INTCERA High Tech Group Limited

Interim Report 2003

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*The directors ("**Directors**") of Intcera High Tech Group Limited ("**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.*

HIGHLIGHTS

For the six months ended 30 June 2003, turnover amounted to approximately HK$32,553,000 (2002: HK$2,316,000), representing a growth of 1,300% when compared with the same period in 2002.

HK$1,560,000 in technology rights licensing revenue was achieved for the six months ended 30 June 2003.

The Group incurred a loss from operations before interest and tax of approximately HK$6,457,000 for the first half of 2003.

Loss attributable to shareholders was narrowed by 52.9% to approximately HK$7,869,000 for the six months ended 30 June 2003. Loss per share was HK$1.17 cents for the six months ended 30 June 2003.

As at 30 June 2003, the debt ratio of the Group was 29% (31 December 2002: 38%) and the current ratio was 1.56 (31 December 2002: ratio of 1.28).

UNAUDITED INTERIM RESULTS

The Board of Directors of 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 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Three months ended 30 June		Six months ended 30 June	
		2003	2002	**2003**	2002
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2	**6,865**	942	**32,553**	2,316
Cost of sales		**(4,278)**	(3,276)	**(28,149)**	(5,752)
Gross profit/(loss)		**2,587**	(2,334)	**4,404**	(3,436)
Other revenue	2	**790**	185	**2,020**	388
Selling and distribution expenses		**(181)**	(333)	**(774)**	(907)
Administrative expenses		**(6,737)**	(4,709)	**(12,121)**	(8,937)
Other net operating income /(expenses)		**(33)**	(1,132)	**14**	(484)
Operating loss	3	**(3,574)**	(8,323)	**(6,457)**	(13,376)
Finance costs		**(567)**	(1,607)	**(1,412)**	(3,338)
Loss before taxation		**(4,141)**	(9,930)	**(7,869)**	(16,714)
Taxation	4	**—**	—	**—**	—
Loss after taxation and attributable to shareholders		**(4,141)**	(9,930)	**(7,869)**	(16,714)
Basic loss per share (in cents)	5	**(0.62)**	(1.88)	**(1.17)**	(3.25)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2003 (unaudited) HK$'000	As at 31 December 2002 (audited) HK$'000
Non-current assets			
Fixed assets	6	**65,949**	81,559
Long-term investments		**830**	830
Long-term rental deposits		**2**	676
		66,781	83,065
Current assets			
Fixed assets held for resale		**54,709**	72,720
Inventories		**6,958**	9,604
Trade and notes receivables	7	**31,248**	1,409
Non-refundable signing fee receivable in respect of the Technology Rights Agreement		**—**	3,100
Other receivables, prepayments and deposits		**27,599**	11,895
Pledged bank deposits		**26**	26
Bank balances and cash		**8,470**	4,779
		129,010	103,533
Current liabilities			
Trade and notes payables	8	**917**	777
Other payables and accrued charges		**27,747**	16,083
Commercial paper		**1,217**	1,340
Convertible bonds		**27,400**	27,400
Obligations under finance leases		**4,360**	4,332
Current portion of long-term bank loans			
— unsecured		**8,445**	12,031
— secured		**3,743**	7,359
Short-term bank loans — unsecured		**8,630**	11,800
		82,459	81,122
Net current liabilities		**46,551**	22,411
Total assets less current liabilities		**113,332**	105,476
Financed by:			
Share capital	9	**7,231**	6,026
Reserves		**103,307**	95,723
Shareholders' funds		**110,538**	101,749
Long-term borrowings		**2,794**	3,727
		113,332	105,476

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share premium	Exchange difference	Accumulated profit/ (losses)	Merger reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2002	200,862	127,878	(8,483)	(214,300)	14,968	120,925
New shares issue	100,432	(80,346)	—	—	—	20,086
Share issue expenses	—	(1,260)	—	—	—	(1,260)
Exchange differences	—	—	(1,851)	—	—	(1,851)
Loss for the period	—	—	—	(16,714)	—	(16,714)
Balance as at 30 June 2002	301,294	46,272	(10,334)	(231,014)	14,968	121,186
Balance as at 1 January 2003	6,026	46,306	(10,601)	45,050	14,968	101,749
New shares issue	1,205	15,665	—	—	—	16,870
Share issue expenses	—	(374)	—	—	—	(374)
Exchange differences	—	—	162	—	—	162
Loss for the period	—	—	—	(7,869)	—	(7,869)
Balance as at 30 June 2003	7,231	61,597	(10,439)	37,181	14,968	110,538

CONDENSED CONSOLIDATED CASHFLOW STATEMENT

	Six months ended 30 June	
	2003	**2002**
	HK$'000	*HK$'000*
Net cash used in operating activities	**(5,998)**	(12,741)
Net cash used in investing activities	**(3,328)**	(10,714)
Net cash from financing activities	**12,789**	19,149
	3,463	(4,306)
Decrease in pledged bank deposits	**0**	1,958
Increase/(Decrease) in cash and cash equivalents	**3,463**	(2,348)
Cash and cash equivalents at 1 January	**3,439**	1,580
Effect of foreign exchange rate changes	**351**	(272)
Cash and cash equivalents at 30 June	**7,253**	(1,040)
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	**8,470**	1,238
Less: Commercial paper	**(1,217)**	(2,278)
	7,253	(1,040)

Notes:

1. **Basis of preparation**

These unaudited condensed consolidated interim accounts **("interim accounts")** are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice **("SSAP")** No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants and Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual report for the year ended 31 December 2002 except in the current period, the Group has adopted for the first time the revised SSAP 12 "Income Taxes" which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (revised) has had no material effect on the results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustments has been required.

2. Turnover, revenue and segment information

	Three months ended 30 June		Six months ended 30 June	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Ceramic blanks and ferrules	**282**	942	**282**	2,316
Machinery and equipment	**4,021**	—	**25,794**	—
Service and agency fee	**2,562**	—	**6,477**	—
	6,865	942	**32,553**	2,316
Other revenue				
Interest income	**8**	185	**9**	388
Other income	**782**	—	**2,011**	—
	790	185	**2,020**	388
Total revenue	**7,655**	1,127	**34,573**	2,704

The unaudited geographical segment information for the six months ended 30 June 2003 and 30 June 2002 are as follows:

	Turnover		Total assets		Capital expenditure	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Taiwan	**—**	1,348	**19,246**	98,686	**—**	1,881
Mainland China	**6,922**	950	**61,374**	85,106	**—**	22,156
Hong Kong	**25,631**	—	**115,171**	70,540	**—**	—
Europe	**—**	18	**—**	—	**—**	—
	32,553	2,316	**195,791**	254,332	**—**	24,037

3. Operating loss

Operating loss is stated after crediting and charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Crediting				
(Loss)/Gain on sale of other short-term investments	—	(297)	—	3,653
Annual fees of Technology Rights Transfer	**780**	—	**1,560**	—
Charging				
Unrealised loss on other short-term investments	—	1,300	—	1,300
Interest on borrowings	**567**	1,607	**1,412**	3,338
Depreciation	**4,465**	4,671	**9,040**	9,364

4. 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 2003 and six months ended 30 June 2002.

The Taiwan subsidiary was granted a tax holiday since commencing operation from 1 November 1999. The profit from sales of its products are exempted from Taiwan income tax for the first five years of profit-making.

There was no significant unprovided deferred taxation for the three months and six months ended 30 June 2003 (three months and six months ended 30 June 2002: Nil).

5. **Loss per share**

The calculation of the Group's basic loss per share for the three months and six months ended 30 June 2003 was based on the unaudited loss attributable to the shareholders of approximately HK$4,141,000 and HK$7,869,000 respectively (three months and six months ended 30 June 2002: approximately HK$9,930,000 and HK$16,714,000 respectively) and the weighted average number of 671,159,133 ordinary shares in issue (three months and six months ended 30 June 2002: 529,129,049 and 513,719,555 shares respectively) during the respective periods after adjusted for the rights and bonus issue on 3 June 2002.

Diluted loss per share has not been presented because the exercise of the outstanding potential ordinary shares would have anti-dilutive effect during the respective periods.

No diluted loss per share has been presented as there were no dilutive potential ordinary shares in existence for the three months and six months ended 30 June 2002.

6. **Fixed assets**

During the six months ended 30 June 2003, the Group spent HK$0 on additions to plant and equipment (2002: HK$24,037,000).

7. Trade and note receivables

	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
Trade receivables	**31,248**	1,379
Note receivables	**—**	30
	31,248	1,409

The Group's turnover is an open account term, of which the settlement is generally expected to be repaid within 30 to 90 days of the date of sale.

As at 30 June 2003, the aging analysis of the trade receivables was as follows:

	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
Less than 30 days	**23,980**	96
30-60 days	**5,015**	70
Over 60 days	**2,253**	1,213
	31,248	1,379

8. Trade and note payables

	As at 30 June 2003 *HK$'000*	As at 31 December 2002 *HK$'000*
Trade payables	**832**	692
Note payables	**85**	85
	917	777

As at 30 June 2003, the aging analysis of the trade payables was as follows:

	As at 30 June 2003 *HK$'000*	As at 31 December 2002 *HK$'000*
Less than 30 days	**122**	—
30-60 days	**134**	7
Over 60 days	**576**	685
	832	692

9. Share capital

	30 June 2003 HK$'000	31 December 2002 HK$'000
Authorised:		
50,000,000,000 (31 December 2002: 50,000,000,000) ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
723,087,310 (31 December 2002: 602,587,310) ordinary shares of HK$0.01 each	**7,231**	6,026

On 20 March 2003, the Company issued 120,500,000 new shares through the placing of 120,500,000 new shares to 24 independent investors at a subscription price of HK$0.14 per share.

10. Contingent liabilities

As at 30 June 2003 and 31 December 2002, the Group did not have any significant contingent liabilities.

11. Commitments

Capital commitments for property, plant and equipment

	30 June 2003 HK$'000	31 December 2002 HK$'000
Contracted but not provided for	**77,990**	77,990

12. **Related party transactions**

i. In accordance with the Technology Rights Agreement dated 29 December 2002 entered into between the Company and Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi"), the Group has recognised a non-refundable signing fee of US$500,000 (equivalent to approximately HK$3,900,000) in the income statement for the year ended 31 December 2002. Weiyi is a limited liability company established in Shenzhen, the PRC and wholly and beneficially owned by Mr. Cheng Qing Bo, a director of the Company. As at 30 June 2003, the Group received HK$3,900,000 being the signing fee under the said agreement and receivables amounting to HK$1,560,000.

ii. The Group has various loan facilities in Taiwan of approximately HK$67 million that were jointly and severally guaranteed by Taiping Enterprises Co. Ltd. ("Taiping"), Mr. Koh Tat Lee and Mr. Tung Tai Yung and/or Mr. Tung Hau Keung (Mr. Tung Tai Yung's father) (the "Parties"). The Directors confirm that no security over the assets of the Group has been granted to the Parties for such financial assistance provided by them.

iii. In 2002, the Company was granted a standby loan facility by a shareholder of the Company, Mr. Tung Tai Yung. The loan could be drawn down at any time upon the request by the Company up to a maximum sum of HK$28 million. The loan was interest bearing at 4.875% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2003, the Group's total turnover amounted to approximately HK$32,553,000 (2002: HK$2,316,000) representing an increase of approximately 1,300% over the corresponding period in the last financial year. The dramatic increase in turnover was mainly attributable to the Group's broadened source of income and realization of certain identified assets which were surplus to the current production requirement and retained for resale purpose.

The Group had utilized its technology know-how and licensed it as technology rights to strategic partners for royalty income. The Group earned approximately HK$1,560,000 of technology rights in the first half of 2003.

Gross profit of the Group for the six months ended 30 June 2003 amounted to approximately HK$4,404,000 compared to a gross loss of HK$3,436,000 for the same period in 2002. The gross profit margin also increased from 7.1% for the first quarter of 2003 to 13.5% for the six months ended 30 June 2003. The increased gross profit margin was brought by the expanded scope of activities. The Group generated sales revenue of approximately HK$6,477,000 from acting as the purchasing agent for clients in the sourcing of raw materials and spare parts.

Net loss attributable to shareholders for the six months ended 30 June 2003 reduced to approximately HK$7,869,000 (2002: HK$16,714,000). The improvement was primarily due to the dramatic increase of turnover and profit margin resulted from the broadened scope of business activities undertaken by the Group during the period. For the six months ended 30 June 2003, a total of depreciation expense of approximately HK$9,040,000 was charged to the operating accounts. Since the Group commenced its production re-location plan last year shifting its manufacturing facilities from Taiwan to China, the Group succeeded in optimizing operation efficiency and remained on course on its production expansion plan.

Operations

The Group continued its progress in the direction of broadening revenue sources during the second quarter of 2003. With the introduction of more service type income during the second quarter of 2003, the gross profit margin of the Group improved to 13.5%. The management of the Group will continue to sign more service agreements and fibre optic components manufacturing technology transfer arrangements to improve the gross profit margin and the ultimate result of the Group.

The shift of the manufacturing facilities from Taiwan to China helped the Group in reducing further its operating cost as the Group is now enjoying a lower per unit production costs and amble supply of skillful operators in China. As planned, the level of operating expenses has been stabilized in the second quarter of 2003. In the process of disposing spare capacity, the Group continued to systematically dispose of surplus equipment and machinery which not only helped to minimize the risk of further diminishing in value of idle plants but also in generating additional revenue to the Group.

Liquidity and Financial Resources

As at 30 June 2003, the Group had total assets of approximately HK$196,000,000 and bank and cash balances of approximately HK$8,470,000. The Group also had bank loans and other borrowings (inclusive of long-term and short-term bank and other borrowings) totalling approximately HK$57,000,000.

The debt ratio of the Group was 29% as of 30 June 2003 (31 December 2002: 38%) on the basis of total external borrowings to total assets. The current ratio of the Group also improved significantly from a ratio of 1.28 as of 31 December 2002 to a ratio of 1.56 as of 30 June 2003.

As at 30 June 2003, the Group had an outstanding capital commitment of HK$77,990,000 for capital contribution to a joint venture company.

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

The Group continued its negotiations with various banks on delaying their loans repayment and was making progress.

Capital Structure

As at 30 June 2003, the Group's outstanding issued shares were 723,087,310. There has not been any change to the capital structure of the Company during the reporting period.

Formation of wholly-owned subsidiary

On 10 March 2003, the Company's wholly-owned subsidiary, Intcera High Tech (Shenzhen) Limited Company (大陶精密科技(深圳)有限公司) was formed with a registered capital of US$130,000. This new subsidiary will undertake within the PRC technology consulting services including after-sales services as well as assist the Group in broadening its customer base in the PRC.

Save as disclosed above, the Group did not have any material acquisition or disposal of subsidiaries or affiliated companies for the six months ended 30 June 2003.

Employee Information

As at 30 June 2003, the Group employed approximately 25 staff (30 June 2002: 50). Total staff costs, including Directors' emoluments were approximately HK$2,500,000 for the six months ended 30 June 2003 as compared with those of approximately HK$3,577,110 for the corresponding period of the preceding financial year. Whilst awaiting ramping up of production, the Group had temporarily laid off its PRC workers and operators to be recruited at a later date.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience.

BUSINESS REVIEW AND OUTLOOK

In 2003 the Group will continue to focus its efforts to position itself as a technology centre in licensing its ferrule manufacturing technology and knowhow to its strategic partners in China. To date, the Group had generated approximately HK$1,560,000 income from licensing of its technology rights. This revenue will continue to grow as the Group had signed a 5-year contract with Weiyi. In addition, the Group is in active talks with certain potential joint venture partners on licensing issues. Further, the Group's revenue source from acting as a sourcing agent for raw materials and parts in the fibre optic components manufacturing industry has increased its profit margin to 13.5% for the six months ended 30 June 2003 as compared to that of 7.1% in the first quarter of this year.

As the Group plans to streamline and consolidate its operations in China, it has started implementing a systematic programme of disposing of surplus equipment and machinery. This includes negotiating with the banks of the Group's Taiwan subsidiary on the auctioning off of certain machinery and equipment charged to the banks to reduce the Group's level of indebtedness. At the moment, the total indebtedness of the Group's Taiwan subsidiary is approximately

HK$37,524,000 against its assets at book value of approximately HK$19,179,000. The disposal of surplus assets not only helped minimize the risk of value diminution in idle plants but also helped generate additional revenue for the Group.

The Group's plans for its China expansion and ramping up of production is cautiously optimistic. The Group's earlier plans to ramp up its production facility in Shanghai, the PRC with its joint venture partners have met with administrative and customs delay as well as the Severe Acute Respiratory Syndrome crisis all contribute to the production schedule out of that facility. Whilst the Group intends to push for the resolution of these delays, it is in active negotiations with another possible joint venture partner in Shandong, the PRC. This provides the Group with another option for its production facility. Having said that, the Group had reached an informal arrangement to manage the production facility in Shenzhen, the PRC with its connected party, Weiyi, in return for management fees. This arrangement will give an extent of relief to the administrative cost of the Group whilst ensuring regular income for itself. The Weiyi facility in Shenzhen is currently generating 100,000 pieces of ceramic ferrules per month with the aim to ramp up to approximately 300,000 pieces per month further in the year.

Outlook for 2003

The Group will continue to invest resources into the Mainland China market. With a monthly demand of 8 million pieces of ferrule alone, the Mainland China market remains the long term market to nurture for the Group. The Group understands the limitations it has with such a vast market and will therefore continue to focus its efforts on teaming up with strategic partners in technology licensing and joint venture businesses.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

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 10,172,487 rights shares at HK$0.50 per rights share on the basis that one rights shares 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 fiber 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.

DISCLOSURE OF INTERESTS

Directors and Chief Executive's Interests in Securities

As at 30 June 2003, the interests and short positions of the Directors in the shares **("Shares")**, underlying Shares or debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, the Laws of Hong Kong **(the "SFO")** which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or

(c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in Shares*

Name of Director	*Number of Shares*	*Capacity*	*Type of Interest*	*(Note 4)* *Approximate percentage of issued share capital (%)*
Mr. Cheng Qing Bo **("Mr. Cheng")** *(Note 1)*	180,000,000	Beneficial owner	Corporate	24.89
Mr. Tung Tai Yung **("Mr. Tung")**	156,759,935 *(Note 2)*	Interest of a controlled corporation	Corporate	21.68
	5,637,500 *(Note 3)*	Beneficial owner	Personal	0.78
Mr. King Chun Kong, Karl	5,500,000	Beneficial owner	Personal	0.76

Notes:

1. Bright Castle Investments Limited (**"Bright Castle"**), a private limited company incorporated in the British Virgins Islands, has entered into a share transfer agreement dated 28 June 2003 with Taiping, Mr. Tung and Mr. Cheng in respect of a transfer of a total of 180,000,000 Shares (of which 28,000,000 Shares are beneficially held by Mr. Tung and 152,000,000 Shares are beneficially held by Taiping) from Taiping and Mr. Tung to Bright Castle (**"Share Transfer Agreement"**). The Share Transfer Agreement was completed on 29 July 2003. Since Bright Castle is wholly and beneficially owned by Mr. Cheng, Mr. Cheng is deemed to be interested in 24.89% of the issued share capital of the Company.

2. These Shares are held as to 156,017,435 directly by Taiping and as to 742,500 through Mamcol Taiwan Company Limited (**"Mamcol"**), which is a subsidiary of Taiping. These shares are attributable to Mr. Tung under the SFO, 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. As mentioned in note 1, Mr. Tung has entered into a Share Transfer Agreement and transferred his Shares in the sum of 28,000,000 Shares to Bright Castle.

4. 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 30 June 2003.

Save as disclosed above, as at 30 June 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the

SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

(ii) *Long positions in underlying Shares of equity derivatives of the Company*

The following Directors were granted share options under the share option scheme adopted by shareholders of the Company on 21 June 2000. The number of options granted to each Director over the Shares up to 30 June 2003 are as follows:

Name of Director	*(Note)* *Number of aggregate share options*	*Date of grant*	*(Note)* *Exercise price*	*Balance of options as at 30 June 2003*
Mr. Tung	600,000	20 July 2000	0.731	600,000
Mr. King	2,250,000	10 July 2001	0.500	2,250,000
	2,250,000	10 October 2000	0.789	2,250,000

Note:

The number of share options and exercise prices 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 30 June 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 or its associated corporations.

(iii) ***Short positions in the Shares and underlying Shares of equity derivatives of the Company***

Saved as disclosed herein, as at 30 June 2003, none of the Directors has short positions in Shares or underlying Share of equity derivatives of the Company.

Interests of Substantial Shareholders in Securities

So far as was known to any Director or chief executive of the Company, as at 30 June 2003, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) ***Long positions in Shares***

Name of Shareholder	*Number of Shares*	*Capacity*	*(Note 3)* *Approximate percentage of issued share capital (%)*
Bright Castle *(Note 1)*	180,000,000	Other	24.89%
Taiping *(Note 2)*	156,759,935	Beneficial owner	21.68%

Notes:

1. see Note 1 on page 23

2. see Note 2 on page 23

3. see Note 3 on page 23

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(ii) ***Short positions in the Shares and underlying Shares of equity derivatives of the Company***

So far as the Directors are aware, saved as disclosed herein, as at 30 June 2003, no persons have short positions in Shares or underlying Shares of equity derivatives of the Company.

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 Shares during the period.

OUTSTANDING SHARE OPTIONS

As at 30 June 2003, options to subscribe for an aggregate of 29,294,991 Shares 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 2)* *Option period (commencing from the date of grant and terminating ten years thereafter)*
9,525,000	HK$0.731	20 July 2000 to 19 July 2010
6,450,000	HK$0.789	10 October 2000 to 9 October 2010
569,991	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 my be exercised within the option period.

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 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 financing reporting process and internal control systems. 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 six months ended 30 June 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
Chief Executive Officer

Hong Kong, 13 August 2003