

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)



1ST QUARTERLY REPORT

2003

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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 (the “Directors”) of Launch Tech Company Limited (the “Company” or “Launch”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM 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 report 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 report misleading; and (3) 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.

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FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2003

HIGHLIGHTS:

- Net profit for the period reached approximately RMB12,046,000 representing an increase of approximately 20.3% as compared to the corresponding period in 2002; and basic earnings per share was RMB0.027.
- Turnover for the three months ended 31 March 2003 was RMB29,146,000; increased by approximately 31.2% compared with corresponding period in 2002.
- Entered into a 5 year co-operation agreement with Chonche Auto Service on 21 March 2003.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2003.

FIRST QUARTERLY RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March, 2003 together with the comparative audited consolidated results for the corresponding period in 2002 extracted from the prospectus dated 30 September 2002 (the “Prospectus”) as follows:–

	<i>NOTES</i>	Three months ended	
		31 March	
		2003	2002
		(Unaudited)	(Audited)
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(2)	29,146	22,220
Cost of sales		(10,368)	(7,649)
Gross profit		18,778	14,571
Other operating income		457	1,346
Selling expenses		(2,741)	(1,285)
Administrative expenses		(2,370)	(2,169)
Research and development costs		(784)	(991)
Profit from operations		13,340	11,472
Finance costs		(324)	(677)
Profit before taxation		13,016	10,795
Taxation	(3)	(976)	(758)
Profit before minority interests		12,040	10,037
Minority interests		6	(27)
Net profit for the period		12,046	10,010
Dividends	(4)	–	7,400
Earnings per share – basic	(5)	RMB0.027	RMB0.030

(1) BASIS OF CONSOLIDATION

The consolidated financial statement incorporates the financial statements of the Company and its subsidiaries made up to 31 March 2003 and 2002.

The results of subsidiaries acquired and disposed of during the period are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

(2) TURNOVER

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

(3) TAXATION

The charge for the year represents provision for PRC taxation which is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable.

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 from 2002 to 2004.

The Company's subsidiaries are subject to income tax rate of 15% to 33%.

The Group and the Company did not have any significant unprovided deferred taxation for the period or at the balance sheet date.

(4) DIVIDENDS

The Directors do not recommend an interim dividend for the three months ended 31 March 2003.

On 23 May 2002, the Company declared an interim dividend amounting to RMB7,400,000 for the three months ended 31 March 2002 to its shareholders. The amount was paid to its shareholders on 31 May 2002.

(5) EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit for the period of RMB12,046,000 (2002: RMB10,010,000) and on the number of 440,000,000 shares in issue during the period (2002: 330,000,000 shares as if the sub-division of the Company's shares as described in the Prospectus, which had taken place on 1 January 2001).

No diluted earnings per share has been presented as there were no potential dilutive shares for either periods.

(6) RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2002	–	1,713	1,713	20,718	24,144
Dividend for 2001, paid	–	–	–	(11,500)	(11,500)
Net profit for the period	–	–	–	10,010	10,010
Appropriation	–	908	908	(1,816)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	–	2,621	2,621	17,412	22,654
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2003	57,242	5,108	5,108	32,077	99,535
Net profit for the period	–	–	–	12,046	12,046
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	57,242	5,108	5,108	44,123	111,581
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BUSINESS AND FINANCIAL REVIEW

In the period under review, the Group continued to explore its domestic and overseas marketing network and actively looking for new business partners for cooperation.

On 21 March 2003, Launch Tech Company Limited (the “Company”) and Chonche Auto Service (Group) Corporation (中車汽修集團總公司) (“Chonche Auto Service”) entered into a co-operation agreement (the “Agreement”) for a term of five years. Chonche Auto Service is a company established in the PRC engaged in automobile manufacturing, remodelling, repair and maintenance, and production of automobile spare parts and automobile equipment. It currently owns and operates 30 automobile repair enterprises in the PRC and its total assets amounted to approximately RMB3.2 billion. The ultimate beneficial owner of Chonche Auto Service is China National Bluestar (Group) Corporation (中國藍星(集團)總公司), a State-owned enterprise managed by the PRC government. Pursuant to the Agreement, during the period of 5 years commencing on 21 March 2003, the Company will become the exclusive supplier to Chonche Auto Service in respect of repair accessory equipment and automobile service information systems, the iLAM software, and offer technology training to the automobile repair service chain in the PRC established by Chonche Auto Service. The Agreement is a master agreement and the total value of goods and services to be provided by the Company contemplated under the Agreement shall not exceed RMB200 million. In addition, the provision of goods and services will be supplied pursuant to the individual orders and invoices to be placed by Chonche Auto Service in the next 5 years.

The Directors believe that this Agreement will be beneficial to the Company’s business in which it can enhance the brandname recognition, and is in line with the Company’s long-term business strategies. The effect of this Agreement on the Group’s turnover is expected to emerge in second half of this year.

In order to cope with increasing demand of products and have more efficient control on production, the Group is planning to establish a production plant in the second half of this year. In this stage, the Group is in the progress of looking for suitable location and doing relevant research. The expected location is in East China region. The construction cost of the production plant will be financed by internal fund and bank borrowing. The production plant will mainly be responsible for the production of automobile repairs equipment.

For the three months ended 31 March 2003, the Group's turnover was approximately RMB29,146,000, representing an increase of 31.2% from the corresponding period in 2002. The increase in turnover for the period was attributable to the maintenance of higher growth rate in the PRC automobile sales and service market and the increase in existing client's demand to the Group's products during the period. Gross profit in the period was 64.4%, similar to 65.6% of the corresponding period in the previous year. The Group recorded more increase in sales expenses, 113.3% over the corresponding period in the last year because the Group proactively developed overseas market since listing. Administrative expenses increased by 9.3% over last year due to the rise in the number of staff. For the three months ended 31 March 2003, the Group's net profit attributable to shareholder was approximately RMB12,046,000, representing an increase of 20.3% from the corresponding period in 2002. Such results were encouraging.

PROSPECTS

Other than paying continuing effort in research and development of high technology products, from the second quarter of this year onward, the Group will launch new products in domestic and overseas markets, especially the X431 electronic diagnostic computer which equipped with open platform of diagnostic technology to maintain the Group's sales continuous increase, and expand customers base. Besides, the Group will also be managed to look for different kinds of business opportunities in automotive after market and will endeavour to cooperate with new business partners to enlarge the marketing networks.

Having the exclusive supplier agreement with Chonche Auto Service as a foundation, the Group continued seeking for opportunity of business cooperation with large automobile repair and manufacturing enterprises, especially domestic automobile manufacturers.

The Group is planning to establish own production plant, taking the advantage of low labour cost in the PRC, to strengthen the production capacity of automobile repair equipment and explore the sales of related products in the international automotive after market.

Directors believe the Group will continue to deliver more excellent products to our valuable customers and more outstanding results for the patronage of our shareholders.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31 March 2003, the interests of Directors, supervisors and chief executives and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance") were as follows:

Name of director	Number of Domestic Shares held	
	Personal interest	Corporate interest
Mr. Liu Xin	132,000,000	119,625,000 (note 1)
Mr. Liu Jun	–	119,625,000 (note 2)
Mr. Wang Xue Zhi	9,636,000	–
Ms. Liu Yong	–	49,500,000 (note 3)
Mr. Zhang Jie	–	19,239,000 (note 4)

Notes:

- (1) Mr. Liu Xin holds 60% interest in 深圳市浪曲科技開發有限公司 ("Shenzhen Langqu") which holds approximately 27.19% interest in the Company. 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 27.19% interest in the Company apart from his personal interest of 30% interest in the Company. Mr. Liu Xin is the brother of Mr. Liu Jun and Ms. Liu Yong.
- (2) Mr. Liu Jun holds 40% interest in Shenzhen Langqu which holds approximately 27.19% interest in the Company. 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 approximately 27.19% interest in the Company, Mr. Liu Jun is deemed, under the SDI Ordinance, to be interested in approximately 27.19% interest in the Company. Mr. Liu Jun is the brother of Mr. Liu Xin and Ms. Liu Yong.
- (3) Ms. Liu Yong holds 60% interest in 深圳市得時域投資有限公司 ("Shenzhen De Shi Yu") which holds 11.25% interest in the Company. 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 11.25% interest in the Company. Ms. Yiu Yong is the sister of Mr. Liu Xin and Mr. Liu Jun.
- (4) Mr. Zhang Jie holds 75% interest in 深圳市杰欣科技發展有限公司 ("Shenzhen Jie Xin") which holds approximately 4.37% interest in the Company. 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 4.37% interest in the Company.

Save as disclosed above, at 31 March 2003, none of the Directors, supervisors or chief executives or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the Directors, supervisors, and chief executives, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2003.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the Directors, supervisors nor chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 31 March 2003, the Group had the following transactions with connected parties as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

Pursuant to an agreement dated 13 December 2002 entered into between the Company and Shenzhen De Shi Yu, Shenzhen De Shi Yu agreed to provide a shareholder guarantee to a bank amounting to RMB15,000,000, at no cost and expense and without interest or security from the Company, to secure the bank loan of RMB15,000,000 granted to the Company. The guarantee was effective from 16 December 2002 and will be terminated upon full repayment of the relevant bank loan. Shenzhen De Shi Yu is a company which holds 11.25% interest in the Company and Ms. Liu Yong, a Director, has beneficial interests. Details of this arrangement are set out in the announcement dated 27 December 2002 issued by the Company.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period.

An audit committee was established on 21 March 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Mr. Zhang Xiao Yu and Mr. Hu Zi Zheng, and one executive director, Mr. Liu Jun.

The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2003 and has provided advice and comment thereon.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("CPY Capital"), neither CPY Capital nor its directors, employees or associates (as referred to in Note 3 to Rule 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 (including options or rights to subscribe for such securities) as at 31 March 2003.

CPY Capital has entered into a sponsor agreement with the Company whereby, for a fee, CPY Capital will act as the Company's retained sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the remaining period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

On behalf of the Board
Launch Tech Company Limited
Liu Xin
Chairman

Shenzhen, the PRC, 9 May 2003