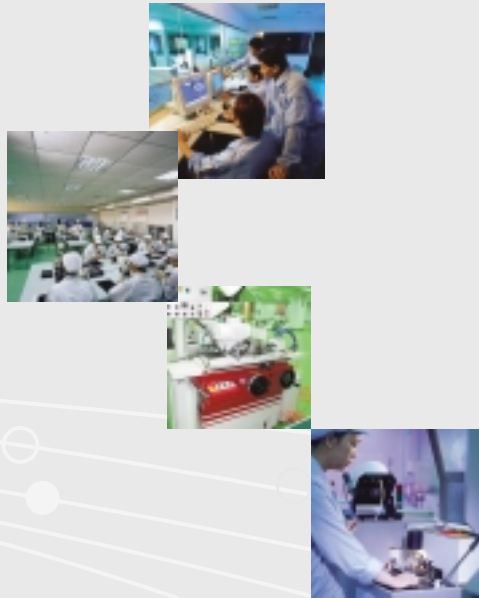


Interim Report 2001



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**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 the contents of this report.*

*The directors of Intcera High Tech Group Limited (“Directors”) collectively and individually accept full responsibility for this report, which is given in compliance with the requirement (Rules Governing the Listing of Securities on the Growth Enterprise Market) of the Stock Exchange. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, (i) the information contained in the report are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this report have been arrived at after due and careful consideration on the bases and assumptions of reasonableness and fairness.*



## HIGHLIGHTS (UNAUDITED)

- Turnover increased by HK\$19,935,000 for the six months ended 30 June, 2001 representing approximately a 264% increase to the corresponding six-month period ended 30 June, 2000.
- The production capacity of the Taiwan plant has been increased to 1.4 million blanks per month, as compared with 1.3 million blanks per month at the end of 2000.
- The first line in the China plant has commenced operations in June, 2001, as planned.
- The research and development of miniature ceramic ferrules (or small form factor ferrules) has been completed and the new product are now in trial run stage.
- However, turnover is expected to decline due to uncertain market conditions and demand for ceramic ferrules.

## CONSOLIDATED INCOME STATEMENT

The Board of Directors (the "Board") 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 six months ended 30 June, 2001, together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Notes	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
		<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>10,062</b>	4,624	<b>27,461</b>	7,526
Cost of sales		<b>(7,139)</b>	(5,099)	<b>(21,829)</b>	(8,414)
Gross profit/(loss)		<b>2,923</b>	(475)	<b>5,632</b>	(888)
Other revenues	2	<b>1,464</b>	995	<b>3,345</b>	1,675
Selling and distribution expenses		<b>(271)</b>	(172)	<b>(501)</b>	(389)
Administrative expenses		<b>(10,854)</b>	(8,462)	<b>(21,563)</b>	(16,596)
Other operating expenses		<b>(3,602)</b>	(1,424)	<b>(4,554)</b>	(3,467)
Operating loss		<b>(10,340)</b>	(9,538)	<b>(17,641)</b>	(19,665)
Finance costs		<b>(1,746)</b>	(877)	<b>(3,209)</b>	(1,583)
Loss before taxation		<b>(12,086)</b>	(10,415)	<b>(20,850)</b>	(21,248)
Taxation	3	—	—	—	—
Loss after taxation		<b>(12,086)</b>	(10,415)	<b>(20,850)</b>	(21,248)
Minority interests		—	22	—	45
Loss attributable to shareholders		<b><u>(12,086)</u></b>	<b><u>(10,393)</u></b>	<b><u>(20,850)</u></b>	<b><u>(21,203)</u></b>
Basic loss per share (in cents)	4	<b><u>(3.01)</u></b>	(3.24)	<b><u>(5.19)</u></b>	(6.61)



Notes:

## 1. Group reorganisation and basis of preparation

- (a) The Company was incorporated in the Cayman Islands on 1 September, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.
- (b) On 29 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 7 July, 2000.
- (c) The results of the Group for the three months and six months ended 30 June 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.
- (d) The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.
- (e) Certain comparative figures have been reclassified to conform with the current year's presentation.

## 2. Revenue and turnover

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2001 HK\$'000</i>	<i>2000 HK\$'000</i>	<i>2001 HK\$'000</i>	<i>2000 HK\$'000</i>
Turnover				
Sales of goods, net of discounts, returns and business tax	<b>10,062</b>	4,624	<b>27,461</b>	7,526
Other revenues				
Interest income	<b>1,414</b>	189	<b>3,293</b>	494
Other income	<b>50</b>	806	<b>52</b>	1,181
	<b>1,464</b>	995	<b>3,345</b>	1,675
Total revenues	<b>11,526</b>	5,619	<b>30,806</b>	9,201

### **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 six months ended 30 June, 2001 and six months ended 30 June, 2000.

The Taiwan subsidiary was granted a tax holiday since commencing operation from 1 November, 1999 in which the profit from sales of its products are exempted from Taiwan income tax for the first five years since making 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 and six months ended 30 June 2001 is based on the Group's loss attributable to the shareholders of HK\$12,086,000 and HK\$20,850,000 (2000: HK\$10,393,000 and HK\$21,203,000) 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 periods 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 1 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 periods.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).



## BUSINESS REVIEW AND PROSPECTS

### Financial review

For the six months ended 30 June 2001, the Group reported a turnover of HK\$27,461,000, up 264% compared to the same period in 2000. The increase in turnover reflects the fact that the Group was still in start-up phase in 2000 and production was significantly lower than in the first half of 2001. The Group's net loss attributable to shareholders for the first six months ended 30 June, 2001 was HK\$20,850,000, representing approximately 2% lower as compared with the corresponding period in 2000.

In the second quarter of 2001, the Group recorded a turnover of HK\$10,062,000, up approximately 118% compared to the same period in 2000 but down 42% from the first quarter of 2001. The Group recorded a gross profit of HK\$2,923,000 in the second quarter of 2001, which represents a gross profit margin of 29% which was improved from a gross loss margin of 10% in the second quarter of 2000 and a gross profit margin of 16% in the first quarter of 2001. The loss attributable to the shareholders of the Group for the three months ended 30 June 2001 was HK\$12,086,000, a 16% increase over the HK\$10,393,000 net loss recorded in the second quarter of 2000 and an increase of 38% from the HK\$8,764,000 recorded in the first quarter of 2001.

### Business review

The lacklustre result for the second quarter of 2001 was caused primarily by a sharp slowdown in demand for ferrules from end customers in the latter part of the quarter, resulting in some order cancellations. The Group believes that the main cause of the slowdown is an inventory correction caused by a much slower demand for fiber optic products especially in the United States. In addition, the China facility continued to incur start-up costs for the majority of the period while production volumes remained low. However, commercial production did commence in June as previously planned.

Unfortunately, the outlook for demand for ferrules is still uncertain. Our customers have little visibility as to on-going demand for their products and therefore find it difficult to give the Group any assurance as to the size of potential orders over the next few quarters. Whilst the Directors remain firmly of the opinion that the market for ferrules will pick up strongly once the current inventory correction is resolved, it is difficult to forecast when this correction process will be completed. Having said that, there have been encouraging signs as to longer term opportunities both in the US, where the Group is currently negotiating a number of multi-year contracts, as well as in China where the Group recently announced a Letter of Intent with a petrochemical producing and selling company whose shares are listed on the Shenzhen Stock Exchange for a possible joint venture plant for producing and selling ceramic ferrules in China. In addition, the Group had a gross free cash position of HK\$56 million as at the end of June and a net cash position of HK\$13 million.

### **Research and Development**

The Group has begun production of the miniature (or “small form factor”) ceramic ferrule. Market research indicates to the Group that small form factor ferrules will be the next generation optic components. While shipments to customers so far have been for testing purposes, the Group believes that this product will become the dominant product in the ferrule market over the next few years. As the Group already has the expertise and experience to produce small form factor ferrule, it is well placed to benefit from any increase in demand.

### **Production**

The Taiwan facility produced 3.1 million blanks in the second quarter of 2001, down from 3.4 million in the first quarter of 2001. The Taiwan facility also produced 1.8 million ferrules in the second quarter, down from 2.1 million in the previous quarter. The slowdown reflected the increasingly severe market conditions as well as certain corrections in production process. The Group anticipates that production will be lower in the third quarter of this year, reflecting the predicted lack of demand.





## China Plant

The first line, with a monthly design capability of 750,000 ceramic ferrules, commenced operations in June 2001. The majority of production in June was for testing purposes. Ferrules produced by the facility have been sent to customers for testing to ensure they meet the customers' product specifications. However, given the slow market conditions, the Group anticipates that the production on the China line will ramp-up far more slowly than the Group had previously planned.

The planned installation of the second line, also with a monthly design capability of 750,000 ceramic ferrules, has also been delayed. The initial plan was for the line to be installed and to commence commercial production in August 2001. The Group has delayed temporarily the purchasing of the machinery and will only proceed with such large scale installation if the demand situation resolves itself.

Nevertheless, management remains impressed with the facility and the skill set of the workers hired. Initial tests of various manufacturing processes have demonstrated positive results at least in-line with those measured by the Taiwanese facility.

## Sales and Marketing

Sales in the second quarter of 2001 amounted to HK\$10,062,000, an increase of 118% over the sales for the comparable quarter in 2000. However, sales fell by 42% compared to the first quarter of 2001 caused by sales order cancellations and re-negotiation of contracts. Due to the weakness in demand and further depreciation in the Taiwan dollar to US dollar exchange rate, the average price per ferrule sold fell to US\$1.04 per piece from US\$1.15 in the first quarter. The Group anticipates that sale price per ferrule in the third quarter will be in the range of US\$1.00 to US\$1.20.

Due to uncertainty over the demand for ferrules from the Group's end customers, the order backlog no longer provides realistic estimates as to the potential sales for the remainder of the year. Therefore, the Group cannot provide guidance on this metric until the Group has more confidence in the order situation.

## Restructuring

Due to the slowdown in demand and the cut in the target production volumes for the third quarter, the Group is actively pursuing cost savings. These include a reduction in staff numbers as well as an increasing focus in trimming other costs. Management estimate that this cost reduction program should reduce costs of the Taiwanese facility by 15% to 20%.

There are currently no plans to cut costs at the Chinese facility given that the cost base in China is considerably lower than that of the Taiwanese plant.

## PROSPECTS

The downturn in the market for ceramic ferrules was much sharper than the Group expected. Given the continuing turbulence in the telecommunications hardware market, the Group believes that the results for the coming quarter will be poor. In addition, companies involved in the fiber optic field in the United States have reported that there is little visibility in the demand situation for the remainder of the year.

Nevertheless, the Group remains convinced that the demand for ceramic ferrules will return and perhaps more rapidly than for a number of other components in the fiber optic market. The Group's confidence is buoyed by a number of announcements from US service providers which have announced that fiber will be rolled out much closer to the end customer if not actually into the home. This will increase the level of connectivity multifold and hence boost the demand for fiber optic connectors. In addition, some of the contracts being negotiated in the United States for 2002 are not dependent on the telecommunications market and therefore the Group anticipates that the approval procedure for these orders may not be the subject of the cancellations that the Group experienced in the second quarter.

Finally, on behalf of the Board, I thank our shareholders for their belief and continued support in the Group and all staff for their incessant hard work.

**Koh Tat Lee, Mike**

*Chairman and Chief Executive Officer*

Hong Kong, 13 August, 2001





## COMPARISON OF BUSINESS PROGRESS

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 27 June, 2000 ("Prospectus"):

**Business objectives for the 6 months ending 30 June, 2001 as set out in the Prospectus**

**Actual business progress for the 6 months ended 30 June, 2001**

***Research and development***

Complete the research and development for the production of miniature ceramic ferrules

The research and development of miniature ceramic ferrules has completed and these ferrules are now in trial run stage

Continue search for new types of ceramic powder mixtures from different suppliers

Samples from new powder suppliers have been tested although further modifications are required

Improve the yield rates of APC ferrules produced in the Group's production facilities in Taiwan

Yield rate improvements have been made with yields in excess of 70%

***Production facilities***

Complete the installation of additional machinery and equipment for the production and complete the sample production of miniature ceramic ferrules in the Group's production facilities in Taiwan

A miniature ceramic ferrule production line has been installed in the Taiwan facility and now in trial run stage

Increase the production capacity of the Group's production facilities in Taiwan with respect to the production of ceramic blanks

The production capacity of the Taiwan facility has been increased to 1.4 million blanks per month from 1.3 million blanks per month at the end of 2000

Complete the construction of the Group's new production facilities in the PRC

The PRC production facilities were completed in March 2001

**Business objectives for the 6 months ending 30 June, 2001 as set out in the Prospectus**

Complete the installation of machinery and equipment in the new production facilities in the PRC with an initial planned production capacity of 380,000 ceramic ferrules per month

Commence commercial production in the Group's PRC production facilities

***Sales and marketing***

Search for a suitable distributor in North America

Participate in professional trade shows and conferences such as Optical Fibre Communication Conference

Obtain purchase orders for the Group's newly launched miniature ceramic ferrules

Continue to advertise the Group's products on selective e-commerce websites and publications related to the fibre optic industry

Visit existing and potential customers and understand their requirements so as to secure more contracts with them

**Actual business progress for the 6 months ended 30 June, 2001**

The installation of machinery and equipment in the new production facilities in the PRC has been completed with a design production capacity of 750,000 ceramic ferrules per month instead

Commercial production commenced in the Group's PRC facility in June 2001

The search is still ongoing

Attended the Optical Fiber Conference in Anaheim, United States in March 2001, where there were keen interests in the Group's products. The sales team is following up on this lead

Testing of the new miniature ceramic ferrules is being performed by a number of potential customers

The Group continues to advertise on selective websites and in industry publications

The Group realigned customer service strategies and added manpower to focus on customer visits and consultations



## USE OF PROCEEDS

The Group raised approximately HK\$144 million through the placing of shares upon listing of the Company. After deducting expenses related to listing, net proceeds amounted to approximately HK\$128 million.

During the period from 7 July, 2000 (date of listing) to 30 June, 2001, the Group has applied approximately HK\$30 million for the purchases of production machinery and establishment of the Group's China plant, HK\$6 million for research and development, and HK\$5 million for the expansion of the Group's Taiwan production facility.

The remaining net proceeds are employed as working capital and deposited with licensed banks in Hong Kong.

## DIRECTORS' INTERESTS IN AND RIGHTS TO SECURITIES

(a) As at 30 June, 2001, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors of the Company and their associates in shares of the Company were as follows:

<i>Name of Director</i>	<b>Number of ordinary shares held</b>				<i>Total Interest</i>
	<i>Personal Interest</i>	<i>Family Interest</i>	<i>Corporate Interest</i>	<i>Other Interest</i>	
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:*

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.
- (b) Pursuant to the Company's share option scheme, certain Directors have personal interests in share option to subscribe for shares in the Company. The number of options over the shares of the Company for each Director up to 30 June, 2001 is as follows:

<b><i>Name of Director</i></b>	<b><i>Number of share options</i></b>
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 30 June, 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.



## SUBSTANTIAL SHAREHOLDER'S INTERESTS

As at 30 June, 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following person (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:

(Note 2)

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Percentage of issued share</b>
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 30 June, 2001.

Save as disclosed herein, the directors of the Company are not aware of, as at 30 June, 2001, 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.

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

Up to 30 June, 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

As stated in the Company's announcement on 3 August, 2001, the Company's former sponsor ceased to satisfy the eligibility criteria to act as sponsor to the Company due to its reorganisation of business and manpower movement. The Company should appoint a replacement sponsor within 3 months of this event in accordance with Rule 6.63 of the GEM Listing Rules which means by 4 August, 2001. The Company is currently in the process of finalising the engagement details of a replacement sponsor.

## OUTSTANDING SHARE OPTIONS

As at 30 June, 2001, options to subscribe for an aggregate of 40,172,488 shares of the Company granted pursuant to the Company's share option scheme were outstanding. Details of the breakdown are set out as follows:

<b>No. of share options</b>	<b>Subscription price per share of the Company</b>	<b>Option period* (commencing from the date of grant and terminating ten years thereafter)</b>
29,530,000	HK\$1.13	20 July 2000 to 19 July 2010
8,880,000	HK\$1.22	10 October 2000 to 9 October 2010
1,762,488	HK\$1.14	22 April 2001 to 21 April 2011

\*Note: The options may be exercised at any time within the option period provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period.

## COMPETING INTERESTS

As at 30 June, 2001, 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 meets at least once a quarter.

The audit committee comprises two members, namely Mr Domingo Chen and Mr Henry Goldstein, both being independent non-executive Directors of the Company.

By Order of the Board  
**Intcera High Tech Group Limited**  
**Koh Tat Lee, Mike**  
*Chairman and Chief Executive Officer*

Hong Kong, 13 August, 2001