INTCERA High Tech Group Limited

Third Quarterly Report 2001

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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 of the 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)

- The Group recorded total unaudited turnover of HK$26,709,000 for the nine months ended 30 September, 2001
- The Group recorded unaudited loss attributable to shareholders of HK$53,424,000 for the nine months ended 30 September, 2001
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 2001

CONSOLIDATED INCOME STATEMENT

The Board of Directors (the "Board") of Intcera High Tech Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September, 2001, together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

		Three months ended 30 September		Nine months ended 30 September	
		2001	2000	**2001**	2000
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2				
Sales of goods		**3,218**	12,176	**32,639**	19,702
Returned goods		**(3,970)**	–	**(5,930)**	–
		(752)	12,176	**26,709**	19,702
Cost of sales					
Cost of goods sold		**(2,326)**	(10,755)	**(25,942)**	(19,169)
Cost of goods returned		**2,966**	–	**4,753**	–
		640	(10,755)	**(21,189)**	(19,169)
Gross profit/(loss)		**(112)**	1,421	**5,520**	533
Other revenues	2	**1,121**	2,766	**4,466**	4,441
Selling and distribution expenses		**(329)**	(164)	**(830)**	(553)
Administrative expenses		**(10,183)**	(5,437)	**(31,746)**	(22,033)
Other operating expenses		**(21,019)**	(564)	**(25,573)**	(4,031)
Operating loss		**(30,522)**	(1,978)	**(48,163)**	(21,643)
Finance costs		**(2,055)**	(1,192)	**(5,264)**	(2,775)
Loss before taxation		**(32,577)**	(3,170)	**(53,427)**	(24,418)
Taxation	3	**–**	–	**–**	–
Loss after taxation		**(32,577)**	(3,170)	**(53,427)**	(24,418)
Minority interests		**3**	5	**3**	50
Loss attributable to shareholders		**(32,574)**	(3,165)	**(53,424)**	(24,368)
Basic loss per share (in cents)	4	**(8.11)**	(0.80)	**(13.30)**	(7.05)

Notes:

1. Basis of preparation

(a) The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

(b) Certain comparative figures have been reclassified to conform with the current year's presentation.

2. Revenue and turnover

	Three months ended 30 September		Nine months ended 30 September	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Sales of goods, net of discounts, and business tax	**3,218**	12,176	**32,639**	19,702
Returned goods	**(3,970)**	–	**(5,930)**	–
	(752)	12,176	**26,709**	19,702
Other revenues				
Interest income	**1,093**	2,734	**4,386**	4,217
Other income	**28**	32	**80**	224
	1,121	2,766	**4,466**	4,441
Total revenues	**369**	14,942	**31,175**	24,143

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 three months and nine months ended 30 September, 2001 and for the three months and nine months ended 30 September, 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 nine months ended 30 September 2001 is based on the Group's loss attributable to the shareholders of HK$32,574,000 and HK$53,424,000 (2000: HK$3,165,000 and HK$24,368,000) and a total of 401,724,875 shares outstanding (three months and nine months ended 30 September 2000: weighted average number of 395,561,832 and 345,852,612 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 nine months ended 30 September 2001 (2000: Nil).

BUSINESS REVIEW AND OUTLOOK

Financial review

For the nine months ended 30 September 2001, the Group reported a turnover of HK$26,709,000, up 35% 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 nine months of 2001. The Group's net loss attributable to shareholders for the nine months ended 30 September 2001 was HK$53,424,000, 119% higher than the corresponding period in 2000.

In the third quarter of 2001, the Group recorded a negative turnover of HK$752,000 due to goods sold in previous quarters being returned. This compares with a turnover of HK$12,176,000 in the third quarter of 2000 and HK$10,062,000 in the second quarter of 2001. The loss attributable to the shareholders of the Group for the three months ended 30 September 2001 was HK$32,574,000, as compared to the HK$3,165,000 net loss recorded in the third quarter of 2000.

Business review

As expected, the problems that affected the Group towards the end of the second quarter continued in the third quarter and even intensified as the lack of demand is now a worldwide phenomenon, having spread initially from the United States. The Group is suffering from the results of the slowdown in two ways. Firstly, orders continue to be cancelled. Secondly, some products that have previously been sold are being returned. Customers are imposing ever-tighter specifications which has meant the Group has had to expend additional resources to bring products up to the higher requirements. The Group has been working extremely hard with customers and suppliers to match the more stringent specifications, but this has required significant expenditure and retooling. In addition, the Group is having to re-qualify for certain customers, a process that further delays the receipt of any new orders.

The demand outlook for the remainder of 2001 remains bleak. The Group believes that the inventory correction that was noted in the business review of the Group's interim report of this year has mostly now occurred. However, even with much lower levels of inventory, the Group's customers are still reluctant to commit to any long-term purchasing plans given that the end market for their products remains uncertain. The Group therefore now believes that weak demand for ferrules will continue into early 2002.

Research and development

The Group continues to produce its new product the miniature ("small form factor" or "SFF") ceramic ferrule in small quantities. Market research indicates to the Group that the small form factor ferrules will be the ferrules of choice for the next generation of fiber connectors. In addition the Group is currently negotiating a multi-year contract with a large US company to supply miniature ferrules and they are currently in the advanced testing stage. The Group anticipates that SFF business will be of major importance over the coming years, although the market demand for this new product is very small at the moment.

Production

The Taiwan facility produced around 1.9 million blanks in the third quarter of 2001, down from 3.1 million in the second quarter. The Taiwan facility also produced around 0.5 million ferrules in the third quarter, down from 1.8 million in the second quarter. The slowdown reflects the increasingly severe market conditions. The Group anticipates a further reduction in production in the fourth quarter due to the lower demand and the adjustments to the manufacturing process necessitated by the tightening of customers' specifications.

China plant

The China facility made its first sales in the third quarter of 2001 after commencing production in June of this year. However, the China line is based on the same technology as the Taiwan plant. Therefore, with the increasingly tight customer specifications, the China plant needs to go through the same retooling process as the Taiwan facility. As a result, the production process in China will likewise be cut back in the fourth quarter and the focus will remain on training rather than full scale production.

The planned installation of the 750,000 ceramic ferrule design capacity second line has been delayed from the original implementation plan of August 2001. The Group will not go ahead with purchasing of machinery for this line until the demand situation is clearer.

Sales and marketing

Sales in the third quarter of 2001 amounted to negative HK$752,000, caused by returned goods amounting to HK$3,970,000. Despite the quarter-on-quarter fall in sales, the average price per ferrule increased from US$1.04 in the second quarter to US$1.09 in the third quarter due to the higher percentage of single-mode ferrules sold in the third quarter (the market for multi-mode ferrules has been much worse hit in the slowdown). However, due to market weakness, the Group expects that average prices could fall below US$1.00 per piece during the fourth quarter of 2001 and into early 2002.

As mentioned in the half-year report for 2001, the order backlog no longer provides realistic estimates as to potential sales for the remainder of the year. Therefore, the Group will not provide guidance on this metric until the Group has more confidence in the order situation.

Stock provision

Due to the tightening of specifications demanded by the Group's customers, a significant proportion of the inventory that was in stock as at 30 September 2001 is, in our opinion, no longer readily saleable. As a result, the Group has adopted the cautious approach to make a one-off stock provision of HK$9.6 million against these goods. In addition, the Group has also made provision of HK$5.6 million for refunds on return goods.

PROSPECTS

The worsening in the demand for ceramic ferrules in the third quarter was even greater than the Group had expected at the time of writing the second quarter review, and the terrorist attacks in September have further obscured the outlook for the market and made forecasting demand an even more uncertain process. Specifically, even tighter product specifications means that the Group will have to spend time and effort in recalibrating the production lines in order to meet the new tighter criteria and has suffered from returned goods. The Group believes that the recalibration will last into early 2002 and therefore sales will be very low during this period.

So as to minimize cash outflow in this period of realignment, the Group has instituted a deep cost reduction program in all its facilities. Specific cost-cutting measures include across the board reductions in salaries and a cut in directors fees by 30%. Headcount has been reduced from around 280 as at 31 December 2000 and the height of 600 in July 2001 to about 160 currently. It is anticipated that overall costs will be reduced by some 35% after the reduction program although the full effect of these measures will only be seen in the first quarter of 2002. The Group will be concentrating the majority of its efforts in research and technical areas so as to improve yields and prepare for the anticipated strengthening of the ferrule market in 2002.

Nevertheless, the Group remains convinced that demand for ceramic ferrules will return in 2002. Research published in the third quarter of 2001 still presents a remarkably upbeat future for the fiber optic industry with strong future growth rates of 30% per annum for optical components for a number of years ahead (Cazenove, RHK). Connectors, and therefore ceramic ferrules, will be in great demand once new systems are being installed again and the legacy copper networks are replaced with fiber.

The Group is negotiating a number of multi-year contracts with new and existing customers for 2002, including the SFF ferrule contract mentioned earlier.

Tung Tai Yung, Tyrone
Chairman and Chief Executive Officer

Hong Kong, 13 November, 2001

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 September, 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$10 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 September, 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:

	Number of ordinary shares held				
Name of Director	*Personal interest*	*Family interest*	*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	3,300,000	3,275,000 *(Note 2)*	–	–	6,575,000
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 granted to each Director over the shares of the Company up to 30 September, 2001 is as follows:

Name of Director	*Date of grant in Year 2001 alone*	*Exercise price per share HK$*	*Number of share options granted in Year 2001 alone*	*Number of aggregate share options*
Mr. Tung Tai Yung	–	–	Nil	400,000
Mr. Koh Tat Lee	10 July, 2001	0.696	10,000,000	20,000,000
Mr. Shih Wen Hao	10 July, 2001	0.696	1,500,000	3,500,000
Mr. King Chun Kong, Karl	10 July, 2001	0.696	1,500,000	3,000,000

Save as disclosed above, as at 30 September, 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 September, 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following person (in addition to the 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 of Shareholder	*Number of shares*	*(Note 2)* *Percentage of issued share*
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 September, 2001.

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

To the best knowledge of the Company's sponsor, Shenyin Wanguo Capital (H.K.) Ltd. ("Shenyin Wanguo Capital"), its directors, employees or associates, 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 as at 30 September 2001.

Pursuant to the sponsorship agreement entered into between the Company and Shenyin Wanguo Capital on 11 September 2001, Shenyin Wanguo Capital has been appointed as sponsor of the Company for the period commencing on 11 September, 2001 and ending 31 December 2002 and the Company shall pay an agreed amount of fee to Shenyin Wanguo Capital for its provision of services as sponsor to the Company as required under the GEM Listing Rules.

OUTSTANDING SHARE OPTIONS

As at 30 September, 2001, options to subscribe for an aggregate of 61,742,488 shares of the Company granted pursuant to the Company's share option scheme were outstanding. Details of the breakdown are set out as follows:

No. of share options	*Subscription price per share of the Company*	*Option period* (commencing from the date of grant and terminating ten years thereafter)*
28,340,000	HK$1.13	20 July 2000 to 19 July 2010
8,640,000	HK$1.22	10 October 2000 to 9 October 2010
1,762,488	HK$1.14	22 April 2001 to 21 April 2011
23,000,000	HK$0.696	10 July 2001 to 9 July, 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 September, 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
Tung Tai Yung, Tyrone
Chairman and Chief Executive Officer

Hong Kong, 13 November, 2001