



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

*Interim Report* **2004**

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

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*This report, for which the directors of Lang Chao 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.*

## **SUMMARY**

- Turnover for the six months ended 30 June 2004 amounted to approximately HK\$300.8 million (2003: approximately HK\$247.7 million), representing an increase of approximately 21.5% as compared to the same period in previous year.
- Net profit attributable to shareholders for the six months ended 30 June 2004 amounted to approximately HK\$15.1 million (2003: approximately HK\$2.8 million) which represented approximately 4.4 times increase as compared to last corresponding period.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

The board of Directors (the "Board") of Lang Chao International Limited (the "Company") is pleased to present the unaudited consolidated results (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 comparative unaudited figures for the corresponding period in 2003.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	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	3	141,024	132,957	300,845	247,689
Cost of sales					
Cost of sales before deduction of purchase rebates		(136,203)	(133,086)	(288,793)	(248,604)
Purchase rebates		6,321	4,327	12,342	6,145
		<u>(129,882)</u>	<u>(128,759)</u>	<u>(276,451)</u>	<u>(242,459)</u>
Gross profit		11,142	4,198	24,394	5,230
Other operating income		26	18	29	31
Administrative expenses		<u>(5,172)</u>	<u>(940)</u>	<u>(6,018)</u>	<u>(1,723)</u>
Profit before taxation	5	5,996	3,276	18,405	3,538
Taxation	6	<u>(1,074)</u>	<u>(713)</u>	<u>(3,272)</u>	<u>(713)</u>
Net profit for the period		<u>4,922</u>	<u>2,563</u>	<u>15,133</u>	<u>2,825</u>
Earnings per share	7				
Basic		<u>1.32 cents</u>	<u>0.85 cents</u>	<u>4.50 cents</u>	<u>0.94 cents</u>
Diluted		<u>1.31 cents</u>	<u>0.85 cents</u>	<u>4.48 cents</u>	<u>0.94 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Notes	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		34	32
Current assets			
Inventories		26,386	30,276
Trade receivables	9	3,324	3,434
Prepayments, deposits and other receivables		809	1,938
Amount due from a fellow subsidiary		7,330	7,504
Amount due from immediate holding company		—	9,334
Bank balances and cash		65,425	19,980
		<u>103,274</u>	<u>72,466</u>
Current liabilities			
Trade payables	10	34,555	47,949
Other payables and accrued liabilities		3,637	557
Amount due to ultimate holding company		—	1,013
Tax payable		7,234	3,962
		<u>45,426</u>	<u>53,481</u>
Net current assets		<u>57,848</u>	<u>18,985</u>
		<u>57,882</u>	<u>19,017</u>
Capital and reserves			
Share capital	11	4,000	1,000
Reserves		53,882	17,389
		<u>57,882</u>	<u>18,389</u>
Non-current liability			
Amounts due to directors		—	628
		<u>57,882</u>	<u>19,017</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total 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)	—	—
Capitalisation of amounts due to directors	100	—	—	—	100
Net profit for the period	—	—	—	2,825	2,825
At 30 June 2003	1,000	—	92	1,753	2,845
Net profit for the period	—	—	—	15,544	15,544
At 31 December 2003	1,000	—	92	17,297	18,389
Capitalisation	2,000	(2,000)	—	—	—
Shares issued at premium	1,000	35,000	—	—	36,000
Expenses in connection with the listing of the shares of the Company	—	(8,140)	—	—	(8,140)
Dividend paid	—	—	—	(3,500)	(3,500)
Net profit for the period	—	—	—	15,133	15,133
At 30 June 2004	4,000	24,860	92	28,930	57,882

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended 30 June	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	20,894	3,992
NET CASH USED IN INVESTING ACTIVITIES	(10)	(4)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	24,561	(232)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,445	3,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19,980	18,744
CASH AND CASH EQUIVALENT AT END OF PERIOD Bank balances and cash	65,425	22,500

*Notes to the condensed financial statements***1. Basis of preparation of the Consolidated Income Statement**

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. Its ultimate holding company is Lang Chao Group Limited ("LC Corporation"), a company established in the People's Republic of China ("PRC").

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

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting".

**2. Principal accounting policies**

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's accountant's report for the three years ended 31 December 2003 for inclusion in the prospectus of the Company dated 20 April 2004.

**3. Turnover**

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

**4. Segment information***Business segment*

The Group is principally engaged in trading of computer components. Accordingly, no business segmental analysis is presented.

*Geographical segment*

The Group's operations are principally carried out in Hong Kong and the Group's assets are substantially located in Hong Kong. Accordingly, no analysis of the carrying amount of segment assets and additions to property, plant and equipment by geographical segment is presented.

**5. Profit before taxation**

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Profit before taxation has been arrived at after charging:				
Cost of inventories recognised as expenses	136,027	132,944	288,551	248,321
Depreciation	5	4	10	8
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**6. Taxation**

The charge for the three months ended and the six months ended 30 June 2004 represents the provision for Hong Kong Profits Tax for the period. Hong Kong Profits Tax is calculated at 17.5% (three months ended and six months ended 30 June 2003: 17.5%) of the estimated assessable profit for the period.

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

## 7. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Earnings</b>				
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	4,922	2,563	15,133	2,825
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	372,527	300,000	336,264	300,000
Effect of dilutive share options	2,306	—	1,153	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	374,833	300,000	337,417	300,000

## 8. Dividend

The directors do not recommend the payment of any dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

## 9. Trade receivables

The Group allows an average credit period of 30 days to trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
0 - 30 days	3,324	3,434

## 10. Trade payables

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
0 - 30 days	34,555	47,949



## 11. Share capital

	Number of shares '000	HK\$'000
<b>Ordinary shares</b>		
Authorised:		
On date of incorporation	10,000	1,000
Share subdivision	90,000	—
	<hr/>	<hr/>
At 31 December 2003	100,000	1,000
Increase during the period (note a)	900,000	90,000
	<hr/>	<hr/>
At 30 June 2004	<u>1,000,000</u>	<u>100,000</u>
Issued:		
1 share allotted and issued nil paid on date of incorporation	1	—
Issue of shares on the Reorganisation	8,999	900
Issue of shares by capitalisation of amounts due from directors	1,000	100
Share subdivision	90,000	—
	<hr/>	<hr/>
At 31 December 2003	100,000	1,000
Issue of shares by capitalisation of share premium account (note a)	200,000	2,000
Placing of shares (note b)	100,000	1,000
	<hr/>	<hr/>
At 30 June 2004	<u>400,000</u>	<u>4,000</u>

## Notes:

- (a) Pursuant to the written resolutions passed by the shareholders of the Company on 8 April 2004:
- (i) the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$10,000,000 by the creation of 900,000,000 shares of HK\$0.01 each;
  - (ii) the issue of 100,000,000 new shares of HK\$0.01 each for cash at HK\$0.36 per share by the way of placing was approved (the "Share Offer") and the directors were authorised to allot and issue these new shares; and
  - (iii) conditional on the share premium account being credited as a result of the Share Offer, the directors were authorised to capitalise HK\$2,000,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 200,000,000 shares for allotment and issue to holders of shares of the Company whose name appeared on the register of members of the Company at the close of business on 28 April 2004 in proportion to their then existing holdings in the Company.
- (b) On 26 April 2004, by means of placing, the Company issued a total of 100,000,000 new share ordinary shares of HK\$0.01 each at a price of HK\$0.36 per share.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

**12. Related party transactions**

Apart from the amounts due from and to related parties as disclosed in condensed consolidated balance sheet, the Group had entered into the following related party transactions during the period:

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Sales of goods (Note a)	35,138	30,976

Notes:

- (a) Since 1 April 2004, the Group sold the goods at cost plus 1.5% to LC Corporation and Shenzhen Tianhecheng Industrial Development Company, a fellow subsidiary of the Company. The goods were sold at cost before 1 April 2004.
- (b) During the period, Lang Chao Electronic Information Industry Co., Ltd., a fellow subsidiary of the Company, has granted to the Group the right to use various "Lang Chao" trademark in Hong Kong, Taiwan and the PRC on a royalty-free basis for so long as LC Corporation and its associates are beneficially interested in, directly or indirectly, not less than 30% the total issued share capital of the Company.

**MANAGEMENT DISCUSSION AND ANALYSIS****FINANCIAL REVIEW**

The Group's turnover increased by approximately HK\$53,156,000 to HK\$300,845,000 during the six months period under review, representing 21.5% increase as compared with last corresponding period. Such increase was mainly attributable to the increase in sales of CPUs and chipset and increase in market demands.

The gross profit before rebates of the Group for the six months ended 30 June 2004 amounted to approximately HK\$12,052,000 at a margin of 4% compared with a gross loss of around HK\$915,000 at a margin of 0.4% for the same period in the previous year. During the six months ended 30 June 2004 and 2003, the total rebates granted amounted to approximately HK\$12,342,000 and HK\$6,145,000 respectively, representing approximately 4.3% and 2.5% respectively to the Group's cost of sales before deduction of the rebates. The Group recorded a gross profit of approximately HK\$24,394,000 with the gross profit margin of approximately 8.1%, an increase of approximately 3.7 times as compared with last corresponding period. This increase was resulted from the improving in pricing, the growth of sales achieved, reduction in cost and more rebates obtained by the Group for the period.

The administrative expenses for the six months ended 30 June 2004 increased by approximately HK\$4,295,000 or 2.5 times as compared to last corresponding period. The amount included advertising and promotion expenses incurred approximately HK\$1,910,000 to product promotion in PRC including Beijing, Jinan and Shanghai.

The net profit attributable to shareholders of the Company for the six months ended 30 June 2004 was approximately HK\$15,133,000, a 4.4 times increase when compared to approximately HK\$2,825,000 for the corresponding period in 2003. Such improvement was mainly resulted from the success of the Group in expanding its sales, reducing the cost and obtaining more rebates.

**Capital structure**

The Group intends to principally finance its operation with its internal resources and net proceeds from fund raising activities. On 29 April 2004 the Company placed 100,000,000 new shares at the placing price of HK\$0.36 per share for a net proceeds of approximately HK\$27,860,000 million through the initial public offering of 25% of the Shares of the Company on the GEM of the Stock Exchange.

**Liquidity, financial resources and gearing**

The Group generally finances its operation with cash flow generated from sales and remaining portion of the net proceeds from fund raising activities. As at 30 June 2004, shareholders' funds of the Group amounted to approximately HK\$57,882,000 (31 December 2003: HK\$18,389,000). Current assets amounted to approximately HK\$103,274,000 of which approximately HK\$65,425,000 were cash and bank balances. Current liabilities of approximately HK\$45,426,000 mainly comprised accounts payable, tax payable and other payables and accrued liabilities. The Group's current assets represented approximately 2.3 times (31 December 2003: 1.35 times) over its current liabilities. As at 30 June 2004, the Group had no bank borrowings and its gearing ratio be zero (31 December 2003: Nil).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

**Foreign exchange exposure**

All of the Group's sales and purchase are mainly denominated in United States Dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of foreign currencies. The Directors believe that having regard to the working capital position of the Group, the Group is able to meet its foreign exchange liabilities as they become due.

**Employee information**

As at 30 June 2004, the Group had 23 employees (2003: 17 employees). The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the six months under review amounted to approximately HK\$2,222,000 (2003: approximately HK\$1,248,000).

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. In addition, the Group also provides mandatory provident fund scheme and medical insurance scheme for its employees.

**Details of charges on assets**

During the period under review, no assets of the Group were pledged (six months ended 30 June 2003: Nil).

**Material acquisition, disposals and significant investment**

The Group has not held any significant investment for the six months ended 30 June 2004 and made no material acquisitions or disposals during the current period. As 30 June 2004, the Group had no material capital commitments and no future plans for material investments or capital assets.

**Contingent liabilities**

As at 30 June 2004, the Group had no material contingent liabilities.

**BUSINESS REVIEW AND PROSPECTS**

The Group is principally engaged in the distribution, sourcing and reselling of IT products. There were no significant changes in the nature of the Group's principal activities during the period under review.

The current economic upturn and aided by the regain of consumer confidence provides a favourable business environment and presents opportunities to the Group to earn more profit. Moreover, the Group will seek for new business opportunities in order to create synergistic effect on its core business and generate satisfactory returns for its shareholders. Looking forward, the Directors are confident that the Group will achieve a satisfactory result in the financial year.

**INITIAL PUBLIC OFFERING**

On 29 April 2004, the Company raised net proceeds of approximately HK\$27,860,000 through the initial public offering of 25% of the shares of HK\$0.01 each in the share capital of the Company (the "Shares") on the GEM of the Stock Exchange. In May 2004, the Company had established the sales centre in Jinan to have direct access to the PRC market and the balance of net proceeds raised have been kept as bank deposits at present.

**COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS FOR THE PERIOD FROM 29 APRIL 2004 TO 30 JUNE 2004**

**BUSINESS OBJECTIVES AS STATED****IN THE COMPANY'S PROSPECTUS****DATED 20 APRIL 2004*****Revenue***

- To continue generating revenue from its sourcing and distribution business in the PRC, Hong Kong and other overseas markets
- To commence generating revenue from IT advisory services

***Business development***

- To establish a sales centre in Jinan to provide the Group with direct access to the PRC markets
- To identify and solicit new customers, in particular, OEM manufacturers and end users in the PRC
- To commence provision of IT advisory services with the establishment of an IT advisory service team in Jinan
- To procure no less than 2 new and independent customers for distribution business
- To conduct a feasibility study on the sales and distribution of the products of Lang Chao Group Limited and its subsidiaries (the "LC Group") in overseas markets such as Japan and the US
- To plan and develop the supply chain management system with initial focus on the computerization of various operational, management and control systems in Hong Kong

**ACTUAL BUSINESS PROGRESS*****Revenue***

- The revenue had recorded approximately HK\$300.8 million
- IT advisory services already commenced by signing 2 contracts with customers. The Group will record revenue from its IT advisory services later this year.

***Business development***

- The Group had leased the office and established a sales centre in Jinan from May 2004
- Identified 3 new customers including in PRC and Hong Kong
- Employed 2 IT consultants and commenced the preparation work in Jinan
- Negotiations with potential customers have been carried out
- Negotiations with potential customers have been carried out and conducted a feasibility study on the sales and distribution of LC Group's products in overseas market
- Conducted a feasibility study the supply chain management system

**BUSINESS OBJECTIVES AS STATED  
IN THE COMPANY'S PROSPECTUS  
DATED 20 APRIL 2004**

***Suppliers and product range***

- To continue the diversification of the Group's range of products to include the latest computer components, such as latest model of CPU, and to expand to other product categories such as graphic and sound cards
- To identify other major computer components suppliers in the US and Singapore
- To secure no less than two new suppliers of IT products

***Sales and marketing***

- To finalise plans, including design and contents, for the proposed launch of the Group's corporate website to enhance the Group's profile and its products and services
- To continue direct marketing to consolidate relationship with existing customers and promote new products sourced by the Group
- To continue to identify and solicit potential customers, primarily OEM manufacturers in the PRC, through the Group's sales and marketing team in Hong Kong and the newly established sales centres in the PRC
- To participate in industry and information technology seminars and exhibitions in Hong Kong and the PRC
- To launch the marketing and promotion campaign, including but not limited to placing advertisements in relevant industry journals and publications, for the commencement of the distribution of LC Group's products in Hong Kong
- To explore further opportunities in establishing sales and distribution networks in overseas markets for the sales and distribution of LC Group's products

**ACTUAL BUSINESS PROGRESS**

***Suppliers and product range***

- Started to sell the new product of Pentium IV 3.20GHz and Celeron 2.6GHz
- Identified one supplier in Singapore and is in negotiation with one supplier in Hong Kong
- Secured one new supplier of IT products and is in negotiation with one supplier of IT products

***Sales and marketing***

- Commenced to design the contents of the website
- Successfully implemented promotion to sell the new products (e.g. Pentium IV 3.20GHz and Celeron 2.6GHz) to existing customers
- Identified 3 new customers in PRC and Hong Kong and established sales centre in Jinan.
- Attended 4th China International of Electronics Exhibitions (第四屆中國國際電子展覽會) in Beijing
- Marketing and promotion campaign had carried out in Beijing, Shanghai, Jinan
- Negotiations with potential customers have been carried out and conducted a feasibility study on the sales and distribution of LC Group's products in overseas markets

**BUSINESS OBJECTIVES AS STATED****IN THE COMPANY'S PROSPECTUS****DATED 20 APRIL 2004****Human resources, operation and administration**

- To increase number of existing employees to 21 to facilitate the Group's business development

**ACTUAL BUSINESS PROGRESS****Human resources, operation and administration**

- The Group had 23 employees to facilitate the Group's business development and management

**USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD FROM 29 APRIL 2004 TO 30 JUNE 2004**

The actual net proceeds from issuance of new shares on 29 April 2004 (the "Placing") was approximately HK\$27,860,000 as compared to the budgeted net proceeds of HK\$25,500,000 in the Prospectus. The surplus of about HK\$2,360,000 has been utilized for general working capital purpose. Details of the utilization of funding from the actual net proceeds of issuance of new shares versus that envisaged in the Company's prospectus dated 20 April 2004 during the period from 29 April 2004 to 30 June 2004 are as follows:

	Proposed fund required up to 30 June 2004 <i>HK\$'000</i>	Actual fund spent up to 30 June 2004 <i>HK\$'000</i>
Establishing sales centres	100	100
Developing supply chain management system	—	—
Establishing IT advisory service teams	200	200
Expanding product scope and sourcing with products	500	500
Establishing distribution network for LC Group's products	—	—
General sales and marketing purpose	100	100
	<hr/>	<hr/>
Total	900	900
	<hr/> <hr/>	<hr/> <hr/>

**COMPETING INTEREST**

During the six months ended 30 June 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.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 30 June 2004, the interests and short positions of the Directors and the Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company pursuant to 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

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%

### (B) 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 stated in the prospectus of the Company dated 20 April 2004.

### (C) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF EQUITY DERIVATIVES

As at 30 June 2004, none of the Directors has short positions in Shares or underlying shares of equity derivatives.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the following persons or companies (other than the directors or chief executives of the Company) had an interest or short position in the Shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO, and were directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follows:

### (A) LONG POSITIONS IN SHARES

Name of Shareholders	Type of interests	Number of securities	Approximate percentage of interests
Lang Chao Group Limited	corporate (Note 1)	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 equity derivatives (Note 3)	Number of underlying Shares	Subscription 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 30 June 2004, 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.

None of the options granted under the Pre-IPO Share Option Scheme have been exercised, cancelled or lapsed during the period from the date of grant of such options to 30 June 2004.

## **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 30 June 2004, no option has been granted pursuant to such share option scheme.

## **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares for the six months ended 30 June 2004.

## **SPONSOR'S INTEREST**

The Company has been notified by ICEA Capital Limited (the "Sponsor") that as at 30 June 2004, an associate of the Sponsor held 16,056,000 Shares. Save as disclosed above, neither of the Sponsor nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 30 June 2004.

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**

The Company established an audit committee on 8 April 2004 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises 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 Group's unaudited consolidated results for the six months ended 30 June 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 and requirements and that adequate disclosures have been made.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## **BOARD PRACTICES AND PROCEDURES**

Throughout the period, 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  
Lang Chao International Limited  
Sun Pishu  
*Chairman*

Hong Kong, 9 August 2004