



浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)



2005
Third 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 announcement 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 announcement 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 nine months ended 30 September 2005 together with comparative unaudited figures for the corresponding period in 2004.

CONSOLIDATED INCOME STATEMENT

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2005	2004 HK\$'000 (unaudited)	2005	2004 HK\$'000 (unaudited)
Turnover	3	201,453	201,510	528,679	502,355
Cost of sales					
Cost of sales before deduction of purchase rebates		(190,682)	(198,954)	(497,640)	(487,747)
Purchase rebates		—	7,107	—	19,449
		(190,682)	(191,847)	(497,640)	(468,298)
Gross profit		10,771	9,663	31,039	34,057
Other operating income		111	26	260	55
Administrative expenses		(2,007)	(3,580)	(7,344)	(9,598)
Profit before taxation		8,875	6,109	23,955	24,514
Share of profit of associates		1,885	—	2,927	—
		10,760	6,109	26,882	24,514
Taxation	4	(1,287)	(431)	(4,409)	(3,703)
Net profit for the period		9,473	5,678	22,473	20,811
Earnings per share	5				
Basic		1.93 cents	1.42 cents	5.10 cents	5.82 cents
Diluted		1.73 cents	1.42 cents	4.61 cents	5.81 cents

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.

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.

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. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax:				
Current period	1,248	431	4,229	3,703
Share of taxation of associates	39	—	180	—
	<u>1,287</u>	<u>431</u>	<u>4,409</u>	<u>3,703</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.

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	
	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>9,473</u>	<u>5,678</u>	<u>22,473</u>	<u>20,811</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	491,100	400,000	440,711	357,664
Effect of dilutive share options	<u>57,118</u>	<u>—</u>	<u>46,707</u>	<u>233</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>548,218</u>	<u>400,000</u>	<u>487,418</u>	<u>357,897</u>

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 2005 (nine months ended 30 September 2004: nil).

7. Share Capital and Reserve

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
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	—	—	—	—	20,811	20,811
At 30 September 2004	4,000	24,860	92	—	34,608	63,560
Net profit for the period	—	—	—	—	2,031	2,031
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)
Translation difference	—	—	—	367	—	367
Net profit for the period	—	—	—	—	22,473	22,473
At 30 September 2005	4,911	61,682	92	367	47,112	114,164

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover increased by approximately HK\$26,324,000 to HK\$528,679,000 during the nine months period under review, representing 5.2% increase as compared with last corresponding period. Such increase was mainly attributable to the increased in sales of CPU.

The Group recorded a gross profit of approximately HK\$31,039,000 with the gross profit margin of approximately 5.9%, a decrease of gross profit of approximately 8.9% as compared with last corresponding period. This decrease was due to the decreasing of the selling price.

The administrative expenses for the nine months ended 30 September 2005 decreased by approximately HK\$2,254,000 or 23.5% as compared to last corresponding period. The decrease in administrative expenses was due to a decrease in advertising and promotion expenses.

The net profit attributable to shareholders of the Company during the three months ended 30 September 2005 was approximately HK\$9,473,000, a 66.8% increase when compared to approximately HK\$5,678,000 for the corresponding period in 2004. Such increase was mainly from deduction of expense and share of profit of Timeone Technology Limited during the period. The net profit attributable to shareholders of the Company for the nine months ended 30 September 2005 was approximately HK\$22,473,000, a 8% increase when compared to approximately HK\$20,811,000 for the corresponding period in 2004. Such increase was mainly resulted from share of profit of Timeone Technology Limited compared with the last corresponding 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 14 September 2005, the Company announced that the subscription deed was entered into between the Company and Microsoft on 25 August 2005 regarding pursuant to which the Company has agreed to issue the Preferred Shares up to an aggregate amount of US\$25 million (equivalent to approximately HK\$195 million). The Directors believe that the Subscription is in the interests of the Company and the Shareholders as a whole as (i) they will introduce a strong international strategic partner to the Group with expertise which complements that of the Group and further strengthen the capital base of the Group; and (ii) the proceeds from the Subscription will be applied to further develop the business of the Group.

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

As at 30 September 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 September 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 September 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 September 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 nine months ended 30 September 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 nine months ended 30 September 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 September 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 September 2005.

COMPLIANCE ADVISER'S INTEREST

The Company and ICEA Capital Limited ("ICEA") have mutually agreed to terminate their sponsorship agreement dated 16 April 2004 with effect from 31 August 2005 and Guotai Junan Capital Limited ("Compliance Adviser") has been appointed as the new sponsor to the Company from 1 September 2005.

The Company has been notified by Compliance Adviser that as at 30 September 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 September 2005.

Pursuant to the agreement dated 31 August 2005 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 1 September 2005 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 nine months ended 30 September 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
Chao International Limited
Sun Pishu
Chairman

Hong Kong, 9 November 2005