



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)



2005
First Quarterly Report

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.

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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.

The board of Directors (the "Board") of Lang Chao International Limited (the "Company") presents the unaudited consolidated results (the "Unaudited Consolidated Results") of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2005 together with comparative unaudited figures for the corresponding period in 2004.

UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 31 March	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	155,842	159,821
Cost of sales			
Cost of sales before deduction of purchase rebates		(146,978)	(152,590)
Purchase rebates		—	6,021
		(146,978)	(146,569)
Gross profit		8,864	13,252
Other operating income		37	3
Administrative expenses		(1,891)	(846)
Profit before taxation		7,010	12,409
Taxation	3	(1,225)	(2,198)
Net profit for the period		5,785	10,211
Earnings per share	4		
— Basis		1.45 cents	3.40 cents
— Diluted		1.40 cents	N/A

*Notes:***1. BASIS OF PREPARATION**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has converged all Hong Kong Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the HKICPA, and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong ("the GEM Listing Rules"). They have been prepared under the historical cost convention.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 1	Frist-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2	Share-based Payments

The adoption of the standard has had no material effect on the results for the current or prior accounting period.

2. TURNOVER

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

3. TAXATION

The charge for the three months ended 31 March 2005 represents the provision for Hong Kong Profits Tax for the period. Hong Kong Profits Tax is calculated at 17.5% (three months ended 31 March 2004: 17.5%) of the estimated profit for the period.

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

4. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2005 HK\$'000	2004 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	5,785	10,211
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	400,000	300,000
Effect of dilutive share options	14,243	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	414,243	300,000

No diluted earnings per share has been disclosed as there were no diluting events existed during the three months ended 31 March 2004.

5. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the three months ended 31 March 2005 (three months ended 31 March 2004: nil).

6. RESERVES

	Share Premium HK\$'000	Special reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2004	—	92	17,297	17,389
Net profit for the period	—	—	10,211	10,211
At 31 March 2004	—	92	27,508	27,600
At 1 January 2005	24,860	92	36,639	61,591
Net profit for the period	—	—	5,785	5,785
At 31 March 2005	24,860	92	42,424	67,376

FINANCIAL REVIEW

The Group's turnover decreased by approximately HK\$3,979,000 to HK\$155,842,000 during the three months period under review, representing 2.5% decrease as compared with last corresponding period. Such decrease was mainly attributable to the decrease in sales of chipset.

The Group recorded a gross profit of approximately HK\$8,864,000 with the gross profit margin of approximately 5.7%, an decrease of approximately 33.1% as compared with last corresponding period. This decrease was due to the change of market of CPU and Intel Corporation ("Intel"), the Group's largest supplier, had changed the pricing strategy, and change the mode of cash rebates. Intel has transferred the cash rebate to reduce the price of CPU. Therefore, it has not had a significant impact to the cost of purchase of the Group as a whole. Indeed, it can help the company to control the cost and determine the price of products.

The administrative expenses for the three months ended 31 March 2005 increased by approximately HK\$1,045,000 or 123.5% as compared to last corresponding period. The increase in administrative expenses was due to an increase in salaries expenses as a result of additional Directors and staff for the business expansion after listing.

The net profit attributable to shareholders of the Company for the three months ended 31 March 2005 was approximately HK\$5,785,000, a 43.3% decrease when compared to approximately HK\$10,211,000 for the corresponding period in 2004. Such decrease was mainly resulted from decrease in gross margin and increase in expenses during the period.

PROSPECTS

The Group will continue to place particular emphasis on keeping abreast with market developments and product trends in the information technology sector in order to further procure its existing and other information technology products. On 21 April, 2005, the Company announced that the Group proposed to acquire Timeone Technology Limited. Timeone Technology Limited is the registered owner of the entire share capital of Jinan Ruien Information Technology Co., Ltd. (濟南瑞恩信息科技有限公司), which in turn holds 40% equity interests in Shangdong Langchao Business System Co Ltd (山東浪潮商用系統有限公司) ("Shandong Shangyong") and 49% equity interest in Shandong Chaoyue Digital Electronics Co Ltd (山東超越數控電子有限公司) ("Shandong Chaoyue"). Further details regarding the proposed acquisition is set out in the Company's announcement dated 21 April 2005. The Group expects to extend into the market of specialized computer products and thereby diversify its revenue sources through the investment in Shandong Shangyong and Shandong Chaoyue. By investing in Shandong Shangyong and Shandong Chaoyue, the Directors believe the Group can further explore other potential business opportunities to complement its existing business such as provision of information technology advisory services in specialised computer products areas by cooperation between the Group's information technology advisory team and technical teams of Shandong Shangyong and Shandong Chaoyue. Relying on its sound financial position and the team spirit of the management and staff, I believe the Group's business will continue to prosper.

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

As at 31 March 2005, the interests and short positions of the directors and the chief executives of the Company in the shares and underlying shares 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 OF THE COMPANY

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

Options in the Company (Unlisted and physically settled equity derivatives)

Name of Directors	Type of interests	Description of equity derivatives (note)	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: The share options were granted under the Pre-IPO Share Option Scheme as disclosed in the prospectus of the Company dated 20 April 2004. These options expire ten years from the date of grant.

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

As at 31 March 2005, none of the Directors has short positions in shares or underlying shares of equity derivatives of the Company.

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

As at 31 March 2005, the following persons or companies (other than the directors or chief executive 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 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances as general meeting of any other members of the Group were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of Shareholders	Type of interests	Number of securities	Approximate percentage of interests
Lang Chao Group Limited	Corporate (note)	270,000,000	67.5%
Lang Chao Electronics (HK) Limited	Beneficial owner	270,000,000	67.5%

Note: 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) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND EQUITY DERIVATIVES OF THE COMPANY

As at 31 March 2005, no persons have short positions in shares or underlying shares of equity derivatives of the Company.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the three months ended 31 March 2005, 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.

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 31 March 2005.

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. As at 28 December 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK\$0.28 per Share had been granted by the Company under to Share Option Scheme.

None of the options granted under the Share Option Scheme have been exercised, cancelled or lapsed during the period from the date of grant of such options to 31 March 2005.

COMPLIANCE ADVISER'S INTEREST

The Company has been notified by ICEA Capital Limited (the "Compliance Adviser") that as at 31 March 2005, an associate of the Compliance Adviser held 16,056,000 Shares. Save as disclosed above, neither of the Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 31 March 2005.

Pursuant to the agreement dated 16 April 2004 entered into between the Company and the Compliance Adviser, the Compliance Adviser 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 three months ended 31 March 2005 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.

By Order of the Board
Lang Chao International Limited
Sun Pishu
Chairman

Hong Kong, 12 May 2005

As at the date of this report, the Board comprised Mr. Sun Pishu, Mr. Zhang Lei, Mr. Wang Miao and Mr. Leung Chi Ho as executive Directors, Mr. Xin Wei Hua and Mr. Wang Hung, Alex as non-executive Directors, and Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit chor, Alexis as independent non-executive Directors.