

INTCERA High Tech Group Limited



Interim Report 2004

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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 2004, turnover amounted to approximately HK\$4,778,000 (2003: HK\$32,553,000), representing a decrease of approximately 580% when compared with the same period in 2003.

HK\$1,558,000 in technology rights licensing revenue was achieved for the six months ended 30 June 2004.

Net loss attributable to shareholders for the period amounted to approximately HK\$4,925,000, representing a decrease of approximately 60% over the corresponding period.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

UNAUDITED INTERIM RESULTS

The board of directors (the “**Board**”) 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 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three and six months ended 30 June 2004

		Three months ended		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
Notes	2004	2003	2004	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	917	6,865	4,778	32,553
Cost of sales		<u>(912)</u>	<u>(4,278)</u>	<u>(4,509)</u>	<u>(28,149)</u>
Gross profit		5	2,587	269	4,404
Other revenue	2	32	790	140	2,020
Selling and distribution expenses		(67)	(181)	(136)	(774)
Administrative expenses		(3,351)	(6,737)	(6,756)	(12,121)
Other net operating income/(expenses)		<u>780</u>	<u>(33)</u>	<u>1,558</u>	<u>14</u>
Loss from operations	3	(2,601)	(3,574)	(4,925)	(6,457)
Finance costs		<u>–</u>	<u>(567)</u>	<u>–</u>	<u>(1,412)</u>
Loss before taxation		(2,601)	(4,141)	(4,925)	(7,869)
Taxation	4	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net loss attributable to shareholders		<u>(2,601)</u>	<u>(4,141)</u>	<u>(4,925)</u>	<u>(7,869)</u>
Dividends	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss per share					
– Basic (in cents)	6	<u>(0.36)</u>	<u>(0.62)</u>	<u>(0.68)</u>	<u>(1.17)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	7	73,617	74,516
Long-term investment		830	830
		74,447	75,346
Current assets			
Inventories		–	2,590
Trade and notes receivables	8	3,599	78
Other receivables, prepayments and deposits		24,015	12,699
Bank balances and cash		12,772	23,144
		40,386	38,511
Current liabilities			
Trade and notes payables	9	56	204
Other payables and accruals		19,933	18,833
Amounts due to directors		6,165	1,200
		26,154	20,237
Net current assets		14,232	18,274
Total assets less current liabilities		88,679	93,620
Non-current liabilities			
Convertible bonds		27,400	27,400
		61,279	66,220
Capital and reserves			
Share capital	10	7,231	7,231
Reserves		54,048	58,989
		61,279	66,220

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Note) Merger reserve <i>HK\$'000</i>	Retained profits/ (accumu- lated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003 (audited)	6,026	46,306	(10,601)	14,968	45,050	101,749
Issue of shares	1,205	15,665	-	-	-	16,870
Share issue expenses	-	(374)	-	-	-	(374)
Exchange difference arising on translation of financial statements of operations outside Hong Kong	-	-	162	-	-	162
Net loss for the period	-	-	-	-	(7,869)	(7,869)
	<u>7,231</u>	<u>61,597</u>	<u>(10,439)</u>	<u>14,968</u>	<u>37,181</u>	<u>110,538</u>
At 30 June 2003 (unaudited)						
At 1 January 2004 (audited)	7,231	61,597	-	-	(2,608)	66,220
Exchange difference arising on translation of financial statements of operations outside Hong Kong	-	-	(16)	-	-	(16)
Net loss for the period	-	-	-	-	(4,925)	(4,925)
	<u>7,231</u>	<u>61,597</u>	<u>(16)</u>	<u>-</u>	<u>(7,533)</u>	<u>61,279</u>
At 30 June 2004 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>(16)</u>	<u>-</u>	<u>(7,533)</u>	<u>61,279</u>

Note: The merger reserve of the Group included the difference between the nominal value of the share capital of subsidiaries acquired pursuant to the group reorganisation for listing of the Company's shares on the GEM of the Stock Exchange, and the nominal value of the shares issued by the Company in exchange thereof and also a balance on the share premium account of a subsidiary.

CONDENSED CONSOLIDATED CASHFLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited Six months ended 30 June 2004 HK\$'000	Unaudited Six months ended 30 June 2003 HK\$'000
Net cash outflow from operating activities	(7,349)	(5,998)
Net cash outflow from investing activities	(3,007)	(3,328)
Net cash inflow from financing activities	-	12,789
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(10,356)	3,463
Cash and cash equivalents at beginning of period	23,144	3,439
Effect of foreign exchange rate changes	(16)	351
	<hr/>	<hr/>
Cash and cash equivalents at end of period	12,772	7,253
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	12,772	8,470
Less: Commercial paper	-	(1,217)
	<hr/>	<hr/>
	12,772	7,253
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with Statement of Standard of Accounting Practice 25 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants and the GEM Listing Rules.

These interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2003.

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted in these condensed financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

The unaudited condensed consolidated interim accounts for the six months ended 30 June 2004 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

2. Turnover, other revenue and segment information

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover				
Ceramic blanks and ferrules	917	282	4,778	282
Machinery and equipment	-	4,021	-	25,794
Service and agency fee	-	2,562	-	6,477
	<u>917</u>	<u>6,865</u>	<u>4,778</u>	<u>32,553</u>
Other revenue				
Technology rights' royalty fee	780	780	1,558	1,560
Interest income	24	8	48	9
Other income	8	2	92	451
	<u>812</u>	<u>790</u>	<u>1,698</u>	<u>2,020</u>
Total revenue	<u><u>1,729</u></u>	<u><u>7,655</u></u>	<u><u>6,476</u></u>	<u><u>34,573</u></u>

Segment information

The Group is principally engaged in the manufacture and sale of ceramic blanks and ferrules. Turnover represents sale of goods by the Group to outside customers at invoiced value net of discounts, business tax and returns and after eliminating inter-company sales.

Primary reporting format — business segments

As the entire consolidated turnover and trading results of the Group are derived from the manufacture and sale of ceramic blanks and ferrules, an analysis of the consolidated trading results of the Group by business segments is not presented.

Secondary reporting format — geographical segments

The Group operates in three main geographical areas — the People's Republic of China (the "PRC"), other than Taiwan and Hong Kong, Taiwan and Hong Kong. An analysis of the Group's turnover, total assets and capital expenditure by geographical segments is as follows:

	Turnover		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC, other than Taiwan and Hong Kong	1,938	6,922	75,493	61,374	—	—
Taiwan	—	—	70	19,246	—	—
Hong Kong	2,840	25,631	39,270	115,171	3,007	—
	4,778	32,553	114,833	195,791	3,007	—

3. Loss from operations

Loss from operations has been arrived at after crediting and charging the following:

	Three months		Six months	
	ended 30 June		ended 30 June	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting				
Annual fees of Technology				
Rights Transfer	<u>780</u>	<u>780</u>	<u>1,558</u>	<u>1,560</u>
Charging				
Interest on borrowings	-	567	-	1,412
Depreciation	<u>1,946</u>	<u>4,465</u>	<u>3,906</u>	<u>9,040</u>

4. Taxation

No tax is payable on the profit for the period arising in Hong Kong since the assessable profits is wholly absorbed by tax losses brought forward. No overseas profits tax has been provided in the financial statements since the subsidiaries operating in overseas countries have no profits subjected to tax for both periods.

The Group had no material unprovided deferred tax liabilities at the end of the period.

5. Dividends

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2004 (six months ended 30 June 2003: Nil).

6. Loss per share

The calculation of the Group's basic loss per share for the three months and six months ended 30 June 2004 was based on the Group's unaudited loss attributable to the shareholders of approximately HK\$2,601,000 and HK\$4,925,000 respectively (three months and six months ended 30 June 2003: approximately HK\$4,141,000 and HK\$7,869,000 respectively) and the weighted average number of 723,087,310 ordinary shares in issue (2003: 671,159,133 shares) during the periods.

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

7. Property, plant and equipment

During the six months ended 30 June 2004, the Group spent approximately HK\$3,007,000 on additions to plant and equipment (2003: HK\$0).

8. Trade and note receivables

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Trade receivables	3,599	78
Note receivables	–	–
	<u>3,599</u>	<u>78</u>

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 2004, the aging analysis of the trade receivables was as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Less than 30 days	–	–
30-60 days	681	–
Over 60 days	2,918	78
	<u>3,599</u>	<u>78</u>

9. Trade and note payables

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Trade payables	56	204
Note payables	—	—
	<u>56</u>	<u>204</u>

As at 30 June 2004, the aging analysis of the trade payables was as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Less than 30 days	37	185
30-60 days	—	—
Over 60 days	19	19
	<u>56</u>	<u>204</u>

10. Share capital

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Authorised:		
50,000,000,000 (31 December 2003: 50,000,000,000) ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
723,087,310 (31 December 2003: 723,087,310) ordinary shares of HK\$0.01 each	<u>7,231</u>	<u>7,231</u>

11. Contingent liabilities

As at 30 June 2004, the Group did not have any significant contingent liabilities.

12. Operating lease commitment

As at the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	582	582
Two to five years	1,179	1,470
	1,761	2,052

Operating lease payments represent payable by the Group for its office premises. The lease was negotiated for a term of three years and with fixed rentals.

13. Related party transactions

- (i) During the period, the Group had entered into the following material related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business:

Related party	Nature of transaction	(unaudited) 30 June 2004 HK\$'000	(unaudited) 30 June 2003 <i>HK\$'000</i>
Shenzhen Weiyi Optical Communication Technology Co. Ltd. ("Weiyi")	Sale of goods to Weiyi	1,938	6,800
	Sale of property, plant and equipment hold for resale to Weiyi	-	292
	Management fee received from Weiyi	84	443
	Royalty fee income received from Weiyi	1,558	1,560

- (ii) On 18 August 2003, Intcera High Tech (HK) Limited ("**Intcera (HK)**"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Shenzhen China Technology Industry Development Co., Ltd. ("**Shenzhen China Technology**"), which is beneficially held as to 36% by Mr. Cheng Qing Bo (the Company's chairman, executive director and substantial shareholder) pursuant to which Intcera (HK) and Shenzhen China Technology have agreed to establish a sino-foreign equity joint venture in the PRC. The total registered capital of the joint venture is US\$12,000,000. The amount of the registered capital to be contributed by Intcera (HK) is US\$8,400,000, representing 70% of the total registered capital of the joint venture. Such capital contribution will be made by Intcera (HK) in the form of technology and equipment. The completion of this agreement is subject to approval by shareholders of the Company at an extraordinary general meeting.
- (iii) On 24 October 2003, Intcera High Tech (Hunan) Ltd. ("**Intcera (Hunan)**"), a joint venture company established by Intcera (HK) and Shenzhen China Technology pursuant to a joint venture agreement dated 18 August 2003, entered into a management agreement ("**Management Agreement**") with Weiyi. Weiyi is a connected person of the Company and the aforesaid transaction therefore constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Pursuant to the Management Agreement, Weiyi granted the exclusive right to Intcera (Hunan) to use its machinery, office, apparatus and client information for the manufacture, production, development and sale of ceramic blanks and ceramic ferrules in Shenzhen of the PRC for a period of 3 years. In consideration of the grant of exclusive use of the production facilities and client information of Weiyi in Shenzhen, Intcera (Hunan) will pay Weiyi 20% of the net profit generated by the production and/or development of the production by using of such production facilities and client information of Weiyi. The completion of the Management Agreement is subject to approval by the independent shareholders of the Company at an extraordinary general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2004, the Group's total turnover amounted to approximately HK\$4,778,000 (2003: HK\$32,553,000) representing a decrease of approximately 580% over the corresponding period in last year. Gross profit was approximately HK\$269,000 when compared with that of approximately HK\$4,404,000 for same period in 2003. The loss attributable to shareholders was approximately HK\$4,925,000 when compared with that of approximately HK\$7,869,000 for the same period in 2003. The decrease in loss attributable to shareholders was the result of the Group's effort in cost reduction.

Operations

Pursuant to the Consultancy and Management Agreement with Shenzhen Optical Communication Technology Limited ("**Wei**yi"), the Group was given the right to use the machinery, office, apparatus and client information of Wei

yi, for the propose of the Group's future business development in the PRC. The production of ceramic ferrules at Wei

yi was increased from 300,000 pieces per month to approximately 400,000 pieces per month. It is envisaged that the designed production capacity of 750,000 pieces per month will be back on board by the second half of next year after all machinery and facilities are successfully assembled and tested.

During the period under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

Business Review and Outlook

Meanwhile, the Group will continue to focus on training to nurture a workforce with outstanding technical skills in the PRC 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.

Liquidity and Financial Resources

As at 30 June 2004, the Group had total assets of approximately HK\$114,833,000 and bank and cash balances of approximately HK\$12,772,000. As at 30 June 2004, the Group had unsecured convertible bonds of approximately HK\$27,400,000.

Foreign Exchange Exposure

The business activities of the Group are not exposed to material fluctuations in exchange rate except the operation through its subsidiary in Shenzhen, PRC which is subject to fluctuation in exchange rates between Renminbi and Hong Kong dollars.

Capital Structure

As at 30 June 2004, 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.

Acquisition and disposal of subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or affiliated companies for the six months ended 30 June 2004.

Employee Information

As at 30 June 2004, the Group employed approximately 17 staff (30 June 2003: 25). Total staff costs, including Directors' emoluments were approximately HK\$1,435,000 for the six months ended 30 June 2004 as compared with those of approximately HK\$2,500,000 for the corresponding period of the preceding financial year.

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: 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 PRC 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 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) to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules of the Stock Exchange relating to securities transaction by Directors, were as follows:

(i) *Long positions in Shares*

Name of Director	Number of Shares	Capacity	Type of Interest	Approximate percentage of issued share capital (%) <i>(Note 3)</i>
Mr. Cheng Qing Bo (" Mr. Cheng ")	180,000,000 <i>(Note 1)</i>	Beneficial owner	Corporate	24.89
Mr. Tung Tai Yung (" Mr. Tung ")	4,759,935 <i>(Note 2)</i>	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:

- 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 Enterprises Co., Ltd (“**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 June 2004.

Save as disclosed above, as at 30 June 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) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

(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 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 30 June 2004
Mr. Tung Tai Yung	600,000	20 July 2000	0.731	600,000
Mr. King Chun Kong, Karl	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 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 30 June 2004, 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 June 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	Approximate percentage of issued share capital (%) <i>(Note 2)</i>
Bright Castle Investments Limited	180,000,000 <i>(Note 1)</i>	Other	24.89

Notes:

1. see Note 1 on page 17
2. see Note 3 on page 18

Save as disclosed above, as at 30 June 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 30 June 2004, 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 had not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any Shares during the period.

OUTSTANDING SHARE OPTIONS

As at 30 June 2004, options to subscribe for an aggregate of 3,168,744 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	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 30 June 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. 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 six months ended 30 June 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, 4 January 2005

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.