



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

浪潮

First Quarterly Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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.

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This report, for which the directors of Lang Cbao International Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Successful listing of the shares of the Company on GEM on 29 April 2004.
- The unaudited consolidated turnover of the Group for the three months ended 31 March 2004 increased by approximately 39.3% over the corresponding period in 2003 to approximately HK\$159.8 million.
- The unaudited consolidated net profit attributable to shareholders (the “Shareholders”) of the Group for the three months ended 31 March 2004 improved by approximately 38 times over the corresponding period in 2003 to approximately HK\$10.2 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004.

The board of Directors (the “Board”) of Lang Chao International Limited (the “Company”) are pleased to present the unaudited consolidated results (the “Unaudited Consolidated Results”) of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2004 together with comparative unaudited figures for the corresponding period in 2003.

UNAUDITED CONSOLIDATED RESULTS

| | | Three months ended | |
|-----------------------------------|--------------|---------------------------|------------|
| | | 31 March | |
| | <i>Notes</i> | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| Turnover | 3 | 159,821 | 114,732 |
| Cost of sales | | | |
| Cost of sales before deduction of | | | |
| purchase rebates | | (152,590) | (115,518) |
| Purchase rebates | | 6,021 | 1,818 |
| | | (146,569) | (113,700) |
| Gross profit | | 13,252 | 1,032 |
| Other operating income | | 3 | 13 |
| Administrative expenses | | (846) | (783) |
| Profit before taxation | | 12,409 | 262 |
| Taxation | 4 | (2,198) | — |
| Net profit for the period | | 10,211 | 262 |
| Earnings per share - basis | 5 | 3.40 cents | 0.09 cents |

NOTES:**1. GROUP REORGANISATION AND BASIS OF PREPARATION**

The Company was incorporated in the Cayman Islands on 29 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities of the Group is trading of computer components.

Pursuant to a reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the shares of the Company on the GEM of the Stock Exchange, the Company became the holding company of Lang Chao (HK) Electronics Limited ("LC Electronics") and Lang Chao Electronics Limited ("LCBVT") after the completion of the Reorganisation on 20 February 2003.

Details of the Reorganisation are as follows:

- (a) Prior to the formation of LC Electronics, the business and operations of trading of computer components now undertaken by LC Electronics were carried out by Lang Chao Electronics (HK) Limited ("LCHK"). Pursuant to a sale and purchase agreement dated 31 December 2002 entered into between LCHK and LC Electronics and as part of the Reorganisation, LCHK transferred its business (the "Relevant Business") together with the assets and liabilities of the Relevant Business to LC Electronics in return for 999,998 shares of HK\$1.00 each of LC Electronics credited as fully paid to LCBVI, the then wholly-owned subsidiary of LCHK. The transaction was completed on 17 February 2003.
- (b) On 20 February 2003, pursuant to a sale and purchase agreement entered into between the Company and LCHK, the then existing 1 share of US\$1.00 in the capital of LCBVI held by LCHK was transferred to the Company. In consideration of which 8,999,999 shares of HK\$0.1 each were issued and allotted credited as fully paid by the Company to LCHK.

The shares of the Company have been listed on the GEM since 29 April 2004.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated income statement has been prepared using the principle of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

The quarterly financial report has been prepared in accordance with Rule 18.79 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated result has been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2004 are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2003.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold less returns and allowances.

4. TAXATION

The charge for the three months ended 31 March 2004 represents the provision for Hong Kong Profits Tax for the period. Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for the period.

No tax is payable on the profit for the three months ended 31 March 2003 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

5. EARNINGS PER SHARE - BASIC

The calculation of earnings per share for the three months ended 31 March 2004 is based on the net profit of the Group for the three months ended 31 March 2004 of approximately HK\$10,211,000 (three months ended 31 March 2003 : HK\$262,000) and on the assumption that 300,000,000 shares had been in issue throughout the period, comprising 100,000,000 shares then in issue and 200,000,000 shares to be issued pursuant to the capitalisation issue as more fully described in the prospectus of the Company dated 20 April 2004.

6. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the three months ended 31 March 2004 (three months ended 31 March 2003: nil).

7. SHARE CAPITAL AND RESERVES

| | Share capital | Special reserve | Accumulated (losses) profits | Total |
|--|--------------------------|----------------------------|---|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2003 | 1,000 | (8) | (1,072) | (80) |
| Arising from the Reorganisation | (1,000) | 1,000 | — | — |
| Issue of shares on the Reorganisation | 900 | (900) | — | — |
| Issue of shares by capitalisation of amounts due to directors | 100 | — | — | 100 |
| Net profit for the period | — | — | 262 | 262 |
| | <u>1,000</u> | <u>92</u> | <u>(810)</u> | <u>282</u> |
| At 31 March 2003 | <u>1,000</u> | <u>92</u> | <u>(810)</u> | <u>282</u> |
| At 1 January 2004 | 1,000 | 92 | 17,297 | 18,389 |
| Net profit for the period | — | — | 10,211 | 10,211 |
| | <u>1,000</u> | <u>92</u> | <u>27,508</u> | <u>28,600</u> |
| At 31 March 2004 | <u>1,000</u> | <u>92</u> | <u>27,508</u> | <u>28,600</u> |

FINANCIAL REVIEW

For the three months ended 31 March 2004, the Group achieved a consolidated turnover of approximately HK\$159,821,000, an increase of approximately 39.3% from approximately HK\$114,732,000 for the same period in 2003, which was mainly due to improvement in sales of CPUs and further increase in market demands of such products of the customers.

As a result of improvement in pricing, the growth of sales achieved and reduction of cost of the Group, the gross profit before rebates amounted to approximately HK\$7,231,000. During the three months ended 31 March 2004 and 2003, the total rebates granted amounted to approximately HK\$6,021,000 and HK\$1,818,000 respectively, representing approximately 3.9% and 1.6% respectively to the Group's cost of sales before deduction of the rebates. The Group recorded a gross profit of approximately HK\$13,252,000 with the gross profit margin of approximately 8.3%, an increase of approximately 11.8 times when compared to HK\$1,032,000 for the corresponding period of the previous period with the gross profit margin of approximately 0.9%. This increase was resulted from the improvement in pricing, the growth of sales achieved, reduction in cost and more rebates obtained from Intel by the Group for the period.

General administrative expenses in the three months ended 31 March 2004 increased by 8.0% from approximately HK\$783,000 to approximately HK\$846,000, mainly due to the increase of staff costs to implementation of the Group's business plan.

The net profit attributable to shareholders of the Company for the three months ended 31 March 2004 was approximately HK\$10,211,000, a 38 times increase when compared to approximately HK\$262,000 for the corresponding period in 2003. Such improvement was mainly resulted from the success of the Group in expanding its sales and obtaining more rebates, despite the commencement of paying profits tax.

PROSPECTS

The Directors believe that the IT market in the Greater China Region, particular in the PRC, has and will continue to have potential for significant growth in the coming years. To achieve its business objectives, the Group plans to expand its product offering and customer base particularly in the PRC, and to gain further exposure by developing effective and efficient sales, supply and distribution networks and coverage in the PRC. In addition, the Group will seek to enhance its competitiveness by broadening its source and scope of IT products and affording its customers the benefits of availability and choice in a comprehensive range of IT products and developing and providing ancillary IT sourcing, technical advisory and support services in order to satisfy the needs of customers.

During the three months ended 31 March 2004, the Group commenced IT advisory and technical support services to begin performance in relation to two IT advisory services contracts. Moreover, the Group concluded and entered into an agreement with the Lang Chao Group Limited in relation to the exclusive distribution the product of Lang Chao Group Limited and its subsidiaries (the “LC Group”) in Hong Kong and overseas markets and concluded and entered into an agreement with the LC Group to act as the exclusive overseas sourcing agent in respect of the IT products.

COMPETING INTEREST

During the three months ended 31 March 2004, none of the directors, chief executive, initial management shareholders nor substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 29 April 2004 (being the date on which shares of the Company first commenced trading on GEM), the interests and short positions of the Directors and the Chief Executives (as if the requirements applicable to Directors under the Securities and Futures Ordinance (“SFO”) had applied to the Chief Executives) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

(a) *Long positions in Shares*

Long positions in Shares

| Name of Directors | Type of interests | Number of securities | % of interests |
|--------------------------|--------------------------|-----------------------------|-----------------------|
| Wang Miao | beneficial owner | 15,000,000 | 3.75% |
| Wang Hung, Alex | beneficial owner | 15,000,000 | 3.75% |

Long positions in underlying Shares of equity derivatives of the Company

| Name of Directors | Type of interests | Description of equity derivatives (Note 1) | Number of underlying Shares | Subscription Price per Share (HK\$) |
|--------------------------|--------------------------|---|------------------------------------|--|
| Sun Pishu | beneficial owner | share option | 4,000,000 | 0.324 |
| Zhang Lei | beneficial owner | share option | 4,000,000 | 0.324 |
| Leung Chi Ho | beneficial owner | share option | 4,000,000 | 0.324 |
| Wang Miao | beneficial owner | share option | 4,000,000 | 0.324 |
| Wang Hung, Alex | beneficial owner | share option | 4,000,000 | 0.324 |
| Xin Wei Hua | beneficial owner | share option | 4,000,000 | 0.324 |

Note 1: The share options were granted under the Pre-IPO Share Option Scheme.

(b) *Short positions in Shares and underlying shares of equity derivatives*

As at 29 April 2004 (being the date on which Shares of the Company first commenced trading on GEM), none of the Directors has short positions in Shares or underlying shares of equity derivatives.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

As at 29 April 2004 (being the date on which Shares of the Company first commenced trading on GEM), the following persons had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of SFO, and were directly or indirectly, 10% or more of the nominal value of any class of of the Company:

(a) *Long positions in Shares*

| Name of Shareholders | Type of interests | Number of securities | Approximate percentage of interests |
|------------------------------------|-----------------------------|-----------------------------|--|
| Lang Chao Group Limited | corporate (<i>Note 1</i>) | 270,000,000 | 67.5% |
| Lang Chao Electronics (HK) Limited | beneficial owner | 270,000,000 | 67.5% |
| Wang Miao | beneficial owner | 15,000,000 | 3.75% |
| Wang Hung, Alex | beneficial owner | 15,000,000 | 3.75% |

Note 1: Lang Chao Group Limited is taken to be interested in 270,000,000 Shares due to its 100% shareholdings in the issued share capital of Lang Chao Electronics (HK) Limited.

(b) *Long positions in underlying shares of equity derivatives of the Company*

| Name of Shareholders | Type of interests | Description of Number of Subscription | | |
|----------------------|-------------------|---------------------------------------|-------------------|---------------------------|
| | | equity derivatives (Note 3) | underlying Shares | price per Share (HK\$) |
| Wang Miao | beneficial owner | share option | 4,000,000 | 0.324 |
| Wang Hung, Alex | beneficial owner | share option | 4,000,000 | 0.324 |

Note 3: The share options were granted under the Pre-IPO Share Option Scheme.

(c) *Short positions in Shares and underlying shares and equity derivatives*

As at 29 April 2004 (being the date on which Shares of the Company first commenced trading on GEM), no persons have short positions in Shares or underlying shares of equity derivatives.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix V of the prospectus of the Company dated 20 April 2004. The Directors could only grant options under the Pre-IPO Share Option Scheme at any time within a period commencing from 8 April 2004 and ending on 9:30 a.m. on 29 April 2004. As at 8 April 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK\$0.324 per Share had been granted by the Company under to Pre-IPO Share Option Scheme.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed “Summary of terms” in Appendix V of the prospectus of the Company dated 20 April 2004. Up to 31 March 2004, no option has been granted pursuant to such share option scheme.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITES

During the three months ended 31 March 2004, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares during the period. The shares of the Company were listed on 29 April 2004.

SPONSOR’S INTEREST

The Company has been notified by ICEA Capital Limited (the “Sponsor”) that as at 31 March 2004, neither of the Sponsor nor any of their respective directors, employees or associates had any interests in the Company’s share capital.

Pursuant to the agreement dated 16 April 2004 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company’s retained sponsor for the period from 29 April 2004 to 31 December 2006.

AUDIT COMMITTEE

Pursuant to the Rules 5.28 to 5.33 of GEM Listing Rules, an audit committee was established on 8 April 2004, comprising three independent non-executive directors, Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee.

The written terms of reference which describe the authorities and duties of the audit committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group as well as to provide advice and comments thereon the Board.

The Group's unaudited consolidated results for the three months ended 31 March 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

By Order of the Board

Lang Chao International Limited

Sun Pishu

Chairman

Hong Kong, 11 May, 2004