its new Chinese facility in the first quarter of 2001. In addition, the hiring of local staff has also begun. The current plan is for commercial production of blanks and ferrules to commence in June 2001 on the first line. This line has a monthly design capacity of 750,000 ceramic ferrules. The second line, with a similar capacity, has also begun to be installed and is due to commence commercial production by August 2001. To date, management of the Group has been favourably impressed with the facility and the skill set of the workers hired. Most have been recruited from either universities or polytechnics around China and have technical qualifications. The facility itself is part of the large industrial park owned and operated by Hong Fu Jin ("Foxconn"), an associate of Hon Hai Precision Industry Group. This industrial park is the pioneer tax-free factory in China, which means that the Group has benefited from the swift and uniform importation of machinery into China as well as other operational infrastructure operated by Foxconn.

SALES AND ORDERS

Sales in the first quarter of 2001 amounted to HK\$17,399,000, an increase of approximately 499.6% over the sales for the comparable period in 2000. The increase was due to the large increase in production as well as stronger prices. The average selling price in the first quarter of 2001 was US\$1.15 per ferrule, up approximately 17.4% on the average selling price of US\$0.98 in the first quarter of 2000. This increase is due to both a favourable increase in the price of all products due to the strong demand for ferrules. In addition, the sale of higher value items such as the APC (Angled Physical Contact) ferrule has also helped improve average prices.

As at 31st March, 2001, the total orders for delivery before the end of the year were in excess of the HK\$157 million the Group reported as at 31st December, 2000.

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 January, 2001 to 31st March, 2001, the Group employed an additional 251 people, the majority of whom were employed in China. As at 31st March, 2001, the Group employed about 520 people, of which 270 were employed in the China operations.

PROSPECTS

The Group is encouraged by the feedback from the OFC conference and is still receiving requests from customers for ferrules in excess of its current production capacity. The Directors anticipate that the global market for ceramic ferrules will continue to grow at rates exceeding 20% per annum for the next few years as the demand for fiber optic communications continues to grow rapidly.

The China plant, which is due to begin commercial operations in June 2001, will help the Group satisfy the tremendous demand for the products as well as to reduce average labour costs. Further out, the introduction of miniature ceramic ferrules should further improve margins.

In constant efforts to maximise production yield rates, the Group continues to work on the development of alternative supplies for both moulds and ceramic powder mixtures.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2001 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 executives of the Company and their associates in shares of the Company were as follows:

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total
(No. of shares)					
Mr. Tung Tai Yung	20,225,000	—	104,506,625 (Note 1)	—	124,731,625
Mr. Koh Tat Lee	3,000,000	3,275,000 (Note 2)	—	—	6,275,000
Mr. Shih Wen Hao	3,183,000	—	—	—	3,183,000
Mr. King Chun Kong, Karl	5,500,000	—	—	—	5,500,000

Notes:

- 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.
- 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 executives 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March, 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following company (in addition to interest of Mr. Tung Tai Yung disclosed above) was interested in 10 per cent. or more of the issued share capital of the Company:

Name	Number of shares	Approximate percentage of issued share (Note 2)
Taiping Enterprise Co., Ltd.	104,506,625 (Note 1)	26.0%

Notes:

- 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.
- The percentage of issued shares has been arrived at on the basis of a total of 401,724,875 shares of the Company as at 31st March, 2001.

SIGNIFICANT SHAREHOLDERS' INTERESTS

As at 31st March, 2001, the following company directly held more than 5% of the issued share capital of the Company:

Name	Number of shares directly held	Approximate percentage of issued shares (Note)
Symanet Co., Ltd.	26,000,000	6.47%

Note: 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 31st March, 2001

OUTSTANDING SHARE OPTION

Pursuant to the share option scheme for eligible employees which was adopted on 21st June, 2000, the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Group from time to time.

On 31st March, 2001, options comprising a total of 39,165,000 underlying shares were granted to employees (including executive directors) of the Group. No option granted under the share option scheme had been exercised or cancelled during the period from the date on which such option was granted to 31st March, 2001. The following are details of the options granted to Directors:

Name of Directors	Number of Share Options
Mr. Tung Tai Yung	400,000
Mr. Koh Tat Lee	10,000,000
Mr. Shih Wen Hao	2,000,000
Mr. King Chun Kong, Karl	1,500,000

Save as disclosed above, as at 31st March, 2001, 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 of the Company or its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARE OR DEBT SECURITIES

Save as disclosed herein, as at 31st March, 2001, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors 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 executives 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.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the period from 1st January to 31st March, 2001, 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 (name changed to Core Pacific-Yamaichi (Hong Kong) Company Limited) ("Yuanta Securities") has entered into a sponsorship agreement with the Company whereby, for a fee, Yuanta Securities has been acting and will act as the Company's continuing sponsor for the period from 7th July, 2000 to 31st December, 2002 (the "Period"). On 4th May, 2001, Yuanta Securities has notified the Stock Exchange and the Company that, due to the merger between the Yuanta group and the Core Pacific group, the employment of the then existing staff of Yuanta Securities has been transferred to Core Pacific-Yamaichi Capital Limited ("CPYC") and the then existing business of Yuanta Securities has been transferred to CPYC. As Yuanta Securities no longer continues to satisfy the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules, Yuanta Securities will be removed from the list of eligible sponsors and will cease to act as sponsor of the Company. Yuanta Securities has proposed to the Company to appoint CPYC as the replacement sponsor for the balance of the Period up to 31st December, 2002. The Company may also consider appointing other companies which have been admitted to the list of sponsors maintained and published by the Stock Exchange from time to time within 3 months of the date on which Yuanta Securities ceased to act as sponsor to the Company, in accordance with Rule 6.63 of the GEM Listing Rules. As at the date of this report, the Company has yet to appoint its new sponsor.

Save for 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, as at 31st March 2001 and 14th May, 2001, had 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 31st March, 2001, none of the Directors, substantial shareholders and significant shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or which 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 dealing 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
Intcera High Tech Group Limited
Koh Tat Lee
Chairman

Hong Kong, 14th May, 2001

** For identification purpose only*