



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)



2005
Interim Report

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.

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 2005 together with comparative unaudited figures for the corresponding period in 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	3	171,384	141,024	327,226	300,845
Cost of sales					
Cost of sales before deduction of purchase rebates		(159,980)	(136,203)	(306,958)	(288,793)
Purchase rebates		—	6,321	—	12,342
		(159,980)	(129,882)	(306,958)	(276,451)
Gross profit		11,404	11,142	20,268	24,394
Other operating income		112	26	149	29
Administrative expenses		(3,446)	(5,172)	(5,337)	(6,018)
Profit before taxation	5	8,070	5,996	15,080	18,405
Share of profit of associates		1,042	—	1,042	—
		9,112	5,996	16,122	18,405
Taxation	6	(1,897)	(1,074)	(3,122)	(3,272)
Net profit for the period		7,215	4,922	13,000	15,133
Earnings per share	7				
Basic		1.68 cents	1.32 cents	3.13 cents	4.50 cents
Diluted		1.55 cents	1.31 cents	2.91 cents	4.48 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30.6.2005 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2004 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		809	1,039
Interests in associates	9	20,056	—
		<u>20,865</u>	<u>1,039</u>
Current assets			
Inventories		66,905	45,098
Trade receivables	10	10,477	18,494
Prepayments, deposits and other receivables		636	759
Amount due from a fellow subsidiary		5,488	7,440
Amount due from ultimate holding company		2,507	—
Bank balances and cash		65,437	33,592
		<u>151,450</u>	<u>105,383</u>
Current liabilities			
Trade payables	11	58,215	35,967
Other payables and accrued liabilities		5,981	2,695
Amount due to ultimate holding company		—	391
Tax payable		3,795	1,778
		<u>67,991</u>	<u>40,831</u>
Net current assets			
		<u>83,459</u>	<u>64,552</u>
		<u>104,324</u>	<u>65,591</u>
Capital and reserves			
Share capital	12	4,911	4,000
Reserves		99,413	61,591
		<u>104,324</u>	<u>65,591</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	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
Net profit for the period	—	—	—	7,709	7,709
At 31 December 2004	4,000	24,860	92	36,639	65,591
Shares issued at premium	911	36,968	—	—	37,879
Expenses in connection with the placing of the shares of the Company	—	(146)	—	—	(146)
Dividend paid	—	—	—	(12,000)	(12,000)
Net profit for the period	—	—	—	13,000	13,000
At 30 June 2005	4,911	61,682	92	37,639	104,324

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	25,125	20,894
NET CASH FROM (USED IN) INVESTING ACTIVITIES	146	(10)
NET CASH FROM FINANCING ACTIVITIES	6,574	24,561
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,845	45,445
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,592	19,980
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	65,437	65,425

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 Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, the following new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005.

Goodwill

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition is recognised as goodwill. Goodwill is tested annually for impairment, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

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 and PRC. 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Profit before taxation has been arrived at after charging:				
Cost of inventories recognised as expenses	159,917	136,027	306,817	288,551
Depreciation	111	5	233	10
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax:				
Current period	1,756	1,074	2,981	3,272
Share of taxation of associates	141	—	141	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	1,897	1,074	3,122	3,272
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Hong Kong Profits Tax is calculated at 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Earnings				
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<u>7,215</u>	<u>4,922</u>	<u>13,000</u>	<u>15,133</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	430,033	372,527	415,099	336,264
Effect of dilutive share options	<u>35,484</u>	<u>2,306</u>	<u>30,894</u>	<u>1,153</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>465,517</u>	<u>374,833</u>	<u>445,993</u>	<u>337,417</u>

8. DIVIDEND

The directors do not recommend the payment of any dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: nil).

9. INTERESTS IN ASSOCIATES

Pursuant to an agreement dated 18 April 2005 entered into between Lang Chao Electronics Limited ("LCBVI"), a wholly owned subsidiary of the Company and the shareholders of Timeone Technology Limited ("Timeone"), a company incorporated in the British Virgin Islands, LCBVI acquired the 100% interest in Timeone from the shareholders of Timeone (the "Vendors") by the issuance of 39,100,000 shares of the Company to the Vendors.

Timeone, is the registered owner of the entire share capital of Jinan Ruen Information Technology Co., Ltd., which in turn holds 40% equity interests in Shandong Langchao Business System Co. Ltd. ("Shandong Shangyong") and 49% equity interests in Shandong Chaoyue Digital Electronics Co. Ltd. ("Shandong Chaoyue"). After the acquisition of Timeone, Shandong Shangyong and Shandong Chaoyue became the associates of the Company.

10. 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:

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
0 - 30 days	10,337	7,216
31 - 60 days	140	6,930
61 - 90 days	—	4,348
	<u>10,477</u>	<u>18,494</u>

11. TRADE PAYABLES

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

	30.6.2005 <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i>
0 - 30 days	<u>58,215</u>	<u>35,967</u>

12. SHARE CAPITAL

	Number of shares <i>'000</i>	<i>HK\$'000</i>
Ordinary shares		
Authorised:		
At 1 January 2004	100,000	1,000
Increase during the year	900,000	9,000
At 31 December 2004 and 30 June 2005	<u>1,000,000</u>	<u>10,000</u>
Issued:		
At 1 January 2004	100,000	1,000
Issue of shares by capitalisation of share premium account	200,000	2,000
Placing of shares	100,000	1,000
At 31 December 2004	400,000	4,000
Placing of shares (<i>Note a</i>)	52,000	520
Issue in consideration for the acquisition of Timeone (<i>Note b</i>)	39,100	391
At 30 June 2005	<u>491,100</u>	<u>4,911</u>

Notes:

- (a) Pursuant to the meeting of the Board of Directors of the Company on 13 May 2005, the issue of 52,000,000 new shares of HK\$0.01 each for cash at HK\$0.36 per share by the way of placing was approved and the new shares were allotted to independent third parties on 1 June 2005;
- (b) On 1 June 2005, the Company issued 39,100,000 shares of HK\$0.01 each per share to the Vendors as consideration for the acquisition of the entire issued share capital of Timeone.

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

13. ACQUISITION OF A SUBSIDIARY

On 1 June 2005, the Group acquired 100% issued share capital of Timeone by the issuance of 39,100,000 shares of the Company to the Vendors. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
Net assets acquired:			
Interest in associates	18,050	1,105	19,155
Bank and cash balances	18	—	18
Other payable	(14)	—	(14)
	<u>18,054</u>	<u>1,105</u>	<u>19,159</u>
Total consideration, satisfied by issuance of 39,100,000 shares of the Company			<u>19,159</u>
Net cash inflow arising on acquisition:			
Cash and cash equivalents acquired			<u>14</u>

Timeone contributed nil revenue and HK\$1,042,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total profit for the period would have been HK\$1,218,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

14. MAJOR NON CASH TRANSACTION

During the year, the consideration for the acquisition of the subsidiary, Timeone, was settled through the issuance of 39,100,000 shares at the date of acquisition.

15. 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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Sales of goods (<i>Note a</i>)	<u>27,519</u>	<u>35,138</u>

Notes:

- (a) Since 1 April 2004, the Group sold the goods at cost plus 1.5% to the ultimate holding company and 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.

16. POST BALANCE SHEET EVENT

On 30 June 2005, the Company entered into a non-binding memorandum of understanding ("MOU") with Microsoft Corporation ("Microsoft") in relation to the proposed investment by Microsoft in the Company. Details of the MOU arrangement are set out in the announcement of the Company dated 7 July 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover increased by approximately HK\$26,381,000 to HK\$327,226,000 during the six months period under review, representing 8.8% increase as compared with last corresponding period. Such increase was mainly attributable to the increase in sales of CPU.

The Group recorded a gross profit of approximately HK\$20,268,000 with the gross profit margin of approximately 6.2%, an decrease of approximately 16.9% as compared with last corresponding period. This decrease was due to the decreasing of the selling price.

The administrative expenses for the six months ended 30 June 2005 decreased by approximately HK\$681,000 or 11.3% as compared to last corresponding period. The decrease in administrative expenses was due to an decrease in advertising and promotion expenses.

The net profit attributable to shareholders of the Company during the three months ended 30 June 2005 was approximately HK\$7,215,000, a 46.6% increase when compared to approximately HK\$4,922,000 for the corresponding period in 2004. Such increase was mainly from deduction of expense, increase the gross profit and share of profit of Timeone during the period. The net profit attributable to shareholders of the Company for the six months ended 30 June 2005 was approximately HK\$13,000,000, a 14.1% decrease when compared to approximately HK\$15,133,000 for the corresponding period in 2004. Such decrease was mainly resulted from decrease the gross margin compared with the last corresponding period.

Capital structure

The Group intends to principally finance its operation with its internal resources and net proceeds from fund raising activities. On 1 June 2005 the Company placed 52,000,000 new shares at the placing price of HK\$0.36 per share for net proceeds of approximately HK\$18,624,000 of the Shares of the Company in 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 2005, shareholders' funds of the Group amounted to approximately HK\$104,324,000 (31 December 2004: HK\$65,591,000). Current assets amounted to approximately HK\$151,450,000 of which approximately HK\$65,437,000 were cash and bank balances. Current liabilities of approximately HK\$67,991,000 mainly comprised accounts payable, tax payable and other payables and accrued liabilities. The Group's current assets are approximately 2.23 times (31 December 2004: 2.58 times) over its current liabilities. As at 30 June 2005, the Group had no bank borrowings and its gearing ratio should be zero (31 December 2004: 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 2005, the Group had 22 employees (2004: 23 employees). The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the period under review amounted to approximately HK\$2,386,000 (2004: approximately HK\$2,222,000).

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, 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 2004: Nil).

Material acquisition, disposals and significant investment

The Group had increased to invest HK\$40,000,000 to a wholly owned subsidiary Lang Chao Shandong Electronic Information Co., Ltd. (浪潮(山東)電子信息有限公司) to launch the marketing platform to directly access PRC market.

The Group acquired Timeone by way of allotment and issue of 39,100,000 shares of the Company. Timeone 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有限公司), which in turn holds 40% equity interests in Shandong Shangyou and 49% equity interest in Shandong Chaoyue. Further details regarding the acquisition is set out in the Company's circular dated 13 May 2005.

Save as disclosed above, the Group has not held any significant investment for the six months ended 30 June 2005 and made no material acquisitions or disposals during the current period. As 30 June 2005, the Group had no material capital commitments and no future plans for material investments or capital assets.

Contingent liabilities

The Company and a subsidiary have given cross guarantee amounted HK\$38,000,000 to a bank to secure general banking facilities granted to both companies.

BUSINESS REVIEW AND 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 7 July 2005, the Company announced that a non-binding MOU was entered into between the Company and Microsoft on 30 June 2005 regarding a proposed investment by Microsoft in the Company with potential size of approximately US\$25 million (equivalent to approximately HK\$195 million). The Board considers that the MOU signifies the possible cooperation between the Group and Microsoft. Looking forward, the Directors are confident that the Group will achieve a satisfactory result in the financial year.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS FOR THE PERIOD ENDED 30 JUNE 2005

**BUSINESS OBJECTIVES AS STATED
IN THE PROSPECTUS**

Revenue

- To continue generating revenue from its sourcing and distribution business in the PRC, Hong Kong and other overseas markets
- To generate revenue from the distribution of LC Group's products in Hong Kong, and to commence generating revenue from the distribution of LC Group's products in overseas markets
- To generate revenue from IT advisory services
- To generate revenue from the distribution of computer components sourced from new suppliers

Business development

- To establish a sales centre in Beijing
- To procure no less than 4 new and independent customers for distribution business
- To start distribution of Linux-based servers in Hong Kong and the PRC
- To start distribution of LC Group's products in overseas markets in addition to Hong Kong
- To launch the supply chain management system and provide logistic and delivery services initially to customers in Jinan, Beijing and nearby areas
- To strengthen the area of provision of IT advisory services to enhance the expansion of the Group's business in the PRC with the establishment of IT advisory service teams in Jinan and Beijing
- To procure no less than 2 new contracts for IT advisory services provided by the Group

ACTUAL BUSINESS PROGRESS

Revenue

- The revenue had recorded approximately HK\$327.2 million
- Negotiation with potential customers on sales and distribution of LC Group's products in overseas market is in progress
- The revenue had recorded approximately HK\$0.3 million
- Negotiation with potential supplier to source of computer component

Business development

- Conducted a feasibility study to establish a sales centre in Beijing
- Identified 2 new customers including in Korea and Taiwan
- Conducted a feasibility study to distribute of Linux-based servers
- Negotiation with potential customers on sales and distribution of LC Group's products in overseas market is in progress
- Conducted a feasibility study the supply chain management system
- The Group has established the IT advisory service teams in Jinan.
- Negotiation with potential customers for IT advisory services

BUSINESS OBJECTIVES AS STATED**IN THE PROSPECTUS*****Suppliers and product range***

- To continue with the diversification of the Group's range of products, including but not limited to, the sales and distribution of LC Group's products
- To begin negotiation with medium-sized software developers in Hong Kong and the PRC to expand its business into application softwares
- To continue identifying potential new suppliers and sourcing of new computer components and IT products from no less than 2 new suppliers

Sales and marketing

- To officially launch the Group's corporate website
- To continue to identify and solicit potential customers, primarily PC manufacturers and end users in the PRC, through the Group's sales and marketing team in Hong Kong and the newly established sales centres in the PRC
- To continue the marketing and promotion campaign for the distribution of LC Group's products
- To participate in industry seminars and trade exhibitions held in Hong Kong and the PRC

Human resources, operation and administration

- To complete the computerization of the Group's operational, management and control systems to complement the development of the supply chain management system
- To increase number of existing employees to 31 to facilitate the Group's business development

ACTUAL BUSINESS PROGRESS***Suppliers and product range***

- Started selling new products including Celeron 2.8 GHz and Xeon 3.4 GHz, 3.60 GHz to the Group's existing customers
- Conducted a feasibility study to expand the business into application software
- Negotiation with potential supplier to source of computer component

Sales and marketing

- The corporate website have been postponed due to the design and contents have not finalized
- Identified 2 new customers including in Korea and PRC
- Negotiation with potential customers on sales and distribution of LC Group's products
- Participated Annual Meeting of China IT Market (中國IT市場年會) and 3rd China International Software and Information Service Exhibition (第三屆中國國際軟件和信息服務交易會)

Human resources, operation and administration

- Since the group postponed the development of supply chain management system, the computerization of the operational, management and control system would be delayed
- The Group had 22 employees to facilitate the Groups' business development and management

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES TO THE PERIOD ENDED 30 JUNE 2005

	<i>Notes</i>	Proposed fund required during the period <i>HK\$'000</i>	Actual fund spent during the period <i>HK\$'000</i>
Establishing sales centres		1,700	1,700
Developing supply chain management system	1	700	—
Establishing IT advisory service teams		800	800
Expanding product scope and sourcing with products		4,000	4,000
Establishing distribution network for LC Group's products	2	500	—
General sales and marketing purpose		800	800
Total		<u>8,500</u>	<u>7,300</u>

Notes:

1. The Group has postponed the development of supply chain management system because the result of first feasibility study was not satisfactory.
2. The Group is still in negotiation with the potential customers and distributor for LC Group's product. Therefore the Group has postponed to establish the distribution network.

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

As at 30 June 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	3.05%
Wang Hung, Alex	Beneficial owner	15,000,000	3.05%

(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 30 June 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 30 June 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	54.98%
Lang Chao Electronics (HK) Limited	Beneficial owner	270,000,000	54.98%

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 30 June 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 six months ended 30 June 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 six months ended 30 June 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. On 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 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. On 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 30 June 2005.

COMPLIANCE ADVISER'S INTEREST

The Company has been notified by ICEA Capital Limited (the "Compliance Adviser") that as at 30 June 2005, neither the Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 30 June 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 six months ended 30 June 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. 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.

CORPORATE GOVERNANCE

The Company has been looking for several candidates to be the members of Remuneration Committee and Nomination Committee but now has not been identified yet. The Board estimates that it will take two or three months to identify and confirm the most suitable candidate and will ensure that such appointment will be completed within few months. Save as disclosed above, throughout the period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

By Order of the Board
Chao International Limited
Sun Pishu
Chairman

Hong Kong, 25 July 2005