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## LANG CHAO INTERNATIONAL LIMITED

浪潮國際有限公司

*(incorporated in the Cayman Islands with limited liability)*

(stock code: 8141)

### MEMORANDUM OF UNDERSTANDING INVOLVING ISSUE OF SECURITIES AND HIGH CONCENTRATION OF SHAREHOLDINGS AND RESUMPTION OF TRADING

A non-binding MOU was entered into between the Company and Microsoft on 30 June 2005 in relation to the Proposed Investment. Microsoft and its beneficial owners are independent third parties not acting in concert (within the meaning of the Takeovers Code) with, or connected with any directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their respective associates, and are independent of the Company and its connected persons (within the meaning of the GEM Listing Rules). **Shareholders and potential investors should note that the MOU is non-binding in nature and that the Proposed Investment is subject to satisfaction of due diligence by Microsoft and execution of a formal agreement. Accordingly, the Proposed Investment may or may not proceed and the size, terms and structure of the Proposed Investment may be subject to change.**

The Board was also informed by the Stock Exchange on the basis of the information provided by the SFC that nineteen Shareholders held an aggregate of 165,340,000 Shares, representing approximately 33.67% of the issued share capital of the Company as at 20 June 2005. Their shareholdings together with the Shares held by the controlling Shareholder, Lang Chao Electronics (HK) Limited, and two Directors of approximately 54.98% and 6.11% respectively represented an aggregate of approximately 94.76% of the issued share capital of the Company, leaving only approximately 5.24% in the hands of other Shareholders.

**In view of the high concentration of Shares in the hands of a small number of Shareholders, it appears to the SFC that the price of the Shares could easily be pushed up or down substantially with a small number of Shares traded. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

At the request of the Company, trading in the Shares on GEM has been suspended with effect from 9:30 a.m. on 30 June 2005 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 8 July 2005.

## **MEMORANDUM OF UNDERSTANDING DATED 30 JUNE 2005**

Reference is made to the announcements of the Company dated 20 June 2005 and 21 June 2005 in relation to a possible fund raising as may be conducted by the Company.

The Board wishes to announce 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). Microsoft and its beneficial owners are independent third parties not acting in concert (within the meaning of the Takeovers Code) with, or connected with any directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their respective associates, and are independent of the Company and its connected persons (within the meaning of the GEM Listing Rules).

The Proposed Investment may involve issue of new convertible securities (which carry voting rights) by the Company pursuant to which Microsoft may become a substantial shareholder of the Company (i.e. holding 10% or more of the voting rights in general meeting of the Company) and may, depending on the number of voting rights as may be held by Microsoft after full completion of the Proposed Investment, trigger an obligation to make a general offer under Rule 26 of the Takeovers Code (unless a whitewash waiver is granted by the Executive Director of the Corporate Finance Division of the SFC (or any delegate of the Executive Director) pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code). Nevertheless, it is preliminarily agreed that Microsoft shall have a maximum of 28% voting rights in general meeting of the Company and that Microsoft shall have the right to nominate such number of person(s) as Director(s) to the Board as shall equal to its proportional voting rights held by Microsoft in the Company. The proceeds from the Proposed Investment may be used by the Group for acquisition, formation of joint venture for development and sale of software and/or general working capital, or for such purposes as may be agreed by the Company and Microsoft.

The Board considers that the MOU signifies the possible cooperation between the Group and Microsoft. With the proceeds from the Proposed Investment, it is anticipated that the business of the Group will be further developed in accordance with the business objectives as disclosed in the Company's prospectus dated 20 April 2004.

**Shareholders and potential investors should note that the MOU is non-binding in nature and that the Proposed Investment is subject to satisfaction of due diligence by Microsoft and execution of a formal agreement. The Proposed Investment is also subject to fulfillment of all applicable shareholders' and regulatory approvals. There is no time specified in the MOU within which the formal agreement for the Proposed Investment must be finalised. Accordingly, the Proposed Investment may or may not proceed and the size, terms and structure of the Proposed Investment may be subject to change.**

Further announcement in relation to the Proposed Investment will be made by the Company in compliance with the GEM Listing Rules and Takeovers Code as and when appropriate.

Save as disclosed above, the Board confirms that there are no negotiations or agreements relating intended acquisitions or realisations which are discloseable under Chapters 19 to 20 of the GEM Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

## **HIGH CONCENTRATION OF SHAREHOLDINGS**

The Board was also informed by the Stock Exchange on the basis of the information provided by the SFC that nineteen Shareholders held an aggregate of 165,340,000 Shares, representing approximately 33.67% of the issued share capital of the Company as at 20 June 2005. Their shareholdings together with the Shares held by the controlling Shareholder, Lang Chao Electronics (HK) Limited, and two Directors of approximately 54.98% and 6.11% respectively represented an aggregate of approximately 94.76% of the issued share capital of the Company, leaving only approximately 5.24% in the hands of other Shareholders. In response to the enquiry from the Stock Exchange, the Board has reviewed the register of members of the Company as at 20 June 2005 and noted that apart from Lang Chao Electronics (HK) Limited, the two Directors and the Shareholders holding their Shares through the Central Clearing and Settlement System in the name of HKSCC Nominees Limited, there were two individual Shareholders, who are independent of and not connected with the directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their respective associates, holding a total of 16,000 Shares. Accordingly the identities of the afore-mentioned nineteen Shareholders and their respective shareholdings in the Company cannot be immediately identified by the Company. In this regard, the Company will conduct an investigation under section 329 of the SFO and will make a further announcement as soon as possible upon the receipt of the findings of the investigation. Save as disclosed in the shareholding table below, the Board, having made all reasonable enquiries with all connected persons (within the meaning of the GEM Listing Rules) of the Company (including but not limited to the directors of the Company and its

subsidiaries), is not aware of any of its connected persons (within the meaning of the GEM Listing Rules) holding 5% or more of the issued share capital of the Company. The shareholding structure of the Company as at the date of this announcement is as follows:

| <b>Shareholders</b>                                  | <b>Approximate<br/>shareholding as at the date<br/>of this announcement</b> |
|--|---|
| Lang Chao Electronics (HK) Limited ( <i>Note 1</i> ) | 54.98%  |
| Wang Miao, an executive Director                     | 3.05%   |
| Wang Hung, Alex, a non-executive Director            | 3.05%   |
| Other Shareholders                                   | 38.92%  |

*Note1:* The entire issued share capital of Lang Chao Electronics (HK) Limited is a company incorporated in Hong Kong and is beneficially owned by Lang Chao Group Limited. Lang Chao Group Limited is owned as to 16.13% by China Eastern Assets Management Company, a state-owned enterprise established in the People's Republic of China, as to 19.99% by China Huarong Assets Management Company, a state-owned enterprise established in the People's Republic of China, and as to 63.88% by the Finance Office of Shandong Province.

**In view of the high concentration of Shares in the hands of a small number of Shareholders, it appears to the SFC that the price of the Shares could easily be pushed up or down substantially with a small number of Shares traded. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

At the request of the Company, trading in the Shares on GEM has been suspended with effect from 9:30 a.m. on 30 June 2005 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 8 July 2005.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

|                       |   |
|-----------------------|---|
| “associates”          | has the meaning ascribed in the GEM Listing Rules   |
| “Board”               | the board of Directors  |
| “Company”             | Lang Chao International Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM   |
| “Directors”           | directors of the Company  |
| “GEM”                 | the Growth Enterprise Market of the Stock Exchange  |
| “GEM Listing Rules”   | the Rules Governing the Listing of Securities on GEM  |
| “Group”               | the Company and its subsidiaries  |
| “Microsoft”           | Microsoft Corporation (or its subsidiary), a multinational company which is principally engaged in software business, which together with its beneficial owners are independent third parties not acting in concert (within the meaning of the Takeovers Code) or connected with any directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their respective associates, and are independent of the Company and its connected persons (within the meaning of the GEM Listing Rules) |
| “MOU”                 | the memorandum of understanding dated 30 June 2005 and entered into between the Company and Microsoft in relation to the Proposed Investment  |
| “Proposed Investment” | the proposed investment by Microsoft in the Company pursuant to the MOU   |
| “SFC”                 | the Securities and Futures Commission of Hong Kong  |
| “SFO”                 | the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong   |
| “Shareholders”        | holders of the Shares   |
| “Shares”              | ordinary shares of HK\$0.01 each in the share capital of the Company  |
| “Stock Exchange”      | The Stock Exchange of Hong Kong Limited   |

|                  |  |
|------------------|--|
| “Takeovers Code” | Hong Kong Code on Takeovers and Mergers  |
| “HK\$”           | Hong Kong dollars, the lawful currency for the time being of Hong Kong         |
| “US\$”           | United States dollars, the lawful currency for the time being of United States |
| “%”              | per cent.  |

By order of the board of directors of  
**Lang Chao International Limited**  
**Sun Pishu**  
*Chairman*

Hong Kong, 7 July 2005

*As at the date of this announcement, 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.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least seven days from the day of its posting.*