



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)



THIRD QUARTERLY 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 nine months ended 30 September 2004 amounted to approximately HK\$502.4 million (2003: approximately HK\$397.8 million), representing an increase of approximately 26.3% as compared to the same period in previous year.
- Net profit attributable to shareholders for the nine months ended 30 September 2004 amounted to approximately HK\$20.81 million (2003: approximately HK\$10.83 million) which represented approximately 92.1% increase as compared to last corresponding period.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 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 nine months ended 30 September 2004 together with comparative unaudited figures for the corresponding period in 2003.

CONSOLIDATED INCOME STATEMENT

	NOTES	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	3	201,510	150,125	502,355	397,814
Cost of sales					
Cost of sales before deduction of purchase rebates		(198,954)	(143,631)	(487,747)	(392,235)
Purchase rebates		7,107	4,158	19,449	10,303
		<u>(191,847)</u>	<u>(139,473)</u>	<u>(468,298)</u>	<u>(381,932)</u>
Gross profit		9,663	10,652	34,057	15,882
Other operating income		26	47	55	78
Administrative expenses		(3,574)	(960)	(9,592)	(2,683)
Profit from operation		<u>6,115</u>	<u>9,739</u>	<u>24,520</u>	<u>13,277</u>
Finance cost		(6)	—	(6)	—
Profit before taxation		6,109	9,739	24,514	13,277
Taxation	4	(431)	(1,730)	(3,703)	(2,443)
Net profit for the period		<u>5,678</u>	<u>8,009</u>	<u>20,811</u>	<u>10,834</u>
Earnings per share	5				
Basic		<u>1.42 cents</u>	<u>2.67 cents</u>	<u>5.82 cents</u>	<u>3.61 cents</u>
Diluted		<u>1.42 cents</u>	<u>2.67 cents</u>	<u>5.81 cents</u>	<u>3.61 cents</u>



NOTES:

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.

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

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

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. TAXATION

The charge for the three months ended and the nine months ended 30 September 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 nine months ended 30 September 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.

5. EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Earnings				
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	5,678	8,009	20,811	10,834
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	400,000	300,000	357,664	300,000
Effect of dilutive share options	—	—	233	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	400,000	300,000	357,897	300,000

The computation of diluted earnings per share for the three months ended 30 September 2004 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the period.

6. DIVIDEND

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



7. SHARE CAPITAL & RESERVES

	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	—	—	—	10,834	10,834
At 30 September 2003	1,000	—	92	9,762	10,854
Net profit for the period	—	—	—	7,535	7,535
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	—	—	—	20,811	20,811
At 30 September 2004	4,000	24,860	92	34,608	63,560

FINANCIAL REVIEW

The Group's turnover increased by approximately HK\$104,541,000 to HK\$502,355,000 during the nine months period under review, representing 26.3% increase as compared with last corresponding period. Such increase was mainly attributable to the increase in sales of CPUs and increase in market demands.

The gross profit before rebates of the Group for the nine months ended 30 September 2004 amounted to approximately HK\$14,608,000 at a margin of 2.9% compared with a gross profit of around HK\$5,579,000 at a margin of 1.4% for the same period in the previous year. During the nine months ended 30 September 2004 and 2003, the total rebates granted amounted to approximately HK\$19,449,000 and HK\$10,303,000 respectively, representing approximately 4.0% and 2.6% respectively to the Group's cost of sales before deduction of the rebates.

The Group recorded a gross profit of approximately HK\$34,057,000 with the gross profit margin of approximately 6.8%, an increase of approximately 114.4% as compared with last corresponding period. This increase was resulted from the improvement on pricing, the growth of sales achieved, reduction in cost and more rebates obtained by the Group for the period.

The administrative expenses for the nine months ended 30 September 2004 increased by approximately HK\$6,909,000 or 2.6 times as compared to last corresponding period. The amount included advertising and promotion expenses of approximately HK\$2,760,000 incurred for product promotion in PRC including Beijing, Jinan and Shanghai.

The net profit attributable to shareholders of the Company for the nine months ended 30 September 2004 was approximately HK\$20,811,000, a 92.1% increase when compared to approximately HK\$10,834,000 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.



PROSPECTS

There has been an increase in the sales of the Group in the first three quarters of 2004 as compared with the corresponding period of last year. In the future, the Group will bring the advantages of its technology, products and quality into full play to capture opportunities, seize market and perfect the sales network and sales management system in order to increase market share and develop scale economy. The competitiveness of the Group and its continuous development capacity will be maintained and raised by means of products with wide range of variety, good quality and high performance.

COMPETING INTEREST

During the nine months ended 30 September 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 September 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 as disclosed in the prospectus of the Company dated 20 April 2004.

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

As at 30 September 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 September 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 September 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 September 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 September 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 nine months ended 30 September 2004.

SPONSOR'S INTEREST

The Company has been notified by ICEA Capital Limited (the "Sponsor") that as at 30 September 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 September 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 nonexecutive 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 nine months ended 30 September 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.



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, 12 November 2004