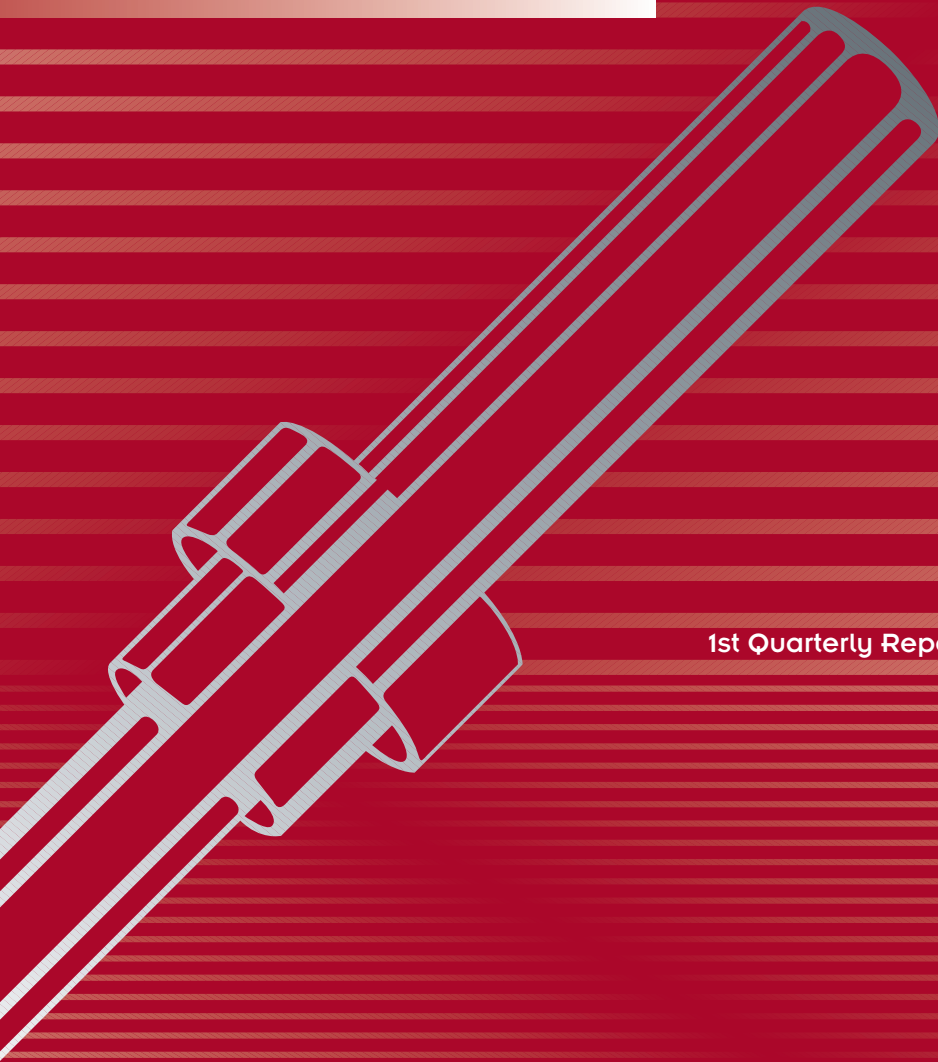


INTCERA High Tech Group Limited

1st Quarterly Report 2004



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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss 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 (“**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 approximately HK\$3,861,000 for the three months ended 31 March 2004.
- The Group recorded unaudited loss attributable to shareholders of approximately HK\$2,324,000 for the three months ended 31 March 2004.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004.

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 2004, together with the comparative unaudited figures for the same period in 2003 as follows:

		For the three months ended 31 March	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	3,861	25,688
Cost of sales		(3,597)	(23,871)
Gross profit/(loss)		264	1,817
Other revenues	2	108	450
Selling and distribution expenses		(69)	(593)
Administrative expenses		(3,405)	(5,384)
Other net operating income		778	827
Operating loss		(2,324)	(2,883)
Finance costs		–	(845)
Loss before taxation		(2,324)	(3,728)
Taxation	3	–	–
Loss after taxation and attributable to shareholders		(2,324)	(3,728)
Basic loss per share (in cents)	4	(0.32)	(0.60)

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 2004 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 2003. The unaudited consolidated statements have been prepared in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKICPA, 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	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of goods, net of discounts, and business tax	3,861	25,688
Other revenues		
Technology rights' royalty fee	778	780
Interest income	24	–
Other income	84	502
	886	1,282
Total revenues	4,747	26,970

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 2004 and for the same period in 2003.

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 2004 is based on the Group's unaudited loss attributable to the shareholders of approximately HK\$2,324,000 (2003: HK\$3,728,000) and the weighted average number of 723,087,310 ordinary shares in issue (2003: 617,315,088 shares) during the period.

No diluted loss per share has been presented because the exercise of the outstanding share options would have an anti-dilutive effect for the period and prior period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

BUSINESS REVIEW

Business Review

Confronting challenges with unparalleled strengths

The global telecommunications and fibre optic network markets are showing signs of recovery after a period of adjustment in the last couple of years. Beneficial factors such as China's accession to the WTO and the hosting of the 2008 Olympic Games in Beijing are driving developments in the telecommunications and optic communications industries to be the most robust among all industries and become a priority in development projects nationwide. The Group's competitive advantages lie in its state-of-the-art technology and leading-edge facilities. On the strength of these, the Group has been able to sustain itself despite market uncertainty and unfavourable economic conditions. This also serves to prove the Group's ability to confront challenges and difficulties and demonstrate its superior market position.

Reaching new milestone with technology transfer

The cooperation between the Group and Shenzhen Weiyi Optical Communication Technology Limited ("Weiyi") was the Group's key project for the year. It was officially launched in September 2003 with Weiyi commencing production. This is a significant milestone for the Group in its entry to the mainland market. It also put the Group's strategic plan of technology transfer in the mainland to the test. At present the orders received by Weiyi far exceed its production capacity. The Group therefore will make efforts to improve the current production facilities so that the production capacity can reach its maximum in a short time to meet the huge demands from customers.

Based on the experience gained through the cooperation with Weiyi, the Group will continue to identify suitable business partners in the mainland for technology transfer projects. In addition to target for the most favourable cooperation terms, the Group also aspires to penetrate the market nationwide for the "INTCERA" branded ceramic ferrules. The Group is in the process of negotiation with several potential partners and has reached common ground with them. Once the achievement of Weiyi has gained recognition in the market, this will provide the benchmarking solution for cooperation with potential partners in the pipe-line and will accelerate the execution of these agreements. This will further consolidate and enhance the profitability of the Group.

Financial Review

During the first quarter of 2004, the Group recorded unaudited consolidated turnover was approximately HK\$3,861,000 (2003: HK\$25,688,000). There is an approximately 85% decrease in turnover. Gross profit was approximately HK\$264,000 when compared with that of approximately HK\$1,817,000 for the same quarter in 2003. The loss attributable to shareholders was approximately HK\$2,324,000 when compared with that of HK\$3,728,000 for the same quarter in 2003. The decrease in loss attributable to shareholders was the result of the Group's effort in cost reduction.

LIQUIDITY AND FINANCIAL RESOURCES

During the three months ended 31 March 2004, the Group's operation was mainly financed by the proceeds from the Technology Rights Agreement and the internal financial resources of the Group.

As at 31 March 2004, the Group had net current assets of approximately HK\$14,922,000 (31 March 2003: HK\$46,733,000). The current assets comprised bank balances and cash of approximately HK\$14,171,000, trade and other receivables of approximately HK\$24,272,000. The current liabilities comprised trade and note payables, accrued charges and other payables of approximately HK\$23,639,000.

During the three months ended 31 March 2004, the Group did not make any material acquisition and disposal of subsidiaries and affiliated companies and investment.

As at 31 March 2004, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

PROSPECTS

The global telecommunications industry has witnessed a spectacular growth in recent years. While fibre-to-the-home and fibre-to-the-desk have become landmarks of an information society, they are also driving competition in the country and community. The huge potential of the fibre optic market brings about the synchronous demand of active and passive fibre optic components. As a manufacturer of the crucial component of a fibre optic connector — the ceramic ferrule, the Group is well positioned to capitalize on the expected growth and to fulfill its ambition to be a market leader in the industry in the Mainland.

According to the annual report of the Ministry of Information Industry of China in 2003, the nation's telecommunications industry generated a total revenue of RMB461 billion last year, an increase of 13.9% comparing with the corresponding period of the previous year, and 150% of the GDP growth rate. Further expansion of the telecommunications industry is expected in 2004, amounting to RMB519 billion in revenue. Total length of the national fibre optic cables will reach 2.95 million km, an 8.9% increase over the corresponding period of the previous year. Furthermore, the Beijing Organizing Committee for the Games of the 29th Olympia had announced an investment input of RMB6.6 billion to expand and upgrade the telecommunications network in Beijing by 2008. Both the Shanghai municipality and Hubei province had also put forward relevant proposals to support the development of telecommunications and optic communications. All these clearly indicate that the development of optic communications has become a major priority throughout the nation and a fibre-to-the-house era can be envisaged in major cities in China shortly.

Leveraging on its lower production cost, the Chinese mainland has developed into the world's largest manufacturer of fiber optic components and is expected to maintain this advantage in the future. However, the demand for state-of-the-art technology, leading-edge equipment and well-trained and skilled professionals in the manufacturing of ceramic ferrules creates a gap in the fiber optic component manufacturing industry, which is not a common production operation even worldwide. The Group's accumulated experience and professional expertise, coupled with its huge investment in state-of-the-art technology and equipment, has put it in the rank of the top nine ceramic ferrule manufacturers in the world and one of the leading manufacturing enterprises of ceramic ferrules in the Mainland. Recently, the Huawei Group, one of the largest Chinese telecommunications providers, has visited the Group's production facilities and conducted detailed tests on its products. They are fully satisfied with our technology control and our product quality, and have indicated their interest to cooperate with the Group. The Directors believe

that this cooperation will certainly become a key milestone in the Group's expansion to the Chinese market. However, the Directors are also aware that further coordination of the relocated production facilities is required before they can reach full functionality. Therefore, the Group will concentrate on cultivating the fruitful cooperation with Weiyi before attempting to develop relationship with other major telecommunications industry players. When the time is ripe, the Group will expand the production lines and cultivate other partners in technological cooperation to build the brand "INTCERA" in ceramic ferrules. At present, Weiyi is the key focus of the Group's production which is to set the model for other production lines in the future.

Notwithstanding this, the Group will also develop peripheral products of ceramic ferrules. Taking advantage of the relatively low labour costs in the Mainland, the Group will develop assembling operations where a lower technology standard is required as a supplementary scope to extend the product range and to attract new customers and additional revenue.

In addition to its focus on the Chinese market, the Group vies for the global telecommunications market as well. The existing leading-edge equipment and technology of the Group will form a solid foundation for its future expansion into the global market. While the Group maintains its market position in the Mainland, it will also establish a sales force in Hong Kong for more participation in international conferences and exhibitions relating to the telecommunications and optic communications industries. Through exchanges and benchmarking, relationship with other communications enterprises will be engendered and knowledge on the changing global market trend will be obtained. This understanding and sensitivity of market will enable the Group to have a competitive edge on offering products best suited to customer demands.

Meanwhile, the Group will continue to focus on training to nurture a workforce with outstanding technical skills in the Mainland as the enablers of technology transfer. As to machinery and equipment, the Group will continue to challenge itself by researching and developing state-of-the-art technology, and improving the efficiency and precision of the machinery to attain more sophisticated production technology. Such technology and equipment will be the backbone for product quality improvement and production capability enhancement, which in turn will constitute a base for the Group in reinforcing its strengths and profitability.

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.

DISCLOSURE OF INTERESTS

Directors and chief executive's interests in securities

As at 31 March 2004, 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 3) Approximate percentage of issued share capital (%)
Mr. Cheng Qing Bo (" Mr. Cheng ")	180,000,000 (Note 1)	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 (" Mr. King ")	5,500,000	Beneficial owner	Personal	0.76

Notes:

1. These shares are held by Bright Castle Investments Limited, which is wholly owned by Mr. Cheng. Mr. Cheng is therefore 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 31 March 2004.

Save as disclosed above, as at 31 March 2004, 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 31 March 2004 are as follows:

Name of Director	<i>(Note)</i> Number of aggregate share options	Date of grant	<i>(Note)</i> Exercise price	Balance of options as at 31 March 2004
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 31 March 2004, 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 31 March 2004, none of the Directors had 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 31 March 2004, 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	<i>(Note 2)</i> Approximate percentage of issued share capital (%)
Bright Castle Investments Limited	180,000,000 <i>(Note 1)</i>	Other	24.89%

Notes:

1. see Note 1 on page 10.
2. see Note 3 on page 11.

Save as disclosed above, as at 31 March 2004, 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 31 March 2004, 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 of the Company's shares during the period.

OUTSTANDING SHARE OPTIONS

As at 31 March 2004, options to subscribe for an aggregate of 3,168,744 shares of the Company granted pursuant to the Company's share option scheme were outstanding. Details of the breakdown are set out as follows:

Number of share options <i>(Note 1)</i>	Exercise price <i>(Note 1)</i>	Option period (commencing from the date of grant and terminating ten years thereafter) <i>(Note 2)</i>
100,000	HK\$0.731	20 July 2000 to 19 July 2010
1,500,000	HK\$0.789	10 October 2000 to 9 October 2010
68,744	HK\$0.738	22 April 2001 to 21 April 2011
1,500,000	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 2004, 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

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee has met regularly to review with management the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The audit committee comprises three Independent Non-Executive Directors, namely Mr. Lai Kin Wai, Mr. Liu Zheng Hao and Mr. Wu Min.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 March 2004, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

By Order of the Board
Intcera High Tech Group Limited
Cheng Qing Bo
Chairman

Hong Kong, 7 December 2004

As at the date of this report, the Company has altogether nine directors comprising four executive directors namely, Mr. Cheng Qing Bo (also the Company's chairman), Mr. Lin Nan (also the Company's chief executive officer), Mr. Tung Tai Yung and Mr. Hu Xue Jun, two non-executive directors namely, Mr. Karl King Chun Kong and Mr. Hu Shiang-Chi, and three independent non-executive directors namely, Mr. Lai Kin Wai, Mr. Liu Zheng Hao and Mr. Wu Min.