2003 First 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.

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 **("Directors")** of Intcera High Tech Group Limited **(the "Company")** 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 GEM of the Stock Exchange **("GEM Listing Rules")**. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, (i) the information contained in this report is 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.*

SUMMARY (UNAUDITED)

- The Group recorded total unaudited turnover of HK$25,688,000 for the three months ended 31 March 2003.
- The Group recorded unaudited loss attributable to shareholders of HK$3,728,000 for the three months ended 31 March 2003.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003.

CONSOLIDATED INCOME STATEMENT

The Board of Directors **(the "Board")** of the Company announces the unaudited consolidated results of the Company and its subsidiaries **(the "Group")** for the three months ended 31 March 2003, together with the comparative unaudited figures for the same period in 2002 as follows:

		For the three months ended 31 March	
		2003	2002
	Notes	*HK$'000*	*HK$'000*
Turnover	2	25,688	1,374
Cost of sales		(23,871)	(2,476)
Gross profit/(loss)		1,817	(1,102)
Other revenues	2	450	203
Selling and distribution expenses		(593)	(574)
Administrative expenses		(5,384)	(4,228)
Other net operating income		827	648
Operating loss		(2,883)	(5,053)
Finance costs		(845)	(1,731)
Loss before taxation		(3,728)	(6,784)
Taxation	3	—	—
Loss after taxation and attributable to shareholders		(3,728)	(6,784)
Basic loss per share (in cents)	4	(0.60)	(1.69)

Notes:

1. **Basis of preparation**

The accounts have been prepared under the historical cost convention.

The unaudited consolidated income statement for the three months ended 31 March 2003 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

The accounting policies adopted by the Group are consistent with those followed in the annual financial statements for the year ended 31 December 2002. The unaudited consolidated statements have been prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

2. **Revenue and turnover**

	For the three months ended 31 March	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Sales of goods, net of discounts, and business tax	25,688	1,374
Other revenues		
Technology rights' royalty fee	780	—
Interest income	—	172
Other income	502	31
	1,282	203
Total revenues	26,970	1,577

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 2003 and for the same period in 2002.

The Taiwan subsidiary was granted a tax holiday since commencing operation from 1 November 1999 in which the profit from sales of its products is 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 2003 is based on the Group's unaudited loss attributable to the shareholders of HK$3,728,000 (2002: HK$6,784,000) and the weighted average number of 617,315,088 ordinary shares in issue (2002: 401,724,875 shares) during the 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.

5. **Movement of reserves**

	Share premium *HK'000*	Exchange reserve *HK'000*	Merger reserve *HK'000*	Accumulated profits/ (losses) *HK'000*	Total *HK'000*
2002					
At 1 January 2002	127,878	(8,483)	14,968	(214,300)	(79,937)
Loss for the three months ended 31 March 2002	—	(1,280)	—	(6,784)	(8,064)
At 31 March 2002	127,878	(9,763)	14,968	(221,084)	(88,001)
2003					
At 1 January 2003	46,306	(10,601)	14,968	45,050	95,723
Placement of new shares	13,703	—	—	—	13,703
Loss for the three months ended 31 March 2003	—	(830)	—	(3,728)	(4,558)
At 31 March 2003	60,009	(11,431)	14,968	41,322	104,868

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: Nil).

BUSINESS REVIEW

Business Review

Over the past three months, the Group has continued to expand and integrate with its partners in China based on the strategic business initiatives which began in the last two quarters. Although the market continues to be slow, Management believes that the Group's new direction holds excellent opportunities for growth in the future.

To date, the Group has been able to reposition itself as a technology centre in licensing its ferrule manufacturing technology and knowhow to its strategic partners in China. The Group believes that the vast market opportunities in China cannot be served by the Group's own manufacturing facilities alone and therefore aim to capture a greater market share by teaming up with its strategic partners to harnass the fibre optic components market in China. Besides the Technology Rights Agreement dated 29 December 2002 **("Technology Rights Agreement")** signed with Shenzhen Weiyi Optical Communication Technology Limited **("Weiyi")**, the Group is actively in negotiations with other parties in China for the licensing of its technology for royalty payments. Such licensing proceeds, if materialized, will strengthen the financial and market positions of the Group.

This shift in focus has generated new revenue sources for the Group as it was able to act as the purchasing agent for its clients in the sourcing of raw materials and other spare parts and consumables. In the past, the Group's Taiwan office had acted as the purchasing and marketing centre for the Group's business operations. As part of the Group's strategic business initiatives, the purchasing and sourcing as well as the sales and marketing departments of the Group will each be set up to generate further business for the Group.

In addition, as part of the restructuring programme implemented in the last two quarters, the Group was able to systematically dispose of surplus equipment and machinery which brought in more than HK$21,773,000 in recognized revenue for the Group during the period.

Although the manufacturing operations of the Group at its Shanghai facility is suffering from delay due to a combination of factors such as the transportation, retooling and processing of customs clearance of the various pieces of machinery and equipment from Taiwan to China, it is expected that with the commencement of production in stages at the Weiyi facility, the Group will be able to tap into this facility for its supply of ferrules for onward sales to its customers from May 2003. The agreement between the Group and Weiyi was for the Group to act as the exclusive sales agent for the ferrules produced by Weiyi at this facility. If the processing of equipment move proceeds as scheduled, the Group's own facility in Shanghai is expected to commence trial production by the end of the second quarter this year.

Financial Performance

During the first quarter of 2003, the Group's total turnover was approximately HK$25,688,000 (2002: HK$1,374,000). The dramatic increase in turnover was mainly attributable to the Group's horizontal expansion of business scope and its success in being able to capitalize on its years of research and development work in the fibre optic components manufacturing industry.

In December 2002, the Group entered into an agreement with an independent third party for the sales of its surplus machinery and equipment at an aggregate consideration of HK$13,000,000. In January 2003, the Group entered into a second agreement with another independent third party for the further disposal of other pieces of equipment for an additional HK$13,000,000. As delivery of a portion of these disposal of machinery and equipment took place in this first quarter, sales of approximately HK$21,773,000 was recognized in this quarter from the aggregate portion of the machinery and equipment sales actually delivered.

The Group had also generated sales revenue of approximately HK$3,142,000 from acting as the purchasing agent for clients in the sourcing of raw materials and spare parts.

From the Technology Rights Agreement, a royalty fee of US$100,000 was recognized on a time-accrual basis for this quarter.

As a result of the Group's efforts, the Group recorded a gross operating profit of HK$1,817,000 for the first quarter ended 31 March 2003. This, in turn, translates to the loss attributable to shareholders of HK$3,728,000 when compared with that of HK$6,784,000 for the same quarter in 2002. The Group will continue its pursuit for additional revenue sources based on this proven success.

LIQUIDITY AND FINANCIAL RESOURCES

During the three months ended 31 March 2003, the Group's operation was mainly financed by the net proceeds of the placing of new shares in March of this year, the proceeds from the Technology Rights Agreement and the internal financial resources of the Group.

As at 31 March 2003, the Group had net current assets of approximately HK$46,733,000 31 March 2002: (HK$29,827,000). The current assets comprised bank balances and cash of approximately HK$4,934,000, trade and other receivables of approximately HK$45,906,000. The current liabilities comprised trade and note payables, accrued charges and other payables of approximately HK$10,752,000 and commercial paper and other loans of approximately HK$60,342,000.

As at 31 March 2003, the Group had an outstanding capital commitment of HK$77,990,000 for capital contribution to its joint venture company in Shanghai.

During the three months ended 31 March 2003, the Group did not make any material acquisition and disposal of subsidiaries and affiliated companies and investment.

As at 31 March 2003, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

PROSPECTS

With the telecommunications market bumping along the bottom of its current trough, many optical communications vendors are searching for new positioning and markets. The Group too has since early last year found it necessary to expand its business scope to strive in this tough environment. The original fixed business model of manufacturing and sale of ferrules as the sole channel of income leads the Group to certain risks such as capital immobility and customers' credit risks. Actively searching for the right strategic partners with the necessary resources to help the Group expand its market share or by licensing the Group's technology and knowhow for royalty fees are ways to further strengthen the Group's position as a significant player in this industry.

The Group remains optimistic about the fibre cause. With predictions that the need for high-bandwidth applications will continue to rise and the price disparity between fibre and copper will slowly diminish, fibre should continue to erode copper's grip on the premises market. Although it is still a long way from realizing mass adoption of fiber at home and in the office, there are developing pockets of interest in using fibre to improve business networks and switch applications.

Besides, the Chinese government's plan for increasing fibre optic networks is aggressive and is viewed by fibre vendors and components manufacturers as a strong opportunity. Indeed, the feedback and enquiries received by the Group from potential joint venture or strategic partners in China suggest that China's massive fibre optic backbones will be a long-term reality. Management believes that the Chinese market is where the Group will continue to build its competitive advantages.

USE OF PROCEEDS

From the initial public offer on 7 July 2000

The Group raised approximately HK$144 million through the placing of shares upon listing of the Company's shares 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 ("Rights Issue")

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$5.6 million has been used as general working capital for the operations of the Group.

From the placing of new shares on 20 March 2003

The Group raised approximately HK$16.8 million through the placing of 120,500,000 new shares at a subscription price of HK$0.14 per share on 20 March 2003.

The net proceeds derived from the placing are approximately HK$16.4 million (after expenses), of which approximately HK$10 million will be used for research and development of the manufacturing technology in fibre optic components, approximately HK$4 million will be used for the repayment of bank loans and approximately HK$2.4 million will be used as general working capital of the Company.

DIRECTORS' INTERESTS IN AND RIGHTS TO SECURITIES

(a) As at 31 March 2003, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance, the laws of Hong Kong **("SDI Ordinance")**, the interests of Directors and their associates in shares of the Company were as follows:

	Number of ordinary shares of HK$0.01 held				
Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Total interest
Mr. Tung Tai Yung **("Mr. Tung")**	33,637,500	—	156,759,935 *(Note)*	—	190,397,435
Mr. King Chun Kong, Karl	5,500,000	—	—	—	5,500,000

Note:

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 under the SDI Ordinance, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung's directions or instructions and Taiping in turn holds more than one-third of the issued shares in Mamcol.

(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 2003 are as follows:

Name of Director	**Number of aggregate share options** *(Note)*
Mr. Tung	600,000
Mr. King Chun Kong, Karl	4,500,000

Notes:

The number of share options for each Director had been adjusted for the Rights Issue from 13 May 2002.

No share option was granted or exercised during the period.

Save as disclosed above, as at 31 March 2003, 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 SHAREHOLDERS' INTERESTS

As at 31 March 2003, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company:

Name of Shareholder	Number of shares	*(Note 3)* Percentage of issued share
Taiping	156,759,935 *(Note1)*	21.68%
Mr. Tung	190,397,435 *(Note2)*	26.33%

Notes:

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

2. The 190,397,435 shares are held as to 33,637,500 shares directly by Mr. Tung and as to an aggregate of 156,759,935 shares attributed to Mr. Tung under the SDI Ordinance, since Taiping is a corporation whose board of directors is accustomed to act in accordance with Mr. Tung's directions or instructions and Taiping in turn holds more than one-third of the issued shares in Mamcol.

3. The percentage of issued shares had been arrived at on the basis of a total of 723,087,310 shares of the Company in issue as at 31 March 2003.

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.

OUTSTANDING SHARE OPTIONS

As at 31 March 2003, options to subscribe for an aggregate of 30,119,991 shares of the Company granted pursuant to the Company's share option scheme were outstanding. Details of the breakdown are set out as follows:

Number of share options *(Note 1)*	Exercise price *(Note 1)*	Option period (commencing from the date of grant and terminating ten years thereafter) *(Note 2)*
9,930,000	HK$0.731	20 July 2000 to 19 July 2010
6,630,000	HK$0.789	10 October 2000 to 9 October 2010
809,991	HK$0.738	22 April 2001 to 21 April 2011
12,750,000	HK$0.500	10 July 2001 to 9 July 2011

Notes:

1. The number of shares under each option and their respective exercise prices had been adjusted for the 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

The Directors are not aware of, as at 31 March 2003, any business or interest of each Director, substantial shareholder 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.

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. Huang Zhi Jia and Mr. Wu Min, both being independent non-executive directors of the Company.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 March 2003, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
Intcera High Tech Group Limited
Tung Tai Yung, Tyrone
Chief Executive Officer

Hong Kong, 13 May 2003