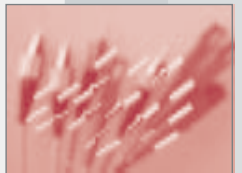


INTCERA High Tech Group Limited

2002

1st Quarterly Report



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.

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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 however 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 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 and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS (UNAUDITED)

- The Group recorded total unaudited turnover of HK\$1,374,000 for the three months ended 31 March, 2002.
- The Group recorded unaudited loss attributable to shareholders of HK\$6,784,000 for the three months ended 31 March, 2002.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March, 2002.

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 ended 31 March, 2002, together with the comparative unaudited figures for the same period in 2001 as follows:

		For the three months ended 31 March	
		2002	2001
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	2	1,374	17,399
Cost of sales		<u>(2,476)</u>	<u>(14,690)</u>
Gross (loss)/profit		(1,102)	2,709
Other revenues	2	203	1,881
Selling and distribution expenses		(574)	(230)
Administrative expenses		(4,228)	(10,709)
Other net operating income/(expenses)		<u>648</u>	<u>(952)</u>
Operating loss		(5,053)	(7,301)
Finance costs		<u>(1,731)</u>	<u>(1,463)</u>
Loss before taxation		(6,784)	(8,764)
Taxation	3	<u>—</u>	<u>—</u>
Loss after taxation and attributable to shareholders		<u>(6,784)</u>	<u>(8,764)</u>
Basic loss per share (in cents)	4	<u>(1.69)</u>	<u>(2.18)</u>

Notes:

1. Basis of preparation

The accounts have been prepared under the historical cost convention except short-term investments are stated at fair value and in accordance with accounting principles generally accepted in Hong Kong.

2. Revenue and turnover

	For the three months ended 31 March	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods, net of discounts, and business tax	1,374	17,399
Other revenues		
Interest income	172	1,879
Other income	31	2
	203	1,881
Total revenues	1,577	19,280

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 ended 31 March, 2002 and for the same period in 2001.

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 ended 31 March 2002 is based on the Group's loss attributable to the shareholders of HK\$6,784,000 (2001: HK\$8,764,000) and a total of 401,724,875 shares outstanding (2001: 401,724,875 shares) during the respective period.

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 Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2002 (2001: Nil).

BUSINESS REVIEW AND OUTLOOK

Business review

In the first quarter of 2002, the Group recorded a turnover of HK\$1.4 million, down from HK\$17.4 million in the same period in 2001. The group recorded a gross loss of HK\$1.1 million in the first quarter of 2002, down from a gross profit of HK\$2.7 million in the corresponding period in 2001. The loss attributable to shareholders of the Group for the three months ended 31 March 2002 was HK\$6.8 million, an improvement of 23% over the loss in the corresponding period in the previous year. The main reason for the loss in the first quarter was the continuing weakness in the market for ferrules and the on-going changes in production technology that is limiting production. However, the loss was reduced due to cost reduction measures taken in 2001 and the first quarter of 2002 and also a write-back of part of the stock provision made in 2001, as previously written down ferrules were sold into the market, albeit at lower prices.

The market itself, while showing few signs of reaching the levels seen in early 2001, has at least stabilized. The Group has received a number of sales enquiries, especially out of China. And the price for single-mode ferrules appears to have stabilized at around US\$0.70 per piece.

Production

During the fourth quarter of 2001, the ferrule polishing line was extensively re-designed so as to eliminate the production problems experienced during 2001. In the first quarter of 2002 the line was reactivated and the results have been rapidly improving. During the first quarter of 2002, 146,227 ferrules passed through the production process and the Group achieved a production yield of 79%. The results for April have been even better. Mass production in Taiwan should commence in the second quarter in Taiwan, although quantity will be limited to 120,000 pieces per month in the facility. The Group's customers who have tested the product have stated that they are satisfied with the progress the Group has made.

China plant

Given the problems faced in Taiwan, the China plant spent much of 2001 focusing on re-working ferrules that had been returned to the Group from customers. The majority of that work has now been completed. The current plan is for the Group to reactivate its planned first polishing line at the China facility incorporating the additional technology improvements achieved in Taiwan. The current plan is for the facility to be operating at full capacity that is 750,000 pieces per month, by the end of 2002.

To achieve this level of production, the Group has once again begun employing workers in China. The workforce size, which peaked in 2001 at over 250 employees, had by the end of March 2002 fallen to 42. The Group anticipates that the workforce strength will have to be increased to around 160 by the end of 2002.

Demand and sales

The Group believes that the final market for ferrules has stabilized with worldwide demand still over 30 million pieces per month. There is also some evidence that selective re-stocking has begun. Prices likewise have stabilized, albeit at much lower levels than seen in 2001. The Group estimates that prices for single-mode ferrules are currently around US\$0.70 per piece. This compares to a price of US\$1.15 per piece in the first quarter of 2001.

China as a source of demand has become increasingly important, with the Group receiving a number of enquiries from the mainland during the first quarter. However, given the current low production volumes, the Group has yet to commit to any firm long-term orders.

Manpower

After the dramatic manpower cutbacks experienced as the Group realigned its business to the existing market conditions, the total number of employees fell from a peak of 600 in July, 2001 to a low of 140 as at the end of March 2002.

The Group anticipates that the number of employees at the Taiwan facility will remain relatively constant at around 40 employees for the second quarter. The number of employees at the China facility will expand as the Group ramps up production from a current total of 42 to an estimated 160 workers by the end of 2002.

FINANCE AND LIQUIDITY

As at 31 March 2002, the Group had cash and cash equivalents of HK\$1 million. The Group has secured standby loan facilities from a shareholder totaling HK\$28 million. In addition, the rights issue announced on 29 March 2002 will raise approximately HK\$19 million, of which HK11 million will be used as general working capital. The Group continues to discuss further long-term funding opportunities with a number of other investors.

PROSPECTS

The Group has seen signs of stabilization in the market for ferrules and, although the market in the United States and Europe remains weak, the Group has seen encouraging signs from Asia. In Japan, the fiber-to-the-home initiative by NTT is beginning to gather momentum and in China, the demand for fibre is increasing as the restructuring of the industry is completed and infrastructure deployment begins again.

Therefore, the Group plans to increase in production in China in 2002. This should lead to a significant improvement in turnover in the second half of 2002 over the first half of the year. Nevertheless, given the working capital costs of increasing production in China, the Group considers that the full impact of greater production and the lower cost base will not be fully realized until 2003.

In the longer term, the prospects for the ferrule market remain extremely good. Telecommunication companies still need to replace the copper legacy networks that still account for over 90% of all network infrastructure worldwide. The replacement, for the most part will be fiber solutions. These replacements will require a massive number of fiber connectors, the number increasing with the complexity of the network. Therefore, the Group remains convinced in the attractive long-term nature of the business.

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 31 March, 2002, the Group has applied approximately HK\$38 million for the purchases of production machinery and establishment of the Group's China plant, HK\$6 million for research and development, HK\$10 million for the expansion of the Group's Taiwan production facility, and HK\$11 million for working capital.

The remaining net proceeds are deposited and pledged with licensed banks in Hong Kong.

DIRECTORS' INTERESTS IN AND RIGHTS TO SECURITIES

- (a) As at 31 March, 2002, 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>	Number of ordinary shares held				<i>Total interests</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Corporate interests</i>	<i>Other interests</i>	
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	2,683,000	—	—	—	2,683,000
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 31 March, 2002 is as follows:

<i>Name of Director</i>	<i>Number of aggregate share options</i>
Mr. Tung Tai Yung	400,000
Mr. Koh Tat Lee	Nil (<i>Note</i>)
Mr. Shih Wen Hao	3,500,000
Mr. King Chun Kong, Karl	3,000,000

Note: Mr. Koh Tat Lee resigned as executive director of the Company on 31 October, 2001 and was appointed as non-executive director on 1 November, 2001. Pursuant to the rules of the Company's Share Option Scheme adopted on 21 June, 2000, on 31 January, 2002, all options held by Mr. Koh have been lapsed (i.e. 3 months immediately after his resignation as executive director).

No share option was granted or exercised during the period.

Save as disclosed above, as at 31 March, 2002, 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 31 March, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following company (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:

<i>Name of Shareholder</i>	<i>Number of shares</i>	<i>(Note 2)</i>
		<i>Percentage of issued share</i>
Taiping Enterprise Co., Ltd	104,506,625 <i>(Note 1)</i>	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 31 March, 2002.

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

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

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 31 March, 2002.

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 31 March, 2002, options to subscribe for an aggregate of 34,543,744 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	Exercise price	Option period* (commencing from the date of grant and terminating ten years thereafter)
12,660,000	HK\$1.13	20 July 2000 to 19 July 2010
7,220,000	HK\$1.22	10 October 2000 to 9 October 2010
1,663,744	HK\$1.14	22 April 2001 to 21 April 2011
13,000,000	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.

Save as disclosed above, as at 31 March, 2002, 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 securities of the Company or its associated corporations, or had exercised any such rights.

COMPETING INTERESTS

As at 31 March, 2002, 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
Chairman and Chief Executive Officer

Hong Kong, 13 May, 2002