INTCERA High Tech Group Limited

3rd Quarterly Report 2003

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*The directors ("**Directors**") of Intcera High Tech Group Limited ("**Company**" or "**Intcera**") 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 nine months ended 30 September 2003, turnover amounted to approximately HK$34,877,000 (2002: HK$4,513,000), representing a growth of 673% when compared with the same period in 2002.

HK$2,340,000 in technology rights licensing revenue was achieved for the nine months ended 30 September 2003.

The Group incurred a loss from operations before interest and tax of approximately HK$11,527,000 for the nine months ended 30 September 2003.

Loss attributable to shareholders was narrowed by 59.9% to approximately HK$13,392,000 for the nine months ended 30 September 2003. Loss per share was 1.94 cents for the nine months ended 30 September 2003.

UNAUDITED CONSOLIDATED INCOME STATEMENT

The Board of Directors of 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 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 September		Nine months ended 30 September	
		2003	2002	2003	2002
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	2	**2,324**	2,197	**34,877**	4,513
Cost of sales		**(1,711)**	(5,613)	**(29,860)**	(11,365)
Gross profit/(loss)		**613**	(3,416)	**5,017**	(6,852)
Other revenues	2	**1,229**	113	**3,249**	501
Selling and distribution expenses		**(285)**	(991)	**(1,059)**	(1,898)
Administrative expenses		**(5,363)**	(4,428)	**(17,484)**	(13,365)
Other net operating expenses		**(1,264)**	(6,571)	**(1,250)**	(7,055)
Operating loss		**(5,070)**	(15,293)	**(11,527)**	(28,669)
Finance costs		**(453)**	(1,373)	**(1,865)**	(4,711)
Loss before taxation		**(5,523)**	(16,666)	**(13,392)**	(33,380)
Taxation	3	**–**	–	**–**	–
Loss after taxation and attributable to shareholders		**(5,523)**	(16,666)	**(13,392)**	(33,380)
Basic loss per share (in cents)	4	**(0.80)**	(2.77)	**(1.94)**	(6.14)

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. Turnover and revenue

	Three months ended 30 September		Nine months ended 30 September	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover				
Ceramic blanks and ferrules	–	2,197	282	4,513
Machinery and equipment	–	–	25,794	–
Service and agency fee	2,324	–	8,801	–
	2,324	2,197	34,877	4,513
Other revenue				
Interest income	–	113	9	501
Other income	1,229	–	3,240	–
	1,229	113	3,249	501
Total revenue	3,553	2,310	38,126	5,014

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 nine months ended 30 September 2003 and nine months ended 30 September 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 nine months ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

4. Loss per share

The calculation of the Group's basic loss per share for the three months and nine months ended 30 September 2003 was based on the unaudited loss attributable to the shareholders of approximately HK$5,523,000 and HK$13,392,000 respectively (three months and nine months ended 30 September 2002: approximately HK$16,666,000 and HK$33,380,000 respectively) and the weighted average number of 723,087,310 and 688,658,739 ordinary shares in issue (three months and nine months ended 30 September 2002: 602,587,310 and 543,667,663 shares respectively) during the respective periods.

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 nine months ended 30 September 2002.

BUSINESS REVIEW AND OUTLOOK

Financial Review

For the nine months ended 30 September 2003, the Group recorded a turnover of HK$34,877,000 comparing to HK$4,513,000 in the corresponding period in 2002. A gross profit of HK$5,017,000 was recorded by the Group in the first nine months in 2003 showing big contrast to a gross loss of HK$6,852,000 in the corresponding period last year. This improvement in gross profit margin was brought by the expanded scope of activities with new sources of service incomes.

For the three month period to 30 September 2003, the Group has recorded sales revenue of approximately HK$2,324,000 and royalty fee on transfer of technology right of approximately HK$780,000. As the operation at the facility of Shenzhen Weiyi Optical Communication Technology Limited ("**Weiyi**") was maintained at a low production level and is steadily increasing, the full production capacity of 750,000 pieces per month will be achieved by early next year.

During the period under review, the Group focused on three priorities: improving the quality of the products manufactured through the Weiyi facilities, especially with a view to establishing Intcera as a technology center in China, expanding awareness of Intcera brand name across the Greater China region and beyond; and taking measures to maximise the efficiency of operations and thereby reduce costs. This approach has already begun to produce positive results, with the financial results for the period returning to a more healthy trend of recent years. The most important development for the Group in recent months was the signing of an agreement with Weiyi on 24 October 2003 whereby the Group will take over the management and operation of the Weiyi facility.

Business Review

The low production and operating activities were mainly due to the relocation of manufacturing facilities. As at 30 September 2003, the facility at Weiyi has commenced limited production, producing 300,000 ceramic ferrules every month. The board of directors believes that by the end of the year when all the production lines are relocated from Taiwan to Shenzhen and fully launched, maximum production will resume. It is envisaged that profitable performance will be achieved by the middle of next year.

The relocation of the manufacturing plant and facilities was slower than anticipated as the process was hampered by debt problems of business partners in Taiwan. However, with new shareholders now on board, the sluggish progress in the past few months has been turned around which will facilitate the removing of obstacles posed by the loan disputes that had led to administrative and customs delays. Once the issues are resolved, relocation can go ahead expeditiously to enable a speedy resumption of the Group's business.

Positive Market Outlook

Following the widespread popularity of the Internet world-wide, fiber optic has become the most important transmission medium and fiber-to-the-home (FTTH) is the optimal ideal that telecommunication operators are striving to achieve. At present, some 60% to 80% of global telecommunication operations rely on fiber optic transmission while the various optic connectors depend on ceramic ferrules as the core component. This serves to illustrate the decisive importance of ceramic ferrules in the development of the entire telecommunication industry. Even though the optic communication market in China is still in its infancy, its unlimited growth and development potential has captured the undivided attention of telecommunication investors. In tandem with the accelerated growth of fiber optic communication networks, the demand for fiber optic components is also escalating. The board of directors therefore believes that the Group should maintain its customer base in South China and the Pearl River Delta as the basis for further development and endeavor to tap into the vast market of China. At the same time, it will continue to supply fiber optic components to the Taiwan market. The relocation of the Group's production lines to China is a strategic move synchronized for the future development of its business.

According to market forecast of ElectroniCast, U.S.A., the global optic connector market will increase to US$2.48 billion by 2005 from US$1.4 billion in 2002, at a compound annual growth rate of as high as 21%. Statistics released by KMI (Kessle Marketing Intelligence) indicated that global demand for ceramic ferrules in 2000 averaged from 150 million to 200 million pieces every month and the projected annual growth rate is 20%. Such spectacular growth rates highlight the enormous potential of this market sector. At present, the Group's production capacity is below half of its optimal capacity. When all the production lines of the Group are in full swing, the production capacity will rise to 750,000 ferrules per month. However, as opposed to the demands in China and Taiwan, this volume is still considerably insignificant. As such, the Group is determined to raise its production capacity while up-keeping its product quality as a means to reinforce its competitiveness and profitability. In the next stage, efforts will be directed at the expansion of production facilities and the development of new products.

Advanced and sophisticated technology is a paramount requirement in the manufacturing of fiber optic components. However, manufacturers in China are still behind in the research and development of the required technology. Currently, manufacturers in China that are capable of producing high quality ceramic blanks and ferrules are few and far in between. On the strength of its outstanding expert technology and leading-edge machinery and facilities, coupled with the reputation solidly established in Taiwan, it is by no means an impossible task for the Group to establish itself as the market leader in China. In fact, the Group is among the top nine ceramic ferrule manufacturers in the world. To engage in this industry sector, apart from a heavy capital contribution, leading-edge sophisticated technology as well as advanced production facilities are both important pre-requisites. Consequently, though new competitors are vying for the China market, they have to undergo an extended and arduous process before they can become any serious contenders. As such, the Group is well positioned to benefit from this scenario in the next few years. At the same time, the Group is a China-based manufacturer and enjoys the protection and preferential treatments extended to enterprises within the country, a favored position that no other overseas manufacturers can lay claim to. Furthermore, the Group has a rich store of experience accumulated throughout the years and its product quality has won the high acclaim and recognition of its customers. With its sustained and enhanced product quality, the Group is poised to lead the market, for which no other competitors will find it easy to match.

Competitive Advantage

The Group's principal source of revenue in future will remain to be the licensing of ferrule manufacturing technology and know-how to strategic partners. Besides the 5-year Technology Rights Agreement ("**Technology Rights Agreement**") signed with Weiyi, the Group is in active negotiation with potential joint venture parties on cooperation possibilities. Negotiation with certain individual potential partners has reached an advanced stage, pending finalization. Between 6 and 9 September 2003, Weiyi participated in the 5th China International Opto-Electronic Expo held at the Shenzhen Convention Centre, at which the high standard of the Group's products was exhibited to professional experts in the field. The number of orders of intent received during the Expo exceeded the Group's present production capacity by as much as ten times, many of which were from Chinese government departments and major domestic telecommunication enterprises that were prepared to offer extremely favorable terms of cooperation. The Group would select the most suitable partner carefully with further advancement of the Group's business as the ultimate objective.

To capture any business opportunities, it will evidently require the reinforcement of the Group's own strengths first. Towards this end, the board of directors is committed to drive the future development blueprint in the following directions so as to create the necessary conditions to win and retain customers:

1. To upgrade its state-of-the-art technology, to undertake research and to adopt the most advanced technological know-how as a means to raise product quality;

2. To increase production capability and capacity so as to maximize the highest productivity of every production line;

3. To enhance the capability in the production of ceramic ferrules of various specifications to offer a diversity of product mix to meet the different demands of customers;

4. To expand the market share and utilize this as a basis to adjust product prices and to extricate these from market constraints.

As the price of the raw material, ceramic powder and blanks used in the Group's production is not subject to any major fluctuation, no evident price pressure would likely be created for its production. At the same time, following the relocation of the production lines to Shenzhen, labor cost and operating expenses will be substantially reduced. In addition, the Group will strive to develop its market in China as a primary focus and the shifting of the production facilities to Shenzhen fits in perfectly with this operating strategy. This will lessen directly the logistic costs and further enhance profitability which is set to bring about a positive outlook for the Group.

Further, as the Group will maintain investment injection in the form of equipment and facilities as a condition for cooperation with its strategic partners, financial liquidity or pressure from financing is not expected to be an issue while at the same time this will provide a safeguard to the Group's financial position. In addition, the Group's sales and marketing strategy is to focus on specific customers with sizable demand in volumes that are sufficient to keep all the production facilities in full capacity. As such, it is not necessary for the Group to establish multifarious sales points, which in turn will achieve substantial savings in marketing expenditure. At present, as production capacity is yet to resume to the full, inventory is still in need of improvement. However, an inventory of ample stock will gradually be established to meet the vast demand of customers once the production lines of the Group are in full swing.

The board of directors believes that the financial position of the Group will make marked improvement once the relocation of the manufacturing facilities is completed and production resumes to the full. The Group is optimistic about the prospect that business opportunities in the Chinese mainland market will bring forth. It is the Group's intention to seek out a suitable location in China to centralize all the production facilities so as to benefit from the best economic effectiveness to reciprocate shareholders for their support to the Group.

UPDATE ON SHANGHAI JOINT VENTURE

As disclosed in the Company's announcements dated 17 February, 2 May and 16 June 2003, the Company has been active in pushing along the establishment of its Shanghai Joint Venture (as defined in such announcements). At the same time, the Company has continuously been engaging in talks with other potential joint venture partners in different provinces of China to explore greater competitive edge for itself. The Shanghai Joint Venture is progressing very slowly mainly due to administrative delay. This is due to the fact that movement of used equipment and machinery from the Group's existing assets necessarily require repeated inspections by the customs officer and further particulars to be cleared by them before any production may commence. The Group is pushing for its progress on a daily basis.

FINANCE AND LIQUIDITY

As at 30 September 2003, the Group had total assets of approximately HK$186,016,000 and bank and cash balances of approximately HK$5,719,000, while the Group had bank loans and other borrowings (inclusive of long-term and short-term bank and other borrowings) totaling HK$55,591,000 and gearing ratio (i.e. total external borrowing/ total assets) of 29.9%. It is the group's intention to finance the Group's future operations and capital expenditure principally through internally generated cashflows supplemented by shareholder financing.

The Group has been discussing with the Company's major shareholders with a view to obtaining shareholders' loans of approximately HK$15 million for working capital and reduction of overdue debts. So far, the Group has secured a shareholder loan of HK$15 million from a shareholder and up to the date of this report, the Group has received an advance payment of HK$8.6 million from the shareholder.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 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 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 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 September 2003, the interests and short positions of the Directors in the shares ("**Shares**"), underlying Shares and debentures of the Company or any of 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 Directors	Number of Shares	Capacity	Type of Interest	*(Note 3)* 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**")	4,759,935 *(Note 2)*	Interest of a controlled corporation	Corporate	0.66
	5,637,500	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 Enterprises Co., Ltd. ("**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 4,017,435 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. 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 September 2003.

Save as disclosed above, as at 30 September 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 September 2003 are as follows:

Name of Directors	*(Note)* Number of aggregate share options	Date of grant	*(Note)* Exercise price	Balance of options as at 30 September 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 September 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 any share of 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 September 2003, none of the Directors had short positions in Shares or underlying Shares 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 September 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 2)* Approximate percentage of issued share capital (%)
Bright Castle *(Note 1)*	180,000,000	Other	24.89%

Notes:

1. see Note 1 on page 14

2. see Note 3 on page 14

Save as disclosed above, as at 30 September 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 September 2003, no persons had 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 September 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 may be exercised within the option period.

COMPETING INTERESTS

The Directors are not aware of, as at 30 September 2003, any business or interest of each Director, substantial shareholder and management shareholder of the Company and their respective associates that competes or my 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 nine months ended 30 September 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 November 2003