



3rd Quarterly Report

2002



**LAUNCH**

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“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.*

*The Directors collectively and individually accept full responsibility for this report which is given in compliance with the requirements (Rules Governing the Listing of Securities on the Growth Enterprise Market) of the Stock Exchange. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the report are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this report have been arrived at after due and careful consideration on the basis and assumptions of reasonableness and fairness.*



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**THIRD QUARTERLY REPORT**

**THE NINE MONTHS ENDED 30TH SEPTEMBER, 2002**

**HIGHLIGHTS**

- Unaudited turnover increased by approximately RMB46,687,000 for the nine months ended 30th September, 2002 representing an increase of approximately 129% as compared to the corresponding period in 2001.
- Net profit attributable to shareholders was approximately RMB29,413,000 for the nine months ended 30th September, 2002.
- The Directors do not recommend an interim dividend for the nine months ended 30th September, 2002.

## QUARTERLY RESULTS (UNAUDITED)

The directors (the “Directors”) of Launch Tech Company Limited (the “Company”) are pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together the “Group”) for the nine months and three months ended 30th September, 2002 together with comparative figures for the corresponding periods in 2001 as follows:

|                                     | <i>Notes</i> | <b>Nine months<br/>ended 30th September</b> |                 | <b>Three months<br/>ended 30th September</b> |                 |
|-------------------------------------|--------------|---|-----------------|--|-----------------|
|                                     |              | <b>2002</b>                                 | <b>2001</b>     | <b>2002</b>                                  | <b>2001</b>     |
|                                     |              | <i>RMB'000</i>                              | <i>RMB'000</i>  | <i>RMB'000</i>                               | <i>RMB'000</i>  |
| Turnover                            | 2            | 82,809                                      | 36,122          | 26,497                                       | 19,495          |
| Cost of sales                       |              | <u>(31,642)</u>                             | <u>(13,410)</u> | <u>(9,888)</u>                               | <u>(7,487)</u>  |
| Gross profit                        |              | 51,167                                      | 22,712          | 16,609                                       | 12,008          |
| Other revenues                      |              | 2,560                                       | 1,474           | 604  | 612             |
| Selling expenses                    |              | (10,536)                                    | (4,908)         | (2,656)                                      | (2,129)         |
| Administrative expenses             |              | (7,110)                                     | (4,396)         | (3,185)                                      | (1,565)         |
| Research and<br>development cost    |              | <u>(2,269)</u>                              | <u>(837)</u>    | <u>(639)</u>                                 | <u>(300)</u>    |
| Profit from operations              |              | 33,812                                      | 14,045          | 10,733                                       | 8,626           |
| Finance costs                       |              | <u>(1,885)</u>                              | <u>(918)</u>    | <u>(488)</u>                                 | <u>(348)</u>    |
| Profit before taxation              |              | 31,927                                      | 13,127          | 10,245                                       | 8,278           |
| Taxation                            | 3            | <u>(2,508)</u>                              | <u>–</u>        | <u>(856)</u>                                 | <u>–</u>        |
| Profit before<br>minority interests |              | 29,419                                      | 13,127          | 9,389  | 8,278           |
| Minority interests                  |              | <u>(6)</u>                                  | <u>–</u>        | <u>16</u>                                    | <u>–</u>        |
| Net profit for the period           |              | <u>29,413</u>                               | <u>13,127</u>   | <u>9,405</u>                                 | <u>8,278</u>    |
| Earnings per share – Basic          | 4            | <u>RMB0.089</u>                             | <u>RMB0.040</u> | <u>RMB0.029</u>                              | <u>RMB0.025</u> |

Notes:

## 1. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated results of the Group are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and are consistent with those used in the Accountants' Report as set out in the prospectus of the Company dated 30th September, 2002 (the "Prospectus").

## 2. TURNOVER

Turnover represents the net amounts received and receivable (net of any business tax) for goods and software systems sold and services rendered.

Turnover comprises:

|   | Nine months ended<br>30th September |                 | Three months ended<br>30th September |                 |
|---|-------------------------------------|-----------------|--------------------------------------|-----------------|
|   | 2002<br>RMB'000                     | 2001<br>RMB'000 | 2002<br>RMB'000                      | 2001<br>RMB'000 |
| Computerized automotive<br>diagnostic and testing systems                               | 72,484                              | 32,708          | 21,497                               | 17,380          |
| Automobile service information<br>systems   | 4,700                               | 25              | 2,085                                | —               |
| Automobile electronic accessory<br>systems and other automobile<br>maintenance products | 5,625                               | 3,389           | 2,915                                | 2,115           |
| Total   | <u>82,809</u>                       | <u>36,122</u>   | <u>26,497</u>                        | <u>19,495</u>   |

## 3. TAXATION

The provision for PRC taxation is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

Pursuant to the relevant laws and regulations in the PRC, the Company has been designated as a new and high technology enterprise and was exempted from PRC Enterprise Income Tax, which is currently at the rate of 15%, for two years 2000 and 2001 from the first profitable year of operation and is eligible for and entitled to a 50% tax relief for the next three years 2002 to 2004.

Subsidiaries of the Company are subject to income tax rate of 15% to 33%.

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong during the Relevant Periods.

The Group did not have any significant unprovided deferred taxation in respect of each of the Relevant Periods.

#### 4. EARNINGS PER SHARE

The calculation of the Group's basic earnings per share for the nine months and three months ended 30th September, 2002 is based on the Group's profit attributable to shareholders of approximately RMB29,413,000 and RMB9,405,000 respectively (nine months and three months ended 30th September, 2001: approximately RMB13,127,000 and RMB8,278,000 respectively) and the number of ordinary shares then in issue of approximately 330,000,000 (2001: 330,000,000) and 330,000,000 (2001: 330,000,000) respectively for the nine months and three months ended 30th September, 2002 as if the sub-division of shares of the Company mentioned in the Prospectus had been completed at the beginning of the Relevant Period.

There were no diluted potential ordinary shares in issue during the nine months and three months ended 30th September, 2002 and the corresponding periods in 2001.

#### 5. RESERVES

|  | Statutory<br>surplus<br>reserve<br><i>RMB '000</i> | Statutory<br>public<br>welfare fund<br><i>RMB '000</i> | Capital<br>reserve<br><i>RMB '000</i> | Accumulated<br>profits<br><i>RMB '000</i> | Total<br><i>RMB '000</i> |
|--|--|--|---------------------------------------|---|--------------------------|
| At 1st January, 2000                           | 732  | 732  | 1,160                                 | 6,844                                     | 9,468                    |
| Net profit for the year                        | –  | –  | –                                     | 12,514                                    | 12,514                   |
| Appropriations                                 | 1,256  | 1,256  | –                                     | (2,512)                                   | –                        |
|  | <hr/>  | <hr/>  | <hr/>                                 | <hr/>                                     | <hr/>                    |
| At 31st December, 2000                         | 1,988  | 1,988  | 1,160                                 | 16,846                                    | 21,982                   |
| Dividend for 2000 paid                         | –  | –  | –                                     | (38)                                      | (38)                     |
| Capitalisation into share capital              | (1,988)  | (1,988)  | (1,160)                               | (15,864)                                  | (21,000)                 |
| Net profit for the year                        | –  | –  | –                                     | 23,200                                    | 23,200                   |
| Appropriations                                 | 1,713  | 1,713  | –                                     | (3,426)                                   | –                        |
|  | <hr/>  | <hr/>  | <hr/>                                 | <hr/>                                     | <hr/>                    |
| At 31st December, 2001                         | 1,713  | 1,713  | –                                     | 20,718                                    | 24,144                   |
| Dividend for 2001 paid                         | –  | –  | –                                     | (11,500)                                  | (11,500)                 |
| Net profit for the period                      | –  | –  | –                                     | 29,413                                    | 29,413                   |
| Dividend for the first quarter<br>of 2002 paid | –  | –  | –                                     | (7,400)                                   | (7,400)                  |
| Appropriations                                 | 908  | 908  | –                                     | (1,816)                                   | –                        |
|  | <hr/>  | <hr/>  | <hr/>                                 | <hr/>                                     | <hr/>                    |
| At 30th September, 2002                        | 2,621  | 2,621  | –                                     | 29,415                                    | 34,657                   |
|  | <hr/>  | <hr/>  | <hr/>                                 | <hr/>                                     | <hr/>                    |

#### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2002 (2001: nil).

## **BUSINESS AND FINANCIAL REVIEW**

In the period under review, the Group further engaged itself in research and development as well as development of domestic and overseas markets. In this period, the Group commenced the development of its 3D wheel alignment system and completed relevant theoretical testing. In addition, the Group continued the development of automobile cleaning series, particularly, in the field of engine cleaning. The Group also completed the trial and launch of X431 Electronic Eye, which is based on OPADT. In view of marketing strategies the Group implemented trial of its Total Launch GD programme and continued the active expansion of overseas market. In order to further expand its distribution network, the Group established four more Launch GDs in Xining, Guangdong and Changchun in the PRC in this period.

For the nine months ended 30th September, 2002, the Group's turnover was approximately RMB82,809,000, representing an increase of 129% from the corresponding period in 2001. The increase in turnover for the period was attributable to the increase in clients' demand to the Group's products. For the three months ended 30th September, 2002, the Group's turnover was approximately RMB26,497,000, representing an increase of 36% from the corresponding period in 2001. For the nine months ended 30th September, 2002, the Group's net profit attributable to shareholder was approximately RMB29,413,000, representing an increase of 124% from the corresponding period in 2001. Such results were encouraging.

## **PROSPECTS**

The year of 2002 highlights the milestone in the Group's history. The Group's success in listing on the GEM of the Stock Exchange of Hong Kong has opened a new chapter in the Group's businesses.

The PRC's accession into WTO, hosting of the 2008 Olympic Games by Beijing and sustainable economic growth in the PRC are all beneficial to the automobile after-sales market.

After the PRC's accession into WTO, import tariff on automobile and its spare parts will be reduced where as import quota of automobile will be relaxed, both factors stimulating significant growth in the number of automobiles in the PRC. Moreover, hosting of the 2008 Olympic Games by Beijing caused the PRC government to tighten the requirement on the quality and repair and maintenance of automobiles. This will lead to a significant improvement in the standard of automobile repair and maintenance services in the PRC and stimulate market growth.

The Directors also believe that, the Company's overseas business will grow more rapidly due to the elimination of trade barriers in many overseas markets as a result of PRC's accession into the WTO.

The Directors consider that, with its enhanced financial position after the listing, and with its assets of research and development expertise as well as extensive experiences in product design and marketing, the Group is confident to grasp business opportunities, achieving its business objectives.

**DISCLOSURE OF INTERESTS IN SECURITIES OR DEBT SECURITIES OF THE ISSUER OR ANY ASSOCIATED CORPORATIONS**

**(1) Directors and Chief Executive**

Interests in shares of the Company as at 30th September, 2002

| <b>Name of director</b> | <i>Notes</i> | <b>Number of shares</b> | <b>Type of interest</b> |
|-------------------------|--------------|-------------------------|-------------------------|
| Mr. Liu Xin             | 1            | 119,625,000             | Corporate               |
|                         |              | 132,000,000             | Personal                |
| Mr. Liu Jun             | 2            | 119,625,000             | Corporate               |
| Mr. Wang Xue Zhi        |              | 9,636,000               | Personal                |
| Ms. Liu Yong            | 3            | 49,500,000              | Corporate               |
| Mr. Zhang Jie           | 4            | 19,239,000              | Corporate               |

*Notes:*

- (1) Mr. Liu Xin holds 60% interest in Shenzhen Langqu Technology Development Company Limited (“Shenzhen Langqu”) which holds interest of approximately 119,625,000 shares (i.e. approximately 27.19%) in the Company immediately after the Placing. The corporate interest of Mr. Liu Xin in the Company duplicates with that held by Mr. Liu Jun in the Company. By virtue of Mr. Liu Xin’s holding more than one-third interest in Shenzhen Langqu, Liu Xin is deemed, under the SDI Ordinance, to be interested in approximately 119,625,000 shares in the Company apart from his personal interest of approximately 132,000,000 shares in the Company immediately after the Placing.
- (2) Mr. Liu Jun holds 40% interest in Shenzhen Langqu which holds interest of approximately 119,625,000 shares (i.e. approximately 27.19%) in the Company immediately after the Placing. The corporate interest of Mr. Liu Jun in the Company duplicates with that held by Mr. Liu Xin in the Company. By virtue of Mr. Liu Jun’s holding more than one-third interest in Shenzhen Langqu which holds interest of approximately 119,625,000 shares in the Company, Mr. Liu Jun is deemed, under the SDI Ordinance, to be interested in approximately 119,625,000 shares in the Company immediately after the Placing.
- (3) Ms. Liu Yong holds 60% interest in Shenzhen De Shi Yu Investment Company Limited (“Shenzhen De Shi Yu”) which holds interest of 49,500,000 shares (i.e. 11.25%) in the Company immediately after the Placing. By virtue of Ms. Liu Yong’s holding more than one-third interest in Shenzhen De Shi Yu, Ms. Liu Yong is deemed, under the SDI Ordinance, to be interested in 49,500,000 shares in the Company.
- (4) Mr. Zhang Jie holds 75% interest in Shenzhen Jie Xin Technology Development Company Limited (“Shenzhen Jie Xin”) which holds interest of approximately 19,239,000 share (i.e. approximately 4.37%) in the Company immediately after the Placing. By virtue of Mr. Zhang Jie’s holding more than one-third interest in Shenzhen Jie Xin, Mr. Zhang Jie is deemed, under the SDI Ordinance, to be interested in approximately 19,239,000 shares in the Company.

Save as disclosed above, on 30th September, 2002, none of the Directors or their associates has any personal, family, corporate or other interest in the securities of the Company and its associated corporations (within the meaning of the record shown in the Registrar to be maintained by the Company as stipulated by Section 29 of the SDI Ordinance).



## Right to acquire shares of the Company

The Company has adopted a Share Option Scheme on 21st March, 2002, a summary of the principle terms and conditions of the share option scheme are set out in the section headed "Summary of Terms of the Share Option Scheme" in Appendix VI of the Prospectus. No options had been granted to the Directors or employees up to the date of this report.

Save for the Share Option Scheme as mentioned above, the Company was not a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of the Company, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

## (2) Substantial Shareholders

Based on the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, the persons, who are the substantial shareholders of the Company (being defined in the GEM Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company) and their respective shareholding interests in the Company as at 30th September, 2002 are as follows:

| Name of Substantial Shareholders | Notes | Number of Domestic Shares | Types of interest |
|----------------------------------|-------|---------------------------|-------------------|
| Mr. Liu Xin                      | 1     | 119,625,000               | Corporate         |
|                                  |       | 132,000,000               | Personal          |
| Shenzhen Langqu                  | 2     | 119,625,000               | Corporate         |
| Mr. Liu Jun                      | 3     | 119,625,000               | Corporate         |
| Shenzhen De Shi Yu               |       | 49,500,000                | Corporate         |
| Ms. Liu Yong                     | 4     | 49,500,000                | Corporate         |

Notes:

1. These Shares are held by Shenzhen Langqu which is legally and beneficially owned as to 60% by Mr. Liu Xin. Mr. Liu Xin is deemed to be interested in all the Shares registered in the name of Shenzhen Langqu under the SDI Ordinance.
2. The Shares in which Shenzhen Langqu is shown as being interested duplicate with the corporate interest of Mr. Liu Xin in the Company.
3. These Shares are held by Shenzhen Langqu which is legally and beneficially owned as to 40% by Mr. Liu Jun. Mr. Liu Jun is deemed to be interested in all the Shares registered in the name of Shenzhen Langqu under the SDI Ordinance. The Shares in which Mr. Liu Jun is shown as being interested duplicate with the corporate interest of Mr. Liu Xin and also those Shares held by Shenzhen Langqu.
4. These Shares are held by Shenzhen De Shi Yu which is legally and beneficially owned as to 60% by Ms. Liu Yong. Ms. Liu Yong is deemed to be interested in all the Shares registered in the name of Shenzhen De Shi Yu under the SDI Ordinance. The Shares in which Ms. Liu Yong is shown as being interested duplicate with those Shares held by Shenzhen De Shi Yu.

## **SPONSOR'S INTEREST**

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("CPY"), on 30th September, 2002, neither CPY nor its directors, employees or any associates (according to Note 3, Section 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group as at 30th September, 2002 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 27th September, 2002 entered into between the Company and CPY, CPY has been retained to act as the Company's sponsor for the period from 30th September, 2002 to 31st December, 2004 (or until the date of termination of the Sponsors' Agreement pursuant to its terms and conditions) in return for a fee.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 21st March, 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee's principal duties are the review and supervision of the Company's reporting process and internal control system. The audit committee comprises the two independent non-executive directors, Mr Zhang Xiao Yu, Mr Hu Zi Zheng and one executive director, Mr Liu Jun.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sales or redemption by the Company or any of its subsidiaries of the Company's listed securities during the nine months ended 30th September, 2002.

By order of the Board  
**Liu Xin**  
*Chairman*

Shenzhen, the PRC, 8th November, 2002