

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)



THIRD QUARTERLY REPORT

2003

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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 (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 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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HIGHLIGHTS:

- Net profit for the three months ended 30 September 2003 reached approximately RMB15,826,000, representing an increase of approximately 68.3% as compared with the corresponding period in 2002; and basic earnings per share was RMB0.095.
- Turnover for the three months ended 30 September 2003 was approximately RMB64,605,000; increased by approximately 143.8% as compared with the corresponding period in 2002.
- The Directors do not recommend an interim dividend for the three months ended 30 September 2003.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the period of the three months and the nine months ended 30 September 2003.

The major achievements of the Group during the third quarter include:

- Turnover rose approximately 143.8% as compared with corresponding period in 2002.
- Net profit climbed approximately 68.3% as compared with corresponding period in 2002.
- Major products such as the X431 Electronic Eye with open automotive diagnostic platform and multi-lingual operation interface received satisfactory responses from both domestic and international markets.

Financial Overview

	Three months ended 30 September 2003 <i>(RMB'000)</i>	Nine months ended 30 September 2003 <i>(RMB'000)</i>
Turnover	64,605	143,488
Costs of Sales	32,111	65,483
Gross Profit	32,494	78,005
Net Profit	15,826	41,821

Financial Review

The Group's unaudited consolidated turnover for the three months and nine months ended 30 September 2003 amounted to approximately RMB64,605,000 and RMB143,488,000 respectively, representing a growth of approximately 143.8% and 73.3% over the corresponding periods in 2002.

The Group's unaudited profit attributable to shareholders for the three months and nine months ended 30 September 2003 amounted to approximately RMB15,826,000 and RMB41,821,000 respectively. Profit attributable to shareholders grew approximately 68.3% and 42.2% as compared with that of the corresponding periods in 2002. The Group's financial conditions improved significantly by the expansion of its product lines, the expansion of its sales networks and the execution of effective market strategies. These factors enhanced Launch's business development in the first three quarters of this year.

Business Review

During the period under review, the Group continued to develop its marketing network both locally and internationally and made strong promotional efforts to its automotive diagnostic equipment, X431 Electronic Eye, the major product of the year. Since its launch early this year, X431 Electronic Eye was the center of market attention both locally and internationally given its advanced functions and multi-lingual features. X431 Electronic Eye made a positive contribution to the sales of the Group during the period, as the Group successfully expanded the sales of the product in the PRC, South East Asia and Europe. Apart from the distribution market in the PRC, co-operative negotiations were conducted between the Group and certain distributors in the United States, the Middle East and Japan, which we believe will be instrumental in its sales in the next quarter and next year.

The Group held the three-day "Automotive Aftermarket Forum and Eighth Annual Sales Meeting" from 19 to 21 August in Shenzhen this year. Among the nearly 1,000 local and overseas guests attended, most were acclaimed experts in automobile repairs and maintenance, academics, influential executives, automobile manufacturers, R&D institutes, the news media as well as local and overseas distributors. At the meeting, professionals exchanged their views on the applications, development trends and new concepts of the latest technology in the automotive aftermarket. New products were also introduced to the guests at the meeting. The forum was extremely successful, as it not only facilitated the sharing of experiences and views of the development of automotive aftermarket but also enhanced the customers' confidence in the Group.

At the annual sales meeting, the Group also signed up certain sales orders with a number of local and overseas customers, which increased the sales revenue of the Group for the period and providing excellent foundation for our fourth quarter's performance.

In August 2003, the Group initiated the Launch A program by opening its first "A shop", automobile quick repair and service station, in Shenzhen, and the Group expected to expand the "A shop" franchise to about 20 shops in the PRC by the end of the year. In addition, the Group will proceed with the construction of an automobile lift plant in Shanghai, which will be financed by the placing of new H shares. The placing of new H shares was completed on 24 October of the year, and successfully raised net proceeds of approximately RMB120,000,000. The Group is going to apply the proceeds to the construction of such plant in accordance with the use of proceeds as set out in the circular to shareholders dated 9 July 2003. The construction is currently in progress and is expected to be completed and put into pilot production by early next year. Mass production is expected to commence in April of next year.

Prospects

The Group has a clear vision in the production, management, promotion and distribution of automotive service equipment in the near future. Looking forward, the Group will continue to capitalize on its strengths in research and development as well as extensive local and overseas distribution networks. 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.

Liu Xin
Chairman

Shenzhen, the PRC, 13 November 2003

UNAUDITED CONSOLIDATED INCOME STATEMENT

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	(2)	64,605	26,497	143,488	82,809
Cost of sales		<u>(32,111)</u>	<u>(9,888)</u>	<u>(65,483)</u>	<u>(31,642)</u>
Gross profit		32,494	16,609	78,005	51,167
Other operating income		335	604	1,235	2,560
Selling expenses		(5,919)	(2,656)	(13,465)	(10,536)
Administrative expenses		(6,717)	(3,185)	(13,327)	(7,110)
Research and development costs		<u>(1,398)</u>	<u>(639)</u>	<u>(4,400)</u>	<u>(2,269)</u>
Profit from operations		18,795	10,733	48,048	33,812
Finance costs		<u>(1,352)</u>	<u>(488)</u>	<u>(2,607)</u>	<u>(1,885)</u>
Profit before taxation		17,443	10,245	45,441	31,927
Taxation	(3)	<u>(1,522)</u>	<u>(856)</u>	<u>(3,522)</u>	<u>(2,508)</u>
Profit before minority interests		15,921	9,389	41,919	29,419
Minority interests		<u>(95)</u>	<u>16</u>	<u>(98)</u>	<u>(6)</u>
Net profit for the period		<u>15,826</u>	<u>9,405</u>	<u>41,821</u>	<u>29,413</u>
Dividends	(4)	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,400</u>
Earnings per share – basic	(5)	<u>RMB0.036</u>	<u>RMB0.029</u>	<u>RMB0.095</u>	<u>RMB0.089</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2003

(1) BASIS OF CONSOLIDATION

The consolidated financial statement incorporate the financial statements of the Company and its subsidiaries made up to 30 September of 2003 and 2002.

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 period 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 the 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 rates 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) INTERIM DIVIDENDS

The Directors do not recommend an interim dividend for the three months ended 30 September 2003 (2002: nil).

(5) EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2003 was based on the net profit of approximately RMB15,826,000 and approximately RMB41,821,000 (three months and nine months ended 30 September 2002: net profit of approximately RMB9,405,000 and RMB29,413,000) divided by the weighted average number of shares issued during the periods of 440,000,000 shares (three months and nine months ended 30 September 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 relevant periods.

(6) RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Accumulated profits	Total
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
At 1 January 2002	–	1,713	1,713	20,718	24,144
Dividend for 2001, paid	–	–	–	(18,900)	(18,900)
Net profit for the period	–	–	–	29,413	29,413
Appropriations	–	908	908	(1,816)	–
	<u>–</u>	<u>2,621</u>	<u>2,621</u>	<u>29,415</u>	<u>34,657</u>
At 30 September 2002	–	2,621	2,621	29,415	34,657
At 1 January 2003	57,242	5,108	5,108	32,077	99,535
Dividend for 2002, paid	–	–	–	(13,200)	(13,200)
Net profit for the period	–	–	–	41,821	41,821
	<u>57,242</u>	<u>5,108</u>	<u>5,108</u>	<u>60,698</u>	<u>128,156</u>
At 30 September 2003	57,242	5,108	5,108	60,698	128,156

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

As at 30 September 2003, the Directors, supervisors and chief executives of the Company had the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares

Name of Director	Capacity	Number of Shares	Approximate Percentage of holding
Mr. Liu Xin	Beneficial owner	132,000,000	30.00%
	Interest of controlled corporation	119,625,000	27.19% (note 1)
Mr. Liu Jun	Interest of controlled corporation	119,625,000	27.19% (note 2)
Mr. Wang Xue Zhi	Beneficial owner	9,636,000	2.19%
Ms. Liu Yong	Interest of controlled corporation	49,500,000	11.25% (note 3)
Mr. Zhang Jie	Interest of controlled corporation	19,239,000	4.37% (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, Mr. Liu Xin is deemed, under the SFO, to be interested in approximately 27.19% interest in the Company apart from his 30% personal 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 SFO, 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 approximately 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 SFO, to be interested in approximately 11.25% interest in the Company. Mr. Liu 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 SFO, to be interested in approximately 4.37% interest in the Company.

(b) Interest in underlying shares pursuant to equity derivatives

Save as disclosed above, for the nine months ended 30 September 2003, no Directors or supervisors or chief executives have been granted any rights to subscribe H Shares of the Company.

Save as disclosed above, as at 30 September 2003, none of the Directors or supervisors or chief executives of the Company has any personal, family, corporate or other interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations, as defined in the SFO.

INTEREST DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30 September 2003, the following, not being Directors or supervisors or chief executives of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions of 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or substantial shareholders as recorded in the register required to be kept by the Company under 336 of the SFO:

Long positions in Shares

Name	Capacity	Number of Shares	Approximate Percentage of holding
Shenzhen Langqu	Beneficial owner	119,625,000	27.19% <i>(note 1)</i>
Shenzhen De Shi Yu	Beneficial owner	49,500,000	11.25% <i>(note 2)</i>

Notes:

- (1) The legal and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all Shares registered in the name of Shenzhen Langqu under the SFO.
- (2) The legal and beneficial interests in the shares of Shenzhen De Shi Yu are owned by Ms. Liu Yong as to 60%. Ms. Liu Yong is therefore deemed to be interested in all Shares registered in the name of Shenzhen De Shi Yu under the SFO.

Save as disclosed above, as at 30 September 2003, the Directors, Supervisors or chief executives of the Company were not aware of any other person (other than Directors, Supervisors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in the Prospectus of the Company dated 30 September 2002. No option was granted by the Company under the share option scheme since its adoption.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 30 September 2003, the Group had the following transactions with connected parties as defined in 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 period 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 nine months ended 30 September 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 30 September 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, 13 November 2003