INTCERA High Tech Group Limited

3rd Quarterly Report 2002

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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 this 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$4,513,000 for the nine months ended 30 September, 2002
- The Group recorded unaudited loss attributable to shareholders of HK$33,380,000 for the nine months ended 30 September, 2002
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 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 and nine months ended 30 September, 2002, together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

		Three months ended 30 September,		**Nine months ended 30 September,**	
		2002	2001	**2002**	2001
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2				
Sales of goods		**2,197**	3,218	**4,513**	32,639
Returned goods		**—**	(3,970)	**—**	(5,930)
		2,197	(752)	**4,513**	26,709
Cost of sales					
Cost of goods sold		**(5,613)**	(2,326)	**(11,365)**	(25,942)
Cost of goods returned		**—**	2,966	**—**	4,753
		(5,613)	640	**(11,365)**	(21,189)
Gross profit/(loss)		**(3,416)**	(112)	**(6,852)**	5,520
Other revenues	2	**113**	1,121	**501**	4,466
Selling and distribution expenses		**(991)**	(329)	**(1,898)**	(830)
Administrative expenses		**(4,428)**	(10,183)	**(13,365)**	(31,746)
Other operating expenses		**(6,571)**	(21,019)	**(7,055)**	(25,573)
Operating loss		**(15,293)**	(30,522)	**(28,669)**	(48,163)
Finance costs		**(1,373)**	(2,055)	**(4,711)**	(5,264)
Loss before taxation		**(16,666)**	(32,577)	**(33,380)**	(53,427)
Taxation	3	**—**	—	**—**	—
Loss after taxation		**(16,666)**	(32,577)	**(33,380)**	(53,427)
Minority interests		**—**	3	**—**	3
Loss attributable to shareholders		**(16,666)**	(32,574)	**(33,380)**	(53,424)
Basic loss per share (in cents)	4	**(2.77)**	(6.54)	**(6.14)**	(10.73)

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,	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Sales of goods, net of discounts, and business tax	**2,197**	3,218	**4,513**	32,639
Returned goods	**—**	(3,970)	**—**	(5,930)
	2,197	(752)	**4,513**	26,709
Other revenues				
Interest income	**113**	1,093	**501**	4,386
Other income	**—**	28	**—**	80
	113	1,121	**501**	4,466
Total revenues	**2,310**	369	**5,014**	31,175

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, 2002 and for the three months and nine months ended 30 September, 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 and nine months ended 30 September, 2002 is based on the Group's loss attributable to the shareholders of HK$16,666,000 and HK$33,380,000 (2001: HK$32,574,000 and HK$53,424,000) and the weighted average number of 602,587,310 and 543,667,663 shares outstanding (2001: 498,138,844 shares) during the respective periods, after adjustment of the number of shares in issue prior to the rights issue on 3 June, 2002 by the factor 1.24. The basic loss per share for the three months and six months ended 30 June, 2001 has been restated accordingly.

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, 2002 (2001: Nil).

BUSINESS REVIEW AND OUTLOOK

Financial review

For the nine months ended 30 September, 2002, the Group recorded a turnover of HK$4,513,000, down 83.1% on the same period in 2001. The Group also recorded a gross loss of HK$6,852,000 in the first nine months in 2002, down from a gross profit of HK$5,520,000 in the corresponding period in 2001. The loss attributable to shareholders of the Group for the nine months ended 30 September, 2002 was HK$33,380,000, an improvement of 37.5% over the loss in the corresponding period in the previous year.

In the third quarter of 2002, the Group recorded a turnover of HK$2,197,000. This compares with a negative turnover of HK$752,000 in the third quarter of 2001 due to goods sold in pervious quarters being returned and HK$942,000 in the second quarter of 2002. The loss attributable to the shareholders of the Group for the three months ended 30 September, 2002 was HK$16,666,000, as compared to the HK$32,574,000 net loss recorded in the third quarter of 2001.

Business review

Ever since the development and implementation of a new ferrule polishing process in the fourth quarter of 2001, the Group has reactivated its polishing lines both in Taiwan and China successfully with high and stable production yields at around 90%. The resultant products are of a better quality which customers are satisfied with.

However, the market price for ferrules went on a decline in the third quarter of 2002 although market demand showed signs of recovery.

Considering the bleak price trend of ferrule market and the limited resources of the Group, a tough decision was made to cease production in the Group's Taiwan facility at the end of August 2002. The existing polishing line in Taiwan is expected to be relocated to China. The Group plans to further expand the production capacity in China to grab its market share and maximize the relatively low costs of production.

Research and development

The Group started working with its equipment supplier and ITRI, Taiwan's Industrial Technology Research Institute, for the improvement of the production efficiency of existing machinery. The co-operative project will end in December 2002. Ferrules produced through the new processes and materials under the project have been accepted by the Group's largest customer in Taiwan. Once the project is completed successfully, it could cut down operation cost by enhancing production efficency.

In addition, the Group have developed several automatic pieces of machinery to further improve efficiency.

Production

Over 580,000 ferrules passed through the Group's production processes in the third quarter of 2002. Among which, 39% of ferrules were produced in its Taiwan facility and 61% in its China plant. Both production facilities reached a scale of over 140,000 pieces per month in the third quarter. The lower percentage of production quantity in Taiwan is due to the cessation of production activity at the end of August 2002.

The Group pride itself in achieving production yields of 90% in both its Taiwan and China facilities during the third quarter. Compared with only a mere 52% yield rate in May in China, this represents a big leap.

China plant

Starting from May 2002 , the Group reactivated its polishing line in China facility with its new processes developed and achieved in Taiwan. In the third quarter of 2002, the China facility had been operating smoothly and successfully with over 140,000 pieces of monthly production capacity and over 90% of production yields.

After the cessation of the polishing line in Taiwan, the ferrule production activities of the Group are now completely based in China. In the middle of September 2002, the Group increased the monthly production capacity of the China facility to 300,000 pieces.

Meanwhile, the Group is in the preparation of setting up a second plant in Shanghai in the form of a joint venture.

Taiwan office

Except for the cessation of its ferrule polishing line and its plans to have it relocated to China, the Group still maintains other functions in the Taiwan office including sales, purchasing and research and development work. The Group also retained key employees in the production team and technical engineers to support the establishment and operation of its new China plant in Shanghai. After the reorganization in Taiwan, the operating cost of the Taiwan office is cut down to over 70%.

Demand and sales

The sales quantities increased on average by 31% per month during the third quarter and the Group is still not able to fully satisfy customers orders. Although the market demand is recovering especially for multimode ferrule, this has been partially offsetted by price-cutting in the third quarter of 2002. In the Group's favour, it can be said that apart from Japanese ferrule suppliers, the Group is selling ferrules at higher prices than others in the market. It is a sign of the recognition of the high quality of the Group's product.

In order to offer competitive price and exploit the ever increasing market demand, the Group will continue to expand its production capacity in China over the next few years.

Manpower

After the dramatic manpower cutbacks in Taiwan in August 2002, the total number of the Group's employees fell from about 200 at the end of June 2002 to about 180 at the end of September 2002.

The number of employees at the Taiwan office decreased from nearly 100 at the end of June 2002 to 44 at the end of September and will be further decreased to about 20 employees over the next few months.

The number of employees at the China facility increased to 133 at the end of September from 103 workers at the end of June 2002. This number is likely to increase with its China expansion plans.

Finance and liquidity

As at 30 September, 2002, the Group had total assets of approximately HK$199 million and bank and cash balances of approximately HK$187,000. The Group had bank loans and other borrowings (inclusive of long-term and short-term bank and other borrowings) totalling HK$46 million and the gearing ratio (ie. total external borrowing/total assets) of 23%.

Although there is a shortfall of approximately HK$1,108,000 to the cash and cash equivalents, the Group has been seeking funds through various channels.

On 31 October, 2002, the Group has successfully raised approximately HK$27.4 million through the issue of convertible bonds. Due to the poor market conditions, the Group has reduced the principal from the original amount of HK$40 million. After deducting the relevant expenses, the net proceeds are approximately HK$26.3 million, of which HK$11 million has been used to repay various loans, HK$4 million will be used for the purchase of new machinery and retooling parts, HK$5 million will be used for the relocation of our Shenzhen plant, and HK$6.3 million will be utilized as general working capital of the Group.

As disclosed in the annual report for the year ended 31 December, 2001 and the circular to shareholder dated 21 October, 2002, the Group has secured an un-utilized standby loan facility from a shareholder totalling HK$28 million in May, 2002.

The Group has been negotiating with various banks on delaying their loans repayment with promising progress.

Also, the Group has been discussing with PRC parties on selling its spare capacity and licensing its technological rights to strengthen its financial position. Among these, a Shanghai Joint Venture agreement has been approved in an Extraordinary General Meeting held on 6 November, 2002.

Besides, the Group continues to discuss further long-term funding opportunities with a number of other investors.

Before the completion of the Group's recovery plan, failure of the above measures may have significant impacts on the financial stability of the Group.

PROSPECTS

Management has seen signs of recovery in the market for ferrules and, although the market demands in the United States and Europe remain weak, there seems to be encouraging signs from Asia, especially in China.

According to the Group's plans to continue to increase production in China, the full impact of greater production and the lower cost base will be realized in the later part of 2003.

In the longer term, the prospects for the ferrule market remain extremely good. Telecommunication companies still need to replace copper legacy networks that still account for over 90% of all network infrastructures 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. Management remains optimistic in the attractive long-term prospects of the business.

USE OF PROCEEDS

From the IPO on 7 July, 2000

The Group raised approximately HK$144 million through the placing of shares upon listing of the Company on 7 July, 2000. After deducting expenses related to listing, net proceeds amounted to approximately HK$128 million.

Of the net proceeds of HK$128 million, the Group has applied approximately HK$92 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 the rest of HK$20 million for general working capital.

From the rights issue on 3 June, 2002

The Group raised approximately HK$20 million through the issue of 40,172,487 rights shares at HK$0.50 per rights share on the basis that one rights share for every ten existing shares held and each rights share carries with it an entitlement for four bonus shares.

After deducting the relevant expenses, the net proceeds of the rights issue are approximately HK$19 million, of which HK$13.4 million has been used for repayment of various borrowings and the remaining proceeds of HK$5.4 million has been used as general working capital for the operations of the Group.

DIRECTORS' INTERESTS IN AND RIGHTS TO SECURITIES

(a) As at 30 September, 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:

	Number of ordinary shares held				
Name of Director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total interest**
Mr. Tung Tai Yung	30,337,500	—	156,759,935 *(Note 1)*	—	187,097,435
Mr. Koh Tat Lee	3,300,000	3,275,000 *(Note 2)*	—	—	6,575,000
Mr. King Chun Kong, Karl	5,500,000	—	—	—	5,500,000

Notes:

1. These Shares are held through Taiping Enterprises 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, 2002 is as follows:

Name of Director	**Number of aggregate share options** *(Note 1)*
Mr. Tung Tai Yung	600,000
Mr. Koh Tat Lee	Nil *(Note 2)*
Mr. King Chun Kong, Karl	4,500,000

Notes:

1. The number of share options for each director had been adjusted for Rights Issue from 13 May, 2002.

2. 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, all options held by Mr. Koh were lapsed on 31 January, 2002, (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 30 September, 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 30 September, 2002, 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**	**Percentage of issued share** *(Note 2)*
Taiping Enterprise Co., Ltd	156,759,935 *(Note 1)*	26.01

Notes:

1. These Shares are held as to 156,017,435 directly by Taiping and as to 742,500 through Mamcol, which is a subsidiary of Taiping.

2. The percentage of issued shares has been arrived at on the basis of a total of 602,587,310 shares of the Company in issue as at 30 September, 2002.

Save as disclosed herein, the directors of the Company are not aware of, as at 30 September, 2002, 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

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 30 September, 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 30 September, 2002, options to subscribe for an aggregate of 50,150,616 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 *(Note 1)*	**Exercise price** *(Note 1)*	**Option period (commencing from the date of grant and terminating ten years thereafter)** *(Note 2)*
17,475,000	HK$0.731	20 July, 2000 to 19 July, 2010
10,770,000	HK$0.789	10 October, 2000 to 9 October, 2010
2,405,616	HK$0.738	22 April, 2001 to 21 April, 2011
19,500,000	HK$0.500	10 July, 2001 to 9 July, 2011

Notes:

1. The number of share options and its exercise price had been adjusted for Rights Issue from 13 May, 2002.
2. 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, 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, Tyrone
Chairman and Chief Executive Officer

Hong Kong, 13 November, 2002