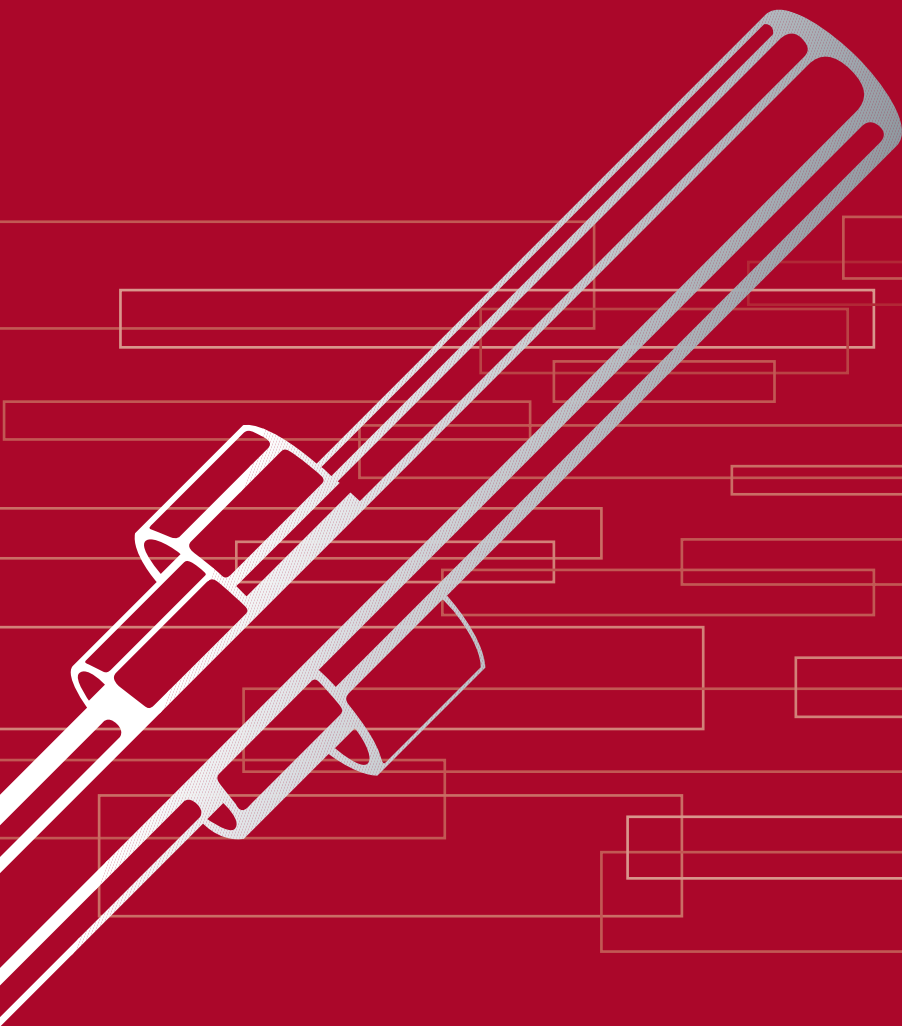


3rd Quarterly Report 2004

**INTCERA** High Tech Group Limited



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*The directors (“**Directors**”) of Intcera High Tech Group Limited (“**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 nine months ended 30 September 2004, turnover amounted to approximately HK\$5,505,000 (2003: HK\$34,877,000), representing a decrease of approximately 530% when compared with the same period in 2003.

HK\$2,337,000 in technology rights licensing revenue was achieved for the nine months ended 30 September 2004.

Net loss attributable to shareholders for the period amounted to approximately HK\$7,865,000, representing a decrease of approximately 70% over the corresponding period.

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

**UNAUDITED THIRD QUARTERLY 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 nine months ended 30 September 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

*For the three and nine months ended 30 September 2004*

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>727</b>	2,324	<b>5,505</b>	34,877
Cost of sales		<b>(724)</b>	(1,711)	<b>(5,233)</b>	(29,860)
Gross profit		<b>3</b>	613	<b>272</b>	5,017
Other revenue	2	<b>17</b>	1,229	<b>157</b>	3,249
Selling and distribution expenses		<b>(69)</b>	(285)	<b>(205)</b>	(1,059)
Administrative expenses		<b>(3,670)</b>	(5,363)	<b>(10,426)</b>	(17,484)
Other net operating income/(expenses)		<b>779</b>	(1,264)	<b>2,337</b>	(1,250)
Loss from operations		<b>(2,940)</b>	(5,070)	<b>(7,865)</b>	(11,527)
Finance costs		<b>-</b>	(453)	<b>-</b>	(1,865)
Loss before taxation		<b>(2,940)</b>	(5,523)	<b>(7,865)</b>	(13,392)
Taxation	3	<b>-</b>	-	<b>-</b>	-
Net loss attributable to shareholders		<b>(2,940)</b>	(5,523)	<b>(7,865)</b>	(13,392)
Dividends	4	<b>-</b>	-	<b>-</b>	-
Loss per share – Basic (in cents)	5	<b>(0.41)</b>	(0.80)	<b>(1.09)</b>	(1.94)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the nine months ended 30 September 2004*

	Share Capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	(Note) Merger reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
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	-	-	167	-	-	167
Net loss for the period	-	-	-	-	(13,392)	(13,392)
At 30 September 2003 (unaudited)	<u>7,231</u>	<u>61,597</u>	<u>(10,434)</u>	<u>14,968</u>	<u>31,658</u>	<u>105,020</u>
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	-	-	(1)	-	-	(1)
Net loss for the period	-	-	-	-	(7,865)	(7,865)
<b>At 30 September 2004 (unaudited)</b>	<b><u>7,231</u></b>	<b><u>61,597</u></b>	<b><u>(1)</u></b>	<b><u>-</u></b>	<b><u>(10,473)</u></b>	<b><u>(58,354)</u></b>

*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.

Notes:

## 1. Basis of preparation

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 nine months ended 30 September 2004 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

## 2. Turnover and other revenue

	Three months ended 30 September		Nine months ended 30 September	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover				
Ceramic blanks and ferrules	727	–	5,505	282
Machinery and equipment	–	–	–	25,794
Service and agency fee	–	2,324	–	8,801
	<b>727</b>	2,324	<b>5,505</b>	34,877
Other revenue				
Technology rights' royalty fee	779	780	2,337	2,340
Interest income	–	–	48	9
Other income	17	449	109	900
	<b>796</b>	1,229	<b>2,494</b>	3,249
Total revenue	<b>1,523</b>	3,553	<b>7,999</b>	38,126

### 3. 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.

### 4. Dividends

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

### 5. Loss per share

The calculation of the Group's basic loss per share for the three months and nine months ended 30 September 2004 was based on the Group's unaudited loss attributable to the shareholders of approximately HK\$2,940,000 and HK\$7,865,000 respectively (three months and nine months ended 30 September 2003: approximately HK\$5,523,000 and HK\$13,392,000 respectively) and the weighted average number of 723,087,310 ordinary shares in issue (three months and nine months ended 30 September 2003: 723,087,310 and 688,658,739 shares respectively) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the nine months ended 30 September 2004, the Group's total turnover amounted to approximately HK\$5,505,000 (2003: HK\$34,877,000) representing a decrease of approximately 530% over the corresponding period in last year. Gross profit was approximately HK\$272,000 when compared with that of approximately HK\$5,017,000 for same period in 2003. The loss attributable to shareholders was approximately HK\$7,865,000 when compared with that of approximately HK\$13,392,000 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 Weiyi Optical Communication Technology Limited (“Weiyi”), the Group was given the right to use the machinery, office, apparatus and client information of Weiyi, for the propose of the Group’s future business development in the PRC. The production of ceramic ferrules at Weiyi was increased from 300,000 pieces per month to approximately 500,000 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 September 2004, the Group had total assets of approximately HK\$107,057,000 and bank and cash balances of approximately HK\$24,589,000. As at 30 September 2004, the Group had unsecured convertible bonds of approximately HK\$27,400,000.



## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 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 September 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) were required 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 (%) (Note 3)
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	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 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 September 2004.

Save as disclosed above, as at 30 September 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 September 2004 are as follows:

<b>Name of Director</b>	<i>(Note)</i> <b>Number of aggregate share options</b>	<b>Date of grant</b>	<i>(Note)</i> <b>Exercise price</b>	<b>Balance of options as at 30 September 2004</b>
Mr. Tung Tai Yung	600,000	20 July 2000	HK\$0.731	600,000
Mr. King Chun Kong,	2,250,000	10 July 2001	HK\$0.500	2,250,000
Karl	2,250,000	10 October 2000	HK\$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 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 September 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 September 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 10
2. see Note 3 on page 10

Save as disclosed above, as at 30 September 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 September 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 September 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 (Note 1)	Option period (commencing from the date of grant and terminating ten years thereafter) (Note 2)
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 September 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 nine months ended 30 September 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, 28 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.*