



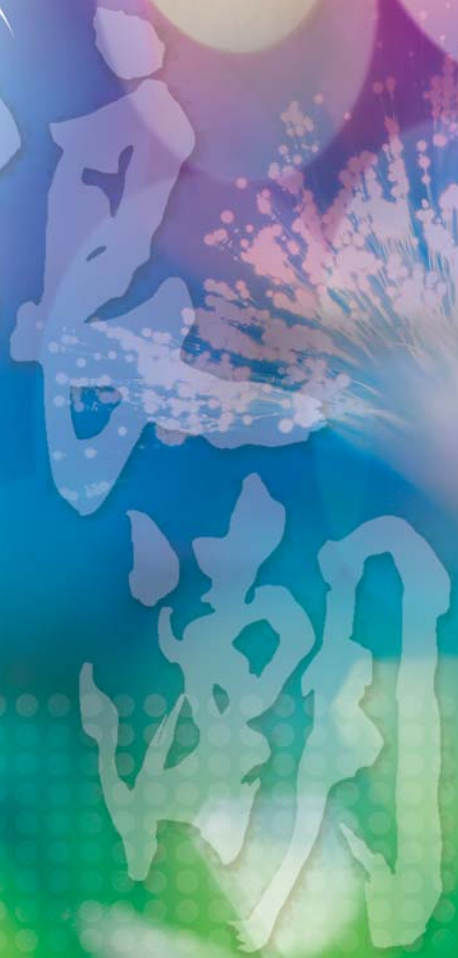
浪潮國際有限公司

LANG CHAO INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

First Quarterly Report 2006



## **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 reports 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 report, 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 report.*

*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 2006 together with comparative unaudited figures for the corresponding period in 2005.

## UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 31 March	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	131,079	155,842
Cost of sales		131,150	(146,978)
Gross (loss) profit		(71)	8,864
Other income		213	37
Administrative expenses		(1,911)	(1,891)
Interest expenses		(1,755)	—
Share of profit of associates		622	—
(Loss) profit before taxation		(2,902)	7,010
Taxation	3	—	(1,225)
Net (loss) profit for the period		(2,902)	5,785
(Loss) earnings per share	4		
– Basis		(0.59) cents	1.45 cents
– Diluted		(0.54) cents	1.40 cents

Notes:

### 1. BASIS OF PREPARATION

The Unaudited Consolidated Results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited.

The Unaudited Consolidated Results of the Group have been prepared under historical cost convention, except for certain financial instruments, which are measured at fair value. The principal accounting policies used in the preparation of the Unaudited Consolidated Results are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2005.

### 2. TURNOVER

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

### 3. TAXATION

No provision for Hong Kong profit tax has been made as the Group did not generate any assessable profits arising during the three months ended 31 March 2006, Hong Kong Profits Tax was provided at the rate of 17.5% on the estimated assessable profits arising during the three months ended 31 March 2005.

#### 4. (LOSS) EARNINGS PER SHARE

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

	Three months ended 31 March	
	2006 HK\$'000	2005 HK\$'000
<b>(Loss) earnings</b>		
(Loss) earnings for the purposes of basic (loss) earnings per share	(2,902)	5,785
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	491,100	400,000
Effect of dilutive share option	48,049	14,243
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	539,149	414,243

During the three months ended 31 March 2006, diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are antidilutive as the amount of the related finance costs in the current period per ordinary share attainable on conversion exceeds basic loss per share and they are excluded from calculation of diluted weighted average number of shares.

#### 5. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the three months ended 31 March 2006 (three months ended 31 March 2005: nil).

#### 6. SHARE CAPITAL AND RESERVES

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Preferred shares equity reserve HK\$'000	Translation reserve HK\$'000	Retained profits (loss) HK\$'000	Total HK\$'000
At 1 January 2005	4,000	30,040	92	—	—	31,459	65,591
Total recognise gain for the period	—	—	—	—	—	5,785	5,785
At 31 March 2005	4,000	30,040	92	—	—	37,244	71,376
At 1 January 2006	4,911	66,862	92	6,387	(221)	43,674	121,705
Total recognise (loss) for the period	—	—	—	—	—	(2,902)	(2,902)
At 31 March 2006	4,911	66,862	92	6,387	(221)	40,772	118,803

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

The Group's turnover decreased by approximately HK\$24,763,000 to HK\$131,079,000 during the three months period under review, representing 15.9% decrease as compared with last corresponding period. Such decrease was mainly attributable to the decrease in sales of CPU.

The Group recorded a gross loss of approximately HK\$71,000 with the gross loss margin of approximately 0.05%, a decrease of approximately 100.8% as compared with gross profit of last corresponding period approximately HK\$8,864,000. This decrease was due to the decreasing of the selling price.

The administrative expenses for the three months ended 31 March 2006 increased by approximately HK\$20,000 or 1.1% as compared to last corresponding period.

The net loss attributable to shareholders of the Company during the three months ended 31 March 2006 was approximately HK\$2,902,000, a 150.2% decrease when compared to net profit approximately HK\$5,785,000 for the corresponding period in 2005. Such decrease was mainly from the finance cost of convertible preference shares and the decreasing of selling price during the period.

### 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. As mentioned in the Circular dated 8 March 2006, the Group will extend into the market of management software and the market of e-government business through investment in Lang Chao Group Shandong Genersoft Limited ("LC Genersoft") and Shandong Lang Chao E-Government Software Limited ("LC E-Government") respectively and thereby diversify its revenue sources and build up its reputation in the software industry. In view of the customer profile of LC Genersoft and the future prospect of the e-government business and thereby the potential of LC E-Government, the Directors consider that the investment will enhance the Group's overall business performance, strengthen its revenue base and diversify its business risk by enlarging its product and service base.

As mentioned in the Announcement dated 21 April 2006, the Company further issued preference share to Microsoft Corporation ("Microsoft"). As Microsoft is one of the largest software developers in the world, the introduction of Microsoft as a substantial Shareholder will enhance future cooperation between the Group and Microsoft, resulting in common synergies and benefit for both the Group and Microsoft. 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 2006, 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 31 March 2006, 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 2006, 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 ( <i>note</i> )	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 31 March 2006, no persons have short positions in shares or underlying shares of equity derivatives of the Company.

### (c) Long positions in series A senior redeemable convertible voting preferred shares of the Company

Name of shareholder	Capacity	Number of securities	Approximate percentage of interests
Microsoft Corporation	Beneficial owner	132,964,342	100%

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2006, 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 2006, 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. 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 three months ended 31 March 2006. As at 31 March 2006, 33,200,000 shares are outstanding.

## **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 three months ended to 31 March 2006. As at 31 March 2006, 40,000,000 shares are outstanding.

## **COMPLIANCE ADVISER'S INTEREST**

The Company has been notified by Guotai Junan Capital Limited (the "Compliance Adviser") that as at 31 March 2006, neither Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 31 March 2006.

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 5.33 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 2006 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, 15 May 2006