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)

Annual Report 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This annual report, for which the directors of Launch Tech Company Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Launch Tech Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Our Mission

With an aim to be the pioneer of the automotive aftermarket in the PRC, Launch Tech Company Limited (the "Company" or "Launch") and its subsidiaries (the "Group") is committed to the provision of the most superior and advanced products, technologies and services to the automobile service and manufacturing industry as well as car owners in the PRC and the world.

Capitalizing on its strong research and development team and market sensitivity, and the cost competitiveness of manufacturing in the PRC, the Group aims at being a new driving force of the world's automotive aftermarket.

Corporate Information

DIRECTORS OF THE COMPANY

Executive Directors
Mr. Liu Xin *(Chairman)*
Mr. Liu Jun *(Chief executive officer)*
Professor Wang Xue Zhi

Non-executive Directors
Ms. Liu Yong
Mr. Zhang Jie

Independent Non-executive Directors
Mr. Zhang Xiao Yu
Professor Hu Zi Zheng

SUPERVISORS

Ms. Hou Wen Tao
Mr. Guo Jian Yuan
Mr. Wang Xi Lin

QUALIFIED ACCOUNTANT

Mr. Liu Chun Ming, *ACCA*

COMPANY SECRETARY

Mr. Liu Chun Ming, *ACCA*

AUDIT COMMITTEE

Mr. Zhang Xiao Yu
Professor Hu Zi Zheng
Mr. Liu Jun

COMPLIANCE OFFICER

Mr. Liu Jun

AUTHORISED REPRESENTATIVES

Mr. Liu Jun
Mr. Liu Chun Ming, *ACCA*

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

SPONSOR

Core Pacific – Yamaichi Capital Limited
36th Floor, Cosco Tower
New Millennium Plaza
183 Queen's Road Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Woo, Kwan, Lee & Lo
27th Floor,
Jardine House
1 Connaught Place
Hong Kong

As to PRC law:
SD & Partners
19th – 20th Floors
Office Tower Block B
Saint Pavilion Hotel
No. 4002, Hua Qiang Road North
Shenzhen, the PRC

PRINCIPAL BANKERS

China Everbright Bank
Shenzhen Branch, Honglilu Sub-branch
Block 501,
Honglilu Shangbu Industrial Zone,
Shenzhen, the PRC

Shenzhen Commercial Bank
Huaxin Sub-branch
1st Floor, Shanghang Building
Hongli West Road
Shenzhen, PRC

Shenzhen Development Bank
Huafulu Sub-branch
General Building, Huali Co.,
No. 118, Zhenhua Road
Shenzhen, PRC

Industrial Bank
Shenzhen Branch
1/F., Pacific Building
No.4028 Jiabin Road
Shenzhen, PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Xin Yang Building
Bagua Number Four Road
Futian District
Shenzhen, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat A, 8/F
Win Base Centre
208 Queen's Road Central
Hong Kong

STOCK CODE

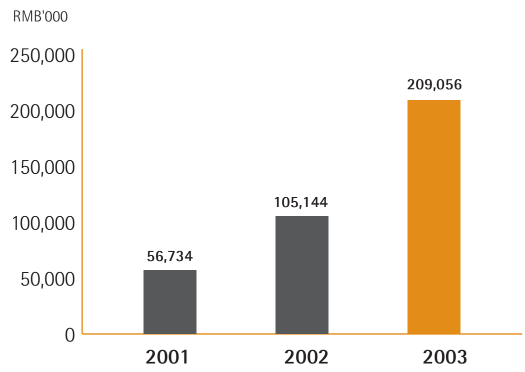
8196

Financial Highlights

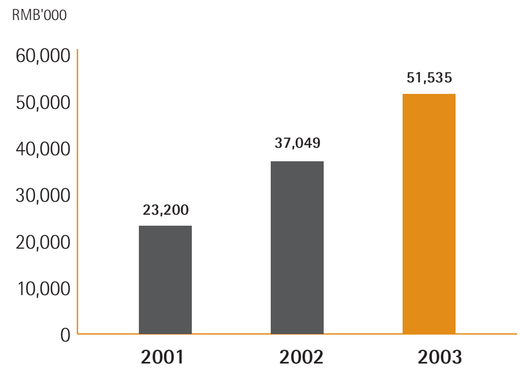
	At 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES			
Total assets	**465,007**	192,066	108,644
Total liabilities	**(162,557)**	(48,343)	(51,348)
Minority interests	**(228)**	(188)	(152)
Shareholders' funds	**302,222**	143,535	57,144

	For the year ended 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Turnover	**209,056**	105,144	56,734
Profit from operations	**62,758**	42,714	24,697
Net profit	**51,535**	37,049	23,200
Earnings per share – basic	**0.113**	0.104	0.070

Turnover



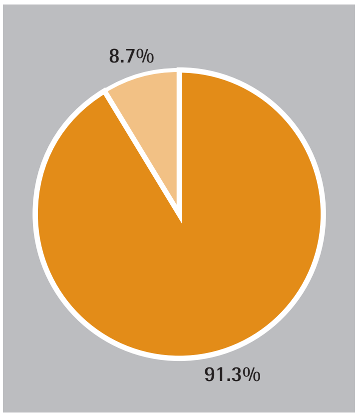
Net Profit



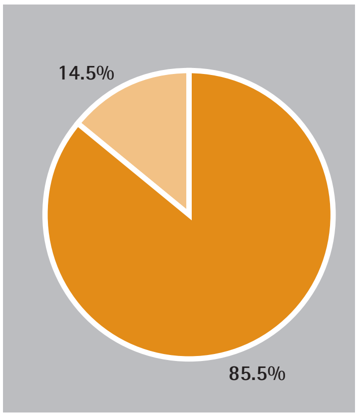
Financial Highlights

	For the year ended 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Turnover			
Computerized automotive diagnostic and testing systems	**182,900**	89,932	51,792
Other automobile maintenance products	**26,156**	15,212	4,942
	209,056	105,144	56,734

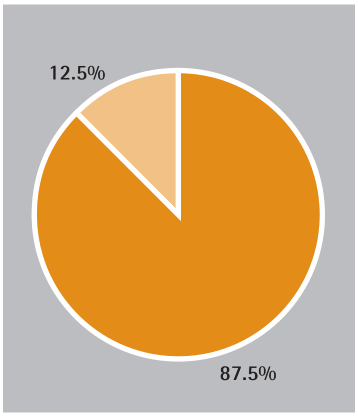
2001



2002



2003



Computerized automotive diagnostic and testing systems

Other automobile maintenance products

Chairman's Statement

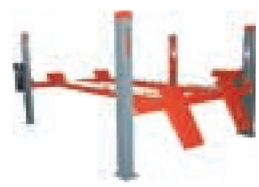
Liu Xin (Louis Liu)
Chairman

WIMC >

< X431 Electronic Eye

v TWC-502 Tire Changer

TLT-502 2-Post Lift



TLT-504 4-Post Lift

On behalf of the board of Directors (the "Board"), I am pleased to present the Group's annual report for the year ended 31 December 2003 to the shareholders.

The Group maintained rapid development in 2003 and captured the growth opportunities of the automobile industry and market of the PRC, and achieved satisfactory results. In order to capitalize on the cost advantage of manufacturing in the PRC, in October 2003, the Company had further placed 80,000,000 H Shares at the placing price of HK$1.5 per H Share. The net proceeds of HK$113 million were used to invest in the automotive lifter plant in Shanghai.

OPERATING RESULTS

In the financial year 2003, the Group's turnover and net profit were approximately RMB209 million and RMB52 million respectively, representing a growth of approximately 99% and 39% respectively over the previous corresponding period. At the forthcoming annual general meeting on 18 June 2004 (Friday), the Board will propose a payment of dividends of RMB3.5 cents per share for the year ended 31 December 2003.

BUSINESS REVIEW

Since our listing in 2002, in order to fully cover the automotive aftermarket, the Group had, in 2003, reclassified the product lines into automotive diagnostics, testing, maintenance, machinery, information, tools and auto electronics, and the number of products had also increase to 60 categories currently from over 30 categories, in which, machinery, tools and auto electronics were newly developed product lines, extending our product coverage from high end to low end equipment. Besides, more efficient organization and allocation of resources were achieved with the establishment of seven major product divisions for each of the product lines as well as both the domestic and overseas marketing departments. By doing so, the production and research and development of the Group would be more catered to market needs, and would result in more speedy launching of new products in both domestic and overseas markets.

KWA-501 Wireless > Wheel Aligner

CCC-201 Engine > Cooling System Cleaner

MRF-301 A/C Service Station

CCC-401 > Maintenance Center

∨ Hand Tools

Hand Tools

KWB-502 Wheel Balancer

BUSINESS REVIEW (continued)

In 2003, we further expanded the market share of our automotive diagnostic products in the PRC. The X431 Electronic Eye, launched in the second quarter of 2003, was well received by the market, due to its complete coverage of the vehicle and strong online upgrading capability. About 11,000 sets of the products were sold throughout the year with approximately 40% sold overseas. Meanwhile, the 431ME Electronic Eye and ADC2000 Auto Diagnostic Computer were refined into specialized equipment for automobile manufacturers. Also, more than 20,000 sets of Creaders were sold.

The Group had developed the specialized products of automotive testing systems, namely Wheel Alignment System, Engine Analyzer, Exhaust Analyzer and Integrated Testing Line. Integrated Testing Line had long been the designated equipment in the franchised repair outlets of Shanghai Volkswagon, while sales of three other products were also growing steadily. We had also launched innovative products with proprietary rights such as Wheel Alignment System, Five Gas Exhaust Analyzer and Nitrogen Gas Converter, paving the way for further business development.

In 2003, the Group focused on the development and enhancement of products for auto maintenance equipment business. The Fuel Injection Cleaning Machine, which had become the core product of the product line, contributed satisfactory sales for the Group. During the same period, the Group had also developed a new series of auto cleaning systems.

As for the automobile service information business, six versions were developed for the LAMN software to meet the needs for information and e-commerce by various types of repair outlets. Meanwhile, our customer base of the iLAM network had increased to 600 customers in Shenzhen, and letters of intent for cooperation had also be signed with the transport departments of the Nanchang and Xian city, raising hope of promoting this business to the whole country.

BUSINESS REVIEW (continued)

The products of our auto machinery equipment division include automotive lifts, tire changers and wheel balancers, which were the necessities of most repair shops with enormous market demand from both the domestic and overseas markets. In 2003, the Group had set up a plant in Shenzhen manufacturing Tire Changers and Wheel Balancers with respective annual production capacity up to 5,000 sets each. At the same time, the automobile lifter plant in Anting, Shanghai was established.

In meeting customers' requirement, the tools division focused on design and purchasing tools used by the repair mechanics in the form of OEM. In 2003, the Group had become the designated tools supplier of Zhonghua Auto, which laid a good foundation for developing business of supplying to automobile manufacturing.

The automobile electronics division specializes on the development of positioning systems. In 2003, we had focused on fundamental research, especially in the areas of auto positioning, navigation and TPMS (tire pressure monitoring system) with good results achieved. The above products will be launched in 2004.

Construction of Automobile Lift Plant in Shanghai

The construction of the automobile lifter plant in Shanghai represented the single largest investment by Launch in 2003, aiming strategically at entering the mechanic equipment manufacturing domain of the automotive aftermarket. We hope to make this factory a world-class and the world's largest automotive lift manufacturing base.

Automotive lift itself has come into being for over 80 years, which can be traced back to its early years of production in the U.S. and Europe, but along with the development of China's automobile industry, several automotive lift manufacturing factories emerged in China. Notwithstanding the above-mentioned fact, Launch has seen the prospect of its development, knowing that the industry has a long history yet full of new opportunities, which lies in the application of new technologies, production with economies of scale, low costing and global marketing.

We have designed excellent Launch lifts in a short period of several months. The lifts manufactured by Launch has met all the requirements of the U.S., Europe, Japan, Australia and China standards , with application of the state-of-the-art computer technologies, such as lifting height setting and automatic equilibrium calibration. Meanwhile, we have also invented the unique LCB (Lift Control Bus) and MWS (Maintenance Warning System). I can predict that many new technologies applied by us today will become the new product benchmark in the industry tomorrow. Taking advantage of our new type of lift, and thus by creating value for our partners and users across the world with our faithful commitment, Launch is set to become the world's number one in this industry.

Located at Anting Town, Jiading District of Shanghai, the Anting factory occupies an area of approximately 60,000 square metres. The gross floor area of Construction for Phase One Project is approximately 25,000 square metres. The whole factory has adopted first-class design, production equipment, technique and layout. The factory is designed to produce 28,000 sets of lift per year with 80% of its products exporting to the overseas market.

PROSPECTS

With the establishment of the seven business divisions, the market competitiveness of Launch's products has been greatly enhanced. In 2004, our focus will be on market building in the hope of establishing the "Launch" brand in the global automotive aftermarket.

PROSPECTS (continued)

The Group had achieved satisfactory growth in overseas sales in 2003 particularly in the S.E. Asia, Middle East and Russian markets. With the formal entry into the major markets of N. America, Europe, and Japan by the end of 2003, it is expected even greater improvement in overseas sales in 2004. X431 Electronic Eye, Creaders, Lifts, Tire Changers and Wheel Balancers will the core areas of overseas sales in 2004. We would gradually launch other products including Wireless Wheel Alignment System, Five Gas Exhaust Analyzer and Fuel Injection Cleaning Machine in the overseas market. We hope that those products would contribute substantial revenue in 2004.

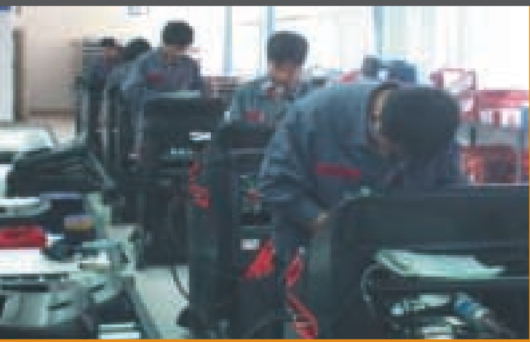
2004 will also be the year of setting up channels in the PRC by the Group. We will change the traditional business model and adopt a model with emphasis on both direct sales and distribution. To begin with, a total of 100 mobile sales vehicle will be seen moving in 8 cities in the PRC to promote mobile sales. Each mobile sales vehicle will carry the logo of "Launch" on its body and with a display of various kinds of small product items inside. The sales vehicles, as driven by salesmen of various branches of the Group across the country, will follow fixed routes everyday and visit our end users along the road. It is anticipated that the mobile sales vehicles will minimize the distance between Launch and the end users in the PRC, improve our revenue and cash flow as well as creating low cost but enormous advertising effect. Moreover, we have also renovated all the GDs and franchised dealers in the PRC into "A Stores" which will offer sales of Launch products, maintenance and beauty products and other automobile services. For such purpose, we have set up the specialized "A Store Business Division" to coordinate and manage the business of mobile sales vehicles and the Launch "A Stores", hoping that they will one day become the main merchandise distribution channels of the automotive aftermarket in the PRC.

Launch will pay more attention to research and development. We will launch a 2.5G communication network based mini positioning device, WIMC, in the middle of 2004, to enable the car owner to perform positioning operations using mobile phones at relatively low cost. Also, we will design and develop new generation of automotive video and audio equipment to anticipate the coming era of automotive information age.

Looking ahead, all the staff of the Group will continue to serve with dedication and innovation to deliver better returns to our shareholders and investors.

Liu Xin
Chairman

Shenzhen, the PRC
30 April 2004



^ Opening Ceremony of the Shanghai Lift Plant

Launch Vans >

< Tire Changer Plant

FINANCIAL REVIEW

Audited consolidated turnover of Launch Tech Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2003 amounted to approximately RMB209,056,000, representing a growth of approximately 99% over 2002.

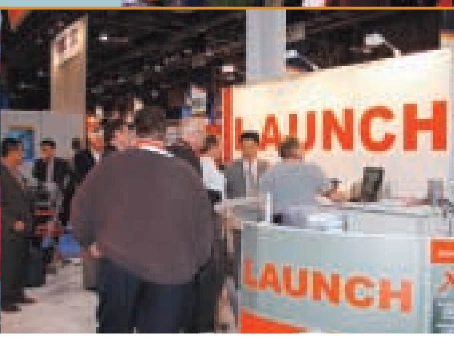
Audited profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2003 amounted to approximately RMB51,535,000 and RMB11.3 cents respectively. Profit attributable to shareholders grew approximately 39% compared with the previous year. The Group's financial conditions significantly improved with the completion of its product lines, the expansion of its sales network and the execution of effective market strategies, which enhanced Launch's market recognition and business development in the year.

Financial resources and liquidity

The Group adheres to a prudent financial management policy and has a healthy financial position. The Group had cash and bank balances of approximately RMB173,348,000 as at 31 December 2003.

As at 31 December 2003, shareholders' equity of the Group amounted to approximately RMB302,222,000. Current assets amounted to approximately RMB362,712,000. The Group's long-term liabilities amounted to approximately RMB8,934,000 which comprised non-current secured loans of RMB5,549,000, and its current liabilities amounted to approximately RMB153,623,000, which comprised short term bank borrowings amounting to approximately RMB76,300,000, and the remainings were mainly account payables and accruals. The Group's net asset value per share amounted to approximately RMB0.58. The Group's gearing ratio which represented the percentage of bank borrowings over gross asset value, was 28%.

For the year ended 31 December 2003, most of the Group's income was denominated in RMB whereas all overseas sales were settled in USD, and expenses were paid in RMB. Therefore, the Directors consider that the Group was not under substantial foreign exchange exposure.



^ 8th Launch Auto Aftermarket Forum

Exhibition in Europe >

< Exhibition in the United States

FINANCIAL REVIEW (continued)

Clarification of auditors' opinion

In view of the Group's auditors were unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 or of the profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Directors wish to clarify the followings:

1. Except for the inventories with a book value of approximately RMB13,860,000 which had erroneously been excluded from the stock lists provided to the Group's auditors at the time of the inventory count, the Directors are of the view that the Group's remaining inventories with a book value of approximately RMB60,156,000 as at 31 December 2003 were included in the inventory lists and were subject to physical count and hence, were free from any material misstatement.

2. As regards to overseas sales, approximately RMB26 million were supported by documentary evidence, including customs declaration documents, which had already been provided to the Group's auditors. The Company did not obtain customs declaration documents for the remaining sales made to overseas customers of approximately RMB26 million in the year 2003, mainly due to the following reasons: (1) goods were sent to overseas customers individually by air or express mails, particularly for the Group's diagnostic products; (2) goods were picked up at the Company's Shenzhen head offices by the Group's distributors from Hong Kong and other Asian countries; and (3) goods were sold to overseas customers during exhibitions.

   Furthermore, the Directors confirm that the Company had received proper confirmations of sales recorded in 2003 and outstanding accounts receivables as at 31 December 2003 from the Group's major overseas customers, and there had not been any abnormity regarding the subsequent settlement of outstanding accounts receivables relating to the Group's overseas sales in year 2003.

FINANCIAL REVIEW (continued)

3. For the outstanding enterprise income tax payable of approximately RMB6,961,000, the Company had filed an application for enterprise income tax exemption with the local tax bureau in May 2003 and is awaiting approval from the local tax bureau which would exempt the Company from paying enterprise income tax for the three years ending 31 December 2004. For the outstanding value added tax payable of approximately RMB22,157,000, the Directors confirm that the Company is currently in the process of negotiating with the local tax bureau regarding an appropriate payment schedule.

Employees

As at 31 December 2003, the Group had 1,360 and 40 employees based in the PRC and overseas respectively. Staff costs, excluding directors' and supervisors' emoluments, totaled approximately RMB23 million (2002: approximately RMB13 million). The Group remunerates employees based on their performance and experience. It has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares. The Group also offers benefits such as professional training programs to staff to enhance their skills, knowledge and sense of loyalty.

Others

As at 31 December 2003 and 2002, the Group did not hold any material investments.

As at 31 December 2003 and 2002, apart from the pledged bank deposits of approximately RMB2,160,000 (2002: approximately RMB 393,000) and certain pledged property and motor vehicles of approximately RMB9,638,000, the Group had no other pledged assets.

As at 31 December 2003, the Group had no material future investment, other than the acquisition of capital assets purchases as mentioned in the section headed "Statement of business objectives" in the Company's prospectus issued on 30 September 2002 (the "Prospectus"), the share placing announced in 9 July 2003 and the construction of the new corporate headquarter in Shenzhen in the second half of 2004 as stated in the circular of the Company dated 21 November 2003 ("the November 2003 Circular").

As at 31 December 2003, the Group did not have any material contingent liabilities.

For the two years ended 31 December 2003 and 2002, the Group did not undertake any substantial acquisitions and disposal of subsidiaries and affiliated companies.

BUSINESS REVIEW

Overview

The Group recorded a satisfactory turnover of approximately RMB209,056,000 in 2003, representing a growth of 99% over 2002, mainly because the Group actively developed new products and participated in trade exhibitions to enhance Launch's brandname recognition, and enriched its experience in marketing and efficient distribution. As at 31 December 2003, domestic sales of the Group amounted to approximately RMB156,756,000, and representing a growth of 74% as compared with 2002 and 75% of the total turnover (2002: 86%). Overseas sales of approximately RMB52,300,000, accounting for 25% of the total turnover. In 2004, the Group will more actively develop overseas markets.

The rapid growth of sales in 2003 was mainly attributable to: (1) the wider recognition of the "Launch" brand after the Group's successful listing in Hong Kong in 2002; (2) the Group's local branches in domestic market was fully in place with high calibre personnel and improved management; (3) a well-trained sales team of the Group set up in the domestic market; (4) the expanded product lines of the Group which provided a wider variety of products for sale; and (5) increased input in the market by the Group in view of the golden opportunity opened with the rise of the domestic automotive aftermarket.

Sales and Marketing

In 2003, the Group successfully launched the new generation of automotive diagnostic system, X431 Electronic Eye, in great quantity. Based on the Linux operating system, this product was featured by its advanced functions, fast upgrading, fair price and easy operation. This product had made tremendous impact upon competitors in the same market in China. The market share of the Group's X431 Electronic Eye had seen a rapid rise in the domestic auto diagnostic computer market. In 2003, not only did the Group lead far ahead of competitors with its auto diagnostic computers, it's other products series, such as testing, cleaning and tools, also recorded a rapid growth.

A breakthrough was made by the Group for 2003 in the provision of total equipment solution services ranging from site selection, interior planning to the supply of equipment for 3S outlets and 4S outlets of domestic automobile manufacturers and various auto repair chains. It was also a highlight of domestic business development of the Group in 2003, particularly the robust business growth of total equipment solution services in our Shenzhen Branch and Guangzhou Branch in South China.

In 2003, in line with our well-formulated plans of expanding major customer base and maintaining strategic partnerships with them, the Group continued to actively develop the business of major customers. The Group had entered into a cooperation agreement with Chonche Auto Service (Group) Corporation (中車汽修集團總公司) ("Chonche Auto Service"), a subsidiary of the China National Blue Star Group (中國藍星集團), with a term of five years. According to the agreement, the Group will become the exclusive supplier of Chonche Auto Service over the future five years in provision of repair accessory equipment and automobile service information management software systems, with a value at RMB200 million, and technical trainings to the PRC automobile repair service chains established by Chonche Auto Service. In 2003, the automotive information management software developed by the Group on its own was successfully adopted by the 3S and 4S outlets of automobile manufacturers such as Beijing Hyundai, Shanghai Chery, Chunghua Auto and JAC. Meanwhile, the Group had developed specialized auto diagnostic computers for automobile manufacturers such as Changhe Auto, Zhejiang Wanfung, Southern Auto Wuxi, Nanjing Iveco, Beijing Jeep, Hainan Mazda, Shanghai Chery and JAC.

BUSINESS REVIEW (continued)

From 2003 onwards, the Group began to adopt the strategy of developing direct sales as the main sales channel to compliment its distributors' network, and the Group re-organized its existing network of distributors in 2003 in the context of the domestic automotive aftermarket and the actual conditions of the Group. The Group had firmly supported certain key distributors for their business development with the view of enhancing value to both the distributors and the Group. Meanwhile, certain small distributors which failed to comply with the Group's marketing requirements were eliminated. In addition, the Group had established distributors for different products lines, among them, the distribution network for the Group's tool products in particular was gradually formed across the country in 2003.

In 2003, the Group acted to establish a direct sales network. As at 31 December 2003, the Group had established ten main branches in Beijing, Shanghai, Guangzhou, Shenzhen, Shenyang, Chengdu, Xian, Wuhan, Lanzhou and Quanzhou. Currently, the Group's network of domestic market has already covered all provinces (municipalities), except Tibet. The full year operation in 2003 demonstrated that direct sales has facilitated the Group's control over the end user market and helped quicken the Group's response to the market, and hence improving the efficiency of sales. However, the practice of direct sales had presented greater challenges to the Group's overall management.

For the future business development in domestic market and the successful shifting of channel strategy of the Group, we implemented a great investment plan in 2003 to form a mobile sales fleet of 500 vehicles within five years. By the end of the year, the first batch of vehicles was in place. Mobile sales vehicles will soon become a powerful sales tool of the Group right at the end user market.

In 2003, the Group fully utilized various marketing tools and means including advertisement, promotion, exhibition, promotional conference, training session, industry forum and public relation activities, to push forward the development of business in the domestic market.

(1) In the first half of 2003, the Group conducted new product promotion conferences in six major cities including Beijing, Shanghai, Guangzhou, Chengdu, Wuhan and Xian. End users, government officials and scholars were invited to attend these high recognition conferences. In March and April, a hundred training sessions were organized across the country by our customer service department in the domestic market. From October to December, 33 promotion and training sessions were jointly organized by our domestic marketing department. Meanwhile, various branches of the Group kept on organizing training promotion conferences on monthly or off monthly basis.

(2) Besides, the domestic marketing department of the Group had also participated in 12 trade fairs in the industry, including "The 40th National Exhibition of Automobile Maintenance, Repair, Testing and Diagnostic Equipment and Automobile Tool Services and Products", "The 10th China International Exhibition of Automobile Repair Technology, Tools and Equipment", "China International Exhibition of Automobile Cleaning, Oil Products, Refueling Machinery and Maintenance Products", and "2003 Autumn Trade Fair of Metallic Merchandise".

(3) For its advertising campaigns, in 2003, the Group mainly adopted means of magazine advertisement, outdoor advertisement, store advertisement and promotional pamphlets. The Group continued to maintain good cooperative relationship with the five big national media of the industry. During the year, more resources were allocated to outdoor advertisement with billboards erected in automobile accessories markets and main sections of highways in Shanghai, Zhejiang, Jiangsu, Guangzhou and Shenzhen. The Group also strengthened its marketing effort by keeping good cooperative relationships with the mass media of newspapers.

BUSINESS REVIEW (continued)

(4) On 19 August 2003, the annual "Forum of High New Technology of the Launch Automotive Aftermarket" sponsored by the Group was opened in Shenzhen and marked a number of records in terms of its manner, the number and capacity of participants, and the total value of contracts made. According to our statistics, more than 1,500 domestic and overseas visitors were attracted to the forum with senior officials administering the industry attending in person. The forum has already become a renowned brandname in the domestic automotive aftermarket as well as a valuable intangible asset of the Group.

In the second half of 2003, in order to enhance customer's satisfaction, the representatives from our customer service department for domestic market were specially arranged to visit customers regularly to see to what extent they were satisfied with the Company and its products, and to collect their suggestions. At the same time, the technical support team of the department was further expanded.

In line with the business growth of total equipment solutions services, our domestic marketing center timely set up the automobile manufacturer equipment solution service team in 2003, which paved the way for the robust development of this business in the year.

Research and development

Major Research and Developments in 2003

- Feature enhancements of X431 Electric Eye and product segmentation

  Features of X431 have covered models in Japan, Europe and America such as Benz-38, BMW-20, Toyota-17, Toyota-17F, Honda-3, Mitsubishi, Hyundai-12416, Audi-4, Chrysler-6, Mazada-17, GM, Daewoo-12, Kia-20 and Ford -6+1. The 431XP series feature diagnostics, oscillograph, electric energy testing, sensor simulation, generator analysis, multifunctional meter reading and repair database. X431-PC possesses the same diagnostic features and automobile database. Equipped with a diagnostic system, MX431 is a customised PDA made for car owners.

- Development of 3D positional parking near completion

  The graphic data processing software is thoroughly revised, which has basically resolved issues such as frontal light interference and reflections from the ground, car body etc. The new testing procedure has been proven feasible through repeated testing and has been further enhanced with an added testing software for the dashboard. Testing results have shown fluctuation around 0.5 degree with variance within 0.07 degree. Next step is to focus on increasing the stability of major on site testing and the precision for later testing.

- Master plan amendment of mobile container inspection line

  In keeping with the new strategic thinking and special tactical requirements of the army, the master plan is revised from the original trailing to integration mode. The entire length is reduced from 12m to 7.5m. Unloading will operate by an mechanical arm instead of the original four-columnar mode. Overall design is made for force reorganization. At the same time, similar institutional feasibility study is made to ensure the viability of the new plan.

BUSINESS REVIEW (continued)

- Development of iLAM 5.0

  Video broadband monitoring system was developed which effectively prevented the illegitimate operations and enhanced the timeliness of the system and creditability of the information. 400 video monitoring systems had been installed and tested, and the SMS system and the level II maintenance system of the vehicles were completed. Real-time online monitoring functions of the system were also implemented, with problems fixed and steadiness of the system enhanced.

Management

The Group had continued to strengthen internal management to accommodate a more rapid pace of business expansion since its listing in 2002. From early 2003 onwards, in order to push for more efficient development of all product lines and, closer coordination among research and development and production and sales, the Group set to restructure its business organization and redefine its automotive aftermarket product lines into seven business divisions as follows:

- diagnostic equipment
- testing equipment
- maintenance equipment
- machinery equipment
- automobile service information
- tools
- automotive electronics

The business restructuring had been progressing smoothly with the recruitment of a number of brilliant staff members whom will be trained to become professionals to meet the requirement for the development of various business divisions.

Construction of new plant

The Group had commenced the construction of the automotive machinery equipment factory in an attempt to increase its range of products and hence to increase revenue streams. The new plant is to produce automotive lifts which are the essential machinery equipment for the automobile repair industry, and have high market demand both at home and abroad. The management believes that this new plant will take advantage of lower costs of raw materials and labour in China as well as Launch's distribution channels in the overseas automotive aftermarket. After several months of careful investigation and discussion, the location of this new plant is selected at the Shanghai International Automotive City in the Jiading District of Shanghai, the area allocated by the Shanghai Municipality for automotive industry and is adjacent to China's first Formula One race track in future; it is also close to steel product suppliers and ports, that will offer the Group with the advantages of adequate supplies of materials, convenient transportation, as well as the relatively low costs of purchase and transportation. Highly qualified production engineerers are also available in the local region. Armed with its excellent technologies and technical personnel, the Group is expected to supply high quality and low priced machinery equipment in the automotive aftermarket.

BUSINESS REVIEW (continued)

Thanks to the support of the investors, the Company successfully placed a total of 80,000,000 new H shares in October 2003. Net proceeds raised was approximately RMB120,000,000, which were used to finance the construction of the lifter plant in Shanghai.

The construction of the plant was completed in March 2004. Trial production has already begun, and the plant is expect to make profit contributions to the Group in the third quarter of 2004.

PROSPECTS

Sales and marketing

We firmly believe that the next 10 to 20 years will be the prime period of the fast development of China's automobile industry, and the automotive aftermarket, in which the Group is involved, will be one of the sectors most worthy of investment in China during these years or a even longer period. With this vision, the Group has formulated a number of key development strategies for the domestic market in 2004. The Group will persist in developing direct sales as the main sales channel being supported by the distributors' network and intensify penetration into the domestic market by utilizing the mobile sales vehicles and the Group's existing and expanding network. In addition, the Group will focus on brand building in domestic market to boost the Group's sales with the brand name, and develop the total equipment solutions business by taking advantage of opportunities resulting from the trend of establishment of 3S and 4S outlets by large automobile manufacturers as well as network building by various auto repair chains. Meanwhile, the Group will standardize the management of each domestic branch for a more unified, sophisticated and efficient operation, while making additional efforts to the quality of logistics and customer services.

In 2004, overseas market expansion will continue to employ the strategy of developing distribution network and launching key products. We will pay particular market attention to North America, Europe and Japan. We will use our core products, i.e. automotive diagnostic system and mechanical equipment, to open up the above three major markets while developing an effective local distribution network. In terms of publicity, apart from active participation in major exhibitions around the world, we will advertise in major trade publications and will support local distributors. We will also expand our marketing efforts in the Middle East, Russia and the South East Asia in the quest of becoming one of the leading automobile service equipment providers in these markets.

Management

The Group is committed to ongoing efforts in improving corporate management through introduction of advanced management approach. ERP implementation will be finalized in April 2004. ERP will provide a unified platform for management in sales, production, purchasing and finance, which will significantly increase our management and resources utilization efficiencies.

The Group will establish and continue to improve its financial management system, which will be budget oriented. This will establish a cost-effectiveness philosophy and strengthen accounting control of income, costs and expenses, thereby encouraging the accomplishment of operating goals.

PROSPECTS (continued)

The Group will execute a new human resources management system based on functional management and performance appraisal in order to increase staff quality, optimize personnel structure and enhance motivation. The Group will also emphasize staff training and development to help the implementation of the Group's business development strategy.

Research and development ("R&D")

In the coming year, the diagnostic business division will launch the 431XT Electronic Eye, which is the upgraded version of the existing X431 Electronic Eye empowered with additional functions of engine analysis, electric energy testing (capacity, internal resistance and life). The testing business division will commence development of KE503 Exhaust Analyzer, which can perform analyses on each of the five gases (CO, CO_2, HC, NOX, and O_2) to be combined with the opaque smoke meter. It can also perform electricity, fire and revolution test on the generator. The automotive electronics business division will develop WIMC designed for remote positioning and management of such services and operations. This small and fine piece of device can be hidden in the car, covered by a person or an animal, for the purpose of tracing and security. The ICAR608 navigation e-map will also be launched to the market in 2004. Machinery equipment business division will launch lift, tire changer and wheel balancer with advanced features of mileage record, height setting maintenance record and work time record, meeting the needs of international market. Maintenance business division will launch new models of cooling and checking meter, liquefied chlorine checking meter, EPG small meter testing series, newly structured CCC-402 automotive maintenance center, and CFC-204/304 cleaning machine for automotive fuel system.

To conclude, our research staff will try every effort to deliver effective and quality products to the automotive aftermarket.

USE OF PROCEEDS

The Company received net proceeds (after deducting relevant listing and placing expenses) of approximately HK$79,200,000 and HK$113,400,000 respectively from the initial public offering of 110,000,000 H Shares in October, 2002 and placing of 80,000,000 H Shares in October, 2003.

For the year ended 31 December 2003 the net proceeds arising from listing and placing of Shares, as set out in the Prospectus and the circular of the Company issued on 9 July 2003 (the "July 2003 Circular"), were ultilized as follows:

	Intended use of proceeds *HK$ million*	Actual expenditure *HK$ million*
As set out in the Prospectus:		
Strengthening research and development	17.50	8.70
Developing the PRC market	6.40	9.50
Developing overseas markets	4.20	10.00
	28.10	28.20

USE OF PROCEEDS (continued)

The actual use of proceeds from listing of shares exceeded the estimation in the Prospectus. The actual use of proceeds in respect of strengthening research and development is lower than that set out in the Prospectus, because the Company was able to improve the efficiency and effectiveness of research and development of certain products, particularly wheel alignment system and X431 Electronic Eye, during 2003. The unutilized proceeds were held as short-term bank deposits. The Directors consider that the net proceeds will be sufficient for the requirement of future business objectives as stated in the Prospectus.

	Intended use of proceeds *HK$ million*	Actual expenditure *HK$ million*
As set out in the circular:		
Construction of a production base of lifter in Shanghai	68.04	31.92
Enhancing the existing capacity of the plant	22.68	32.01
Expanding distribution channels by setting up overseas offices	11.34	–
Working capital	11.34	–
	113.40	63.93

As at 31 December 2003, the actual use of proceeds from placing of shares was less than the estimation in the July 2003 Circular as part of the proceeds will be utilized in 2004, the unutilised proceeds were held as short-term bank deposits. The Directors consider that the net proceeds from placing will be sufficient for the requirement of future business development as stated in the July 2003 Circular.

Review of Business Objectives

COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS

The following is the comparison between the Group's actual business progress for the period from 1 July to 31 December 2003 and its various business objectives as stated in the Prospectus is as follows.

	Expected progress of projects	Actual progress of projects
1. Research and development	Continue to increase functionality and introduce upgraded version of ADC2000	Research and development of the project was completed and ADC 2000 has been refined as a customised equipment for automobile manufactures.
	Continue to research and develop 3D wheel alignment system	Research and development of the project was completed, and upgrade testing was in progress.
	Continue to increase funtionality of "mobile container testing line" and introduce upgraded version	In progress
	Testing, completion and trial operation of "Automobile Satellite Positioning, Logistics and Diagnostic System" on the trucks of VOLVO model	The project was terminated due to market uncertainties and the excessive time required.
	Launch of GPS and GSM version of automobile remote monitoring system	They have been changed to CDMA based mini positioning device - WIMC, and is expected to be launched in mid 2004.
	Continual research and development of iLAM version 4.0	Research and development progress is on schedule.
	Launch of iLAM_iLAS service system version 1.1	The project is still in the process of development in view of growing complexities. It is expected to be completed by 2004.

COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

	Expected progress of projects	Actual progress of projects
2. Expansion of PRC market	Continue to expand the Launch GD programme and commence the Total Launch GD Programme by entering into arrangement with 15 operators in strategic locations in the PRC, including Shenyang, Changchun, Harbin, Liaoning and Jilin	The Group's GD project was successfully transferred to "A Chain Development Business Division" in accordance with the Group's development strategy. The former GDs was transformed to be the "A Stores" of the Group. For the sake of prudence, "A Stores" will be set up in major cities across the country in the year except the "A Stores" transferred from the GD project. "A Stores" are planned by the Group to combine automobile services equipment sales, whole sale and retail of automobile maintenance and beauty products and automobile quick repair services three-in-one, and in franchise development.
	Expand the distribution network by entering into arrangement with 8 Launch Franchise Dealers located in strategic locations in the PRC, including Shenyang, Changchun, Harbin, Liaoning and Jilin	Ten dealers were added in South China region, including three franchised dealers and four tool dealers. Furthermore, the direct sales network was enhanced. The Quanzhou branch and the offices in Dongguan, Huizhou, Shantou and Zhongshan were set up.
	Continue to enter into collaborative arrangement with reputable academic institutions in the PRC to establish 10 training centers in strategic locations in the PRC, including Shenyang, Changchun, Harbin, Liaoning and Jilin	All original training centers had met the Group's requirements. Over 500 customers have received trainings in these authorized training centers in the various locations in the first half of the year.

COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

	Expected progress of projects	Actual progress of projects
2. Expansion of PRC market (Cont'd)		The Group concentrated on the development of after-sales service teams. To reinforce the trainings for company staff and customers, a plan is proposed to set up a large training base in the Shenzhen headquarters. This project is currently in the initial preparation stage.
	Continue to participate in major trade exhibitions and forums in the PRC	The Group took part in the exhibitions in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Wuhan and Xian. "The Annual Forum of China's Auto Aftermarket and Launch Annual Meeting," a yearly conference hosted by the Group was held on 19 August 2003 with great success.
	Advertise in trade journal, magazines and press to promote corporate and product brandname	The Group advertised mainly on magazines, road-side billboards and direct mail delivered advertisements, according to the Group's annual marketing plan. The headquarters of the Group advertised in various industry magazines on a monthly basis. Branch offices and dealers of the Group also advertised in local magazines and newspapers according to local market conditions. Road side advertisements were set out in large automobile parts markets and along busy roads in locations including Shanghai, Guangzhou and Quanzhou.

COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

	Expected progress of projects	Actual progress of projects
2. Expansion of PRC market (Cont'd)		"Automotive Aftermarket," a magazine published by the Group, had released six issues and had 50,000 in circulation for the year.
3. Expansion of overseas markets	Continue to expand the Launch GD programme by entering into arrangement with 5 overseas operators in strategic locations, including New Zealand, Poland, Malaysia, United Arab Emirates and the US	According to this plan, GD partners were sought in the US, Canada, Japan, Australia, the Middle East and South America markets. Meanwhile, Launch-authorized training center in South Africa was set up to support the implementation of GD plan in South Africa; the GD project in the Middle East market is also under preparation.
	Expand distribution network by entering into arrangement with 5 Launch Franchise Dealers located in strategic overseas locations, including New Zealand, Poland, Malaysia, United Arab Emirates and the US	Set up branches in the US, Canada, South America, Australia, Middle East, Russia, Germany and Japan, and overseas teams comprised Chinese and local staffs. Successfully added more than 80 overseas dealers. Established an international service center in Middle East to strengthen afters ales service network.
	Continue to participate in major overseas trade exhibitions and forums in Europe, the US, Asia and countries which the Company intends to explore	Participated in trade exhibitions in countries and regions like the US, Germany, France, Australia, Asia, Latin America, Russia, and the Middle East to globally promote our business, publicize the Launch image, and market the Launch products.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is engaged in the provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries. The principal activities of its subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year are set out in the consolidated income statement, consolidated statement of changes in equity on page 48 and page 51 respectively and the accompanying note 27 to the financial statements.

The Directors recommend the payment of a final dividend of RMB3.5 cents per Share to the shareholders on the register of members on 19 May 2004 amounting to approximately RMB18,200,000 and the retention of the remaining profit for the year of RMB42,192,000.

SHARE CAPITAL

Details of movements during the year in the registered and issued share capital of the Company are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group expended an aggregate of approximately RMB17,711,000 million on property, plant and equipment. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Liu Xin *(Chairman)*
Mr. Liu Jun *(Chief Executive Officer)*
Mr. Wang Xue Zhi

DIRECTORS AND SUPERVISORS (continued)

Non-executive directors:

Ms. Liu Yong
Mr. Zhang Jie

Independent non-executive directors:

Mr. Zhang Xiao Yu
Mr. Hu Zi Zheng

Supervisors:

Ms. Hou Wen Tao
Mr. Guo Jian Yuan
Mr. Wang Xi Lin

All Directors and Supervisors have entered into service contracts with the Company, for a term of three years until 20 March 2005.

In accordance with the provisions of the Company's Articles of Association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the Company's Articles of Association and the PRC Company Law, the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election.

None of the Directors or Supervisors has a service contract with the Company which is not determinable by the Company within one year with payment of compensation, other than statutory compensation.

DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors, chief executives and supervisors of the Company in the share capital of the Company and its associated corporations

As at 31 December 2003, the Directors, chief executives and supervisors of the Company have 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 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:

Long positions in Shares

Domestic Shares

Name of Director	Types of interests	Number of Domestic Shares	Approximate percentage of the Company's issued Domestic Shares	Approximate percentage of the Company's total issued Shares
Mr. Liu Xin	(1) Personal	132,000,000	40.00%	25.39%
	(2) Corporate	119,625,000	36.25% *(note 1)*	23.00%
Mr. Liu Jun	Corporate	119,625,000	36.25% *(note 2)*	23.00%
Mr. Wang Xue Zhi	Personal	9,636,000	2.92%	1.85%
Ms. Liu Yong	Corporate	49,500,000	15.00% *(note 3)*	9.52%
Mr. Zhang Jie	Corporate	19,239,000	5.83% *(note 4)*	3.70%

DISCLOSURE OF INTERESTS (continued)

Notes:

(1) Mr. Liu Xin holds 60.00% interest in 深圳市浪曲科技開發有限公司 ("Shenzhen Langqu") which holds approximately 36.25% interest in the issued domestic shares of 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 Part XV of the SFO, to be interested in approximately 36.25% interest in the issued domestic shares of the Company apart from his personal interest of 40.00% interest in the issued domestic shares of the Company.

(2) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 36.25% interest in the issued domestic shares of 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 36.25% interest in the issued domestic shares of the Company, Mr. Liu Jun is deemed, under Part XV of the SFO, to be interested in approximately 36.25% interest in the issued domestic shares of the Company.

(3) Ms. Liu Yong holds 60.00% interest in 深圳市得時域投資有限公司 ("Shenzhen De Shi Yu") which holds 15% interest in the issued domestic shares of 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 Part XV of the SFO, to be interested in 15% interest in the issued domestic shares of the Company.

(4) Mr. Zhang Jie holds 75.00% interest in 深圳市杰欣科技發展有限公司 ("Shenzhen Jie Xin") which holds approximately 5.83% interest in the issued domestic shares of 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 Part XV of the SFO, to be interested in approximately 5.83% interest in the issued domestic shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

DISCLOSURE OF INTERESTS (continued)

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as known to the Directors, as at the Latest Practicable Date, the following, not being a Director or supervisor 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:

Long positions in Shares and underlying Shares in the Company

(i) Domestic Shares

Name	Types of interests	Number of Domestic Shares	Approximate percentage of the Company's issued Domestic Shares	Approximate percentage of the Company's total issued Shares
Shenzhen Langqu	Corporate	119,625,000	36.25% *(note 1)*	23.00%
Shenzhen De Shi Yu	Corporate	49,500,000	15.00% *(note 2)*	9.52%
Shenzhen Jie Xin	Corporate	19,239,000	5.83% *(note 3)*	3.70%

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 Domestic Shares registered in the name of Shenzhen Langqu under Part XV of 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 Domestic Shares registered in the name of Shenzhen De Shi Yu under Part XV of the SFO.

(3) The legal and beneficial interests in the shares of Shenzhen Jie Xin are owned by Mr. Zhang Jie as to 75%. Mr. Zhang Jie is therefore deemed to be interested in all Domestic Shares registered in the name of Shenzhen Jie Xin under Part XV of the SFO.

DISCLOSURE OF INTERESTS (continued)

(ii) *H Shares*

Name	Types of interests	Interests in H Shares long position	Interests in underlying H Shares pursuant to debentures	Approximate percentage of the Company's issued H Shares	Approximate percentage of the Company's total issued Shares
Baring Asia II Holdings (20) Limited	Corporate	44,555,000	–	23.45%	8.57%
Baring Asia Private Equity Fund II L.P.1	Corporate	44,555,000	–	23.45% *(note 1)*	8.57%
Victory Investment China Limited	Corporate	18,500,000	–	9.74%	3.56%
Mr. Wang Ruiyun	Corporate	18,500,000	–	9.74% *(note 2)*	3.56%
Carlson Fund Equity Asian Small Cap	Corporate	32,985,000	–	17.36%	6.34%
Best Dividend Investments Limited	Corporate	–	39,000,000	20.52% *(note 3)*	7.50%
Russell AIF Asia II, L.P.	Corporate	–	39,000,000	20.52% *(note 4)*	7.50%
Russell AIF Investments, L.P.	Corporate	–	39,000,000	20.52% *(note 5)*	7.50%
Russell AIF Investments, Limited	Corporate	–	39,000,000	20.52% *(note 6)*	7.50%
Frank Russell Investments (Delaware) Inc	Corporate	–	39,000,000	20.52% *(note 7)*	7.50%

DISCLOSURE OF INTERESTS (continued)

(ii) H Shares (continued)

Name	Types of interests	Interests in H Shares long position	Interests in underlying H Shares pursuant to debentures	Approximate percentage of the Company's issued H Shares	Approximate percentage of the Company's total issued Shares
Good View Group Limited	Corporate	–	39,000,000	20.52% *(note 7)*	7.50%
Frank Russell Company	Corporate	–	39,000,000	20.52% *(note 8)*	7.50%
The Northwestern Mutual Life Insurance Company	Corporate	–	39,000,000	20.52% *(note 8)*	7.50%

Notes:

1. Baring Asia Private Equity Fund II L.P. 1 is interested in 47.14% of the issued share capital of Baring Asia Holdings (20) Limited. Therefore, by virtue of Part XV of the SFO, the H Shares in which Baring Asia II Holdings (20) Limited is shown as being interested are included in and duplicate with interest in the H Shares held by Baring Asia Private Equity Fund II L.P. 1.

2. Mr. Wang Ruiyun is interested in 62.5% of the issued share capital of Victory Investment China Limited. Therefore, by virtue of Part XV of the SFO, Mr. Wang Ruiyun is deemed to be interested in all the H Shares held by Victory Investment China Limited.

3. The Subscriber is taken to be interested in the Bonds by virtue of the Subscription Agreement and is accordingly also taken to be interested in the underlying H Shares of the Bonds under Part XV of the SFO. Upon the full conversion of the Bonds at the initial Conversion Price, the Subscriber shall be interested in 39,000,000 H Shares.

4. The Subscriber is wholly owned by Russell AIF Asia II, L. P.. Accordingly, Russell AIF Asia II, L. P. is deemed to be interested in all H Shares which the Subscriber is taken to be interested in under Part XV of the SFO.

5. Russell AIF Investments, L.P. is the general partner of Russell AIF Asia II, L.P., and is deemed to be interested in the H Shares which the Subscriber is taken to be interested in under Part XV of the SFO by virtue of note (4) above.

6. Russell AIF Investments, Limited is the general partner of Russell AIF Investments, L.P., and is deemed to be interested in the H Shares which the Subscriber is taken to be interested in under Part XV of the SFO by virtue of notes (4) and (5) above.

DISCLOSURE OF INTERESTS (continued)

Notes:

7. Frank Russell Investments (Delaware), Inc. and Good View Group Limited has 37.5% and 62.5% interests respectively in each of Russell AIF Investments, L.P. and Russell AIF Investments, Limited and are both deemed to be interested in the H Shares which the Subscriber is taken to be interested under Part XV of the SFO by virtue of notes (4) to (6) above.

8. Frank Russell Investments (Delaware), Inc. is wholly owned by Frank Russell Company which is in turn wholly owned by The Northwestern Mutual Life Insurance Company, and each of them are deemed to be interested in the H Shares which the Subscriber is taken to be interested in under Part XV of the SFO by virtue of notes (4) to (7) above.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

No option was granted by the Company under the share option scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year 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 year ended 31 December 2003, the Group had entered the following exempted connected 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").

The Group's core product, X431 Electric Eye, utilises the Bluepoint Linux Embedded OS developed by 藍點軟件技術（深圳)有限公司 ("Bluepoint") as its operating platform. Accordingly, the Group paid RMB1 million to Bluepoint for software license during the year. Bluepoint is a wholly-owned subsidiary of Bluepoint Linux Software Corp. ("BLSC"). BLSC is principally engaged in Linux-related software development with its shares listed on the NASDAQ OTC in the US. BLSC is owned as to 55% by Mr. Liu Xin, Chairman of the Company, and Mr. Liu Jun, Chief Executive of the Company, in aggregate. The Directors (including independent non-executive directors) believe that such transaction is entered into based on normal commercial terms, which are fair and reasonable and are in the interests of the Group and its shareholders as a whole. In particular, the transaction will benefit the Group in its development of high-end automotive diagnostic systems.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

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 year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 36% of the Group's total turnover and the Group's largest customer accounted for approximately 5% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 26% of the Group's total purchases and the Group's largest supplier accounted for approximately 7% of the Group's total purchases.

None of the directors, supervisors, their associates or any shareholder of the Company (which to the knowledge of the directors and supervisors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

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 year.

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 this year.

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.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE (continued)

Four audit committee meeting was held this year to perform the following duties:

- review the first to third quarterly reports of 2003 and 2002 annual report of the Company;

- review and supervise the internal control system of the Group.

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 December 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.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Liu Xin
CHAIRMAN

Shenzhen, the PRC
30 April 2004

Report of the Supervisory Committee

To: All Shareholders

During the year ended 31 December 2003, the Supervisory Committee of Launch Tech Company Limited has compiled with the Company Law of the PRC and requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year, we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the Prospectus and provided reasonable suggestions and advice on the operations and development plans to the Board and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interests of the shareholders.

After investigation, we consider that the financial statements of the Company, audited by Deloitte Touche Tohmatsu, truly and sufficiently reflect the operating results and asset positions of the Company. We also reviewed the Report of the Directors and the profit distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and associations of the Company. We have attended the meeting of the Board of Directors. We consider that the members of the Board of Directors, the chief executive and other officers have strictly compiled with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, chief executive and other officers have abused their powers, caused damages to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved in the year 2003 as well as the cost-effectiveness gained, and are confident about the prospects of future development of the Company.

On behalf of the Supervisory Committee
Hou Wen Tao
Chairwoman of the Supervisory Committee

Shenzhen, the PRC
30 April 2004

DIRECTORS

Executive Directors

Mr. Liu Xin (劉新), also known as **Liu Yi Zhi (劉易之)**, aged 35, is an executive Director and the chairman of the Company. Mr. Liu is the founder of the Company and has around 10 years of experience in corporate management, business development, product development and marketing in the computer and automotive diagnostic and testing industries. He is a graduate of Chengdu Technology University (成都科技大學) (currently known as Sichuan University (四川大學)) with a bachelor's degree in applied physics. Mr. Liu is mainly responsible for the strategic planning, overall management, establishment of strategic alliances and development of overseas marketing and sales channel. Mr. Liu Xin is the brother of Mr. Liu Jun and Ms. Liu Yong.

Mr. Liu Jun (劉均), also known as **Liu Zheng Zhi (劉正之)**, aged 33, is an executive Director and the chief executive officer of the Company. Mr. Liu is the co-founder of the Company and is the brother of Mr. Liu Xin and Ms. Liu Yong. Mr. Liu has around 10 years of experience in corporate management, business development and product development in automotive diagnostic and testing industries. He is a graduate of Tsinghua University (清華大學) with a bachelor's degree in radio electronics engineering. Mr. Liu once served as the head of the Company's R&D department and headed the development of the first generation of Electronic Eye in November 1994, and was honoured as one of the Shenzhen Ten Outstanding Young Technology Experts in 1998 (1998年深圳市青年科技專家). He is currently responsible for the day-to-day operations of Company, and also supervises the Company's R&D and finance.

Professor Wang Xue Zhi (王學志), aged 67, is an executive Director and chief engineer of the Company. Professor Wang is an expert in automotive diagnostic and testing engineering with approximately 30 years of experience in related studies and research works, and has published 20 related books and academic papers. Prior to joining the Company in May 1998, Professor Wang served as a professor of Xian Highway Transportation Institute (西安公路交通大學) (currently known as Changan University (長安大學)) and the vice principal of the board of experts of the China Automobile Maintenance and Repair Equipment Industry Association under the Ministry of Transportation (交通部屬下《中國汽車保修設備行業協會》). He heads the Company's overall product development, and was responsible for leading the development of IVIEW-100 wheel alignment system and other similar large-scale automotive diagnostic and testing systems.

Non-executive Directors

Ms. Liu Yong (劉庸), aged 41, is a non-executive Director since June 1997, and is the sister of Mr. Liu Xin and Mr. Liu Jun. Ms. Liu once studied in Dalian Foreign Language Institute (大連外國語學院), and served in the sales department and public relations department of Guilin Holidays Inn (桂林賓館) and Guilin Rong Hu Hotel (桂林榕湖飯店), respectively, and as the general manager of Sunshine Travel Agency (陽光旅行社). Ms. Liu has extensive experience in corporate management, sales and marketing and public relations management. She is currently a director of Shenzhen De Shi Yu.

DIRECTORS (continued)

Mr. Zhang Jie (張杰), aged 43, is a non-executive Director since November 2000. Mr. Zhang is currently the chairman of Shenzhen Jie Xin, a private investor of high-tech related projects in the PRC, and is responsible for its day-to-day management.

Independent non-executive Directors

Mr. Zhang Xiao Yu (張小虞), aged 59, is an independent non-executive Director since March 2002. Mr. Zhang is the vice-chairman of China Machinery Industrial Association since April 2001, and prior to April 2001, he served as the vice commissioner of the State Machinery Industry Bureau (國家機械工業局), the chief of Automobile Industry Division (汽車工業司) of the Ministry of Machinery Industry (機械工業部).

Mr. Hu Zi Zheng (**胡子正**), aged 66, is an independent non-executive Director since March 2002. Mr. Hu is currently the professor and doctoral student mentor of automotive studies of the school of mechanics at Jilin Industrial University (吉林工業大學). Mr. Hu is also the appointed specialist of China Automobile Engineering Association (中國汽車工程學會) and member of the board of editors of "Mechanical Engineering Paper" (機械工程學報). He also served as the vice principal of the State Key Laboratory of Dynamic Automotive Simulation (模擬國家重點實驗室學術委員會) and dean of automotive school at the Jilin Industrial University. Mr. Hu graduated from the Jilin Industrial University with a degree in automobile engineering, and has around 30 years of experience in automotive science research and teaching.

MEMBERS OF SUPERVISORY COMMITTEE

Supervisory committee in the PRC has similar functions as audit committee, which mainly reviews the financial results of the Company and the decisions made by the Board. Supervisors can represent the interest of shareholders or employees, and independent supervisors are recruited from outside and not related to any of the directors, supervisors, promoters and employees of the Company. Mr. Wang Xi Lin is appointed as a Supervisor through the recommendation of the Company's employees. Ms. Hou Wen Tao and Mr. Guo Jian Yuan are appointed as independent Supervisors.

Ms. Hou Wen Tao (**侯文濤**), aged 64, is a Supervisor since March 2002. Ms. Hou retired from the Shenzhen Science and Technology Bureau (深圳市科學技術局) since August 2001, where she served as its vice commissioner, vice principal and inspector since 1991. Prior to July 1986, she served as a senior engineer at the Changchun Applied Chemistry Research Institute of the China Science Academy (中國科學學院長春應用化學研究所) and a visiting scholar of Proyaume de Belgique in Belgium between April 1981 and February 1982. Ms. Hou obtained a bachelor's degree in atomic physics from Jilin University (吉林大學).

MEMBERS OF SUPERVISORY COMMITTEE (continued)

Mr. Guo Jian Yuan (郭健源), aged 56, is a Supervisor since March 2002. Mr. Guo is currently the chairman of Shenzhen Cosber Industrial Co., Ltd. (深圳市康士柏實業有限公司), a distributor of automobile maintenance equipment in the PRC, vice-chairman of China Automobile Maintenance and Repair Equipment Industry Association (中國汽車保修設備行業協會) and chairman of Shenzhen Automobile and Motorcycle Maintenance and Repair Industry Association (深圳市汽車摩托車維修行業協會), in charge of their overall management. He also served as the director and president of Shenzhen Tellus Holding Co., Ltd. (深圳市特力（集團）股份有限公司), a developer of mechanical tools in the PRC, in charge of their overall management. Mr. Guo has extensive experience in corporate management.

Mr. Wang Xi Lin (王希琳), aged 40, is the general manager of the Company's automotive diagnostic product division and a Supervisor since March 2002. Mr. Wang graduated from the China Mining Industry University (中國礦業大學) in Beijing with a master's degree in engineering. Prior to joining the Company in October 2000, Mr. Wang served as a senior engineer at several state-owned companies and led the R&D works in relation to large electronic control and electronic automation systems. Mr. Wang was formerly the head of the Company's R&D department, and had successfully led the development of the ADC2000 auto diagnostic computer.

SENIOR MANAGEMENT

Mr. Chen Li Ping (陳立平), aged 44, is the vice president and operation executive office of the Company. He graduated from South China University of Science and Engineering (華南理工大學) with a degree of ship manufacture and master degree of business administration. Before joining the Company in 2003, he worked for a large state-owned enterprise as associate engineer and vice general manager, and for a larger state-owned holdings listed company as the first vice general manager. He has led the works of product design, sale, human resources and administration. In the Company, he takes charge of routine operation and management.

Mr. Peter Toland, aged 47, is the vice president and overseas market officer of the Company. He graduated from Wulfrun College and received a MBA degree from Ashridge Management College. Before joining the Company in 2003, he was a vice president in a large motor maintenance and manufacture company and a general manager of the branch of that company. Besides, he had worked in an international petro-chemical company. He has much experience in enterprise management, market development and promotion. Mr. Peter Toland mainly takes charge of the development, promotion and planning of our overseas markets.

Ms. Huang Zhao Huan (黃兆歡), aged 31, is the head of the Company's domestic marketing centre. Ms. Huang is a graduate of Nanchong Teaching University (南充師範學院) with a bachelor's degree in mathematics. She is currently responsible for the development and management of the Company's domestic sales network and marketing activities and customer relationships of its major customers. She joined the Company in 1996.

SENIOR MANAGEMENT (continued)

Mr. Hu Kai (胡凱), aged 30, is the head of the Company's production and procurement department. Mr. Hu has a degree in economic management for Guangxi Teaching University (廣西師範大學) and joined the Company as a manager of purchase division in 1995. He is mainly responsible for overseeing the Company's production planning and management.

Qualified Accountant and Company Secretary

Mr. Liu Chun Ming (廖俊明), aged 28, is the financial controller and company secretary of the Company. Mr. Liu is a qualified accountant and obtained a bachelor's degree (Honours) in accountancy from the City University of Hong Kong in 1997. He is an associate member of the Association of Chartered Certified Accountants, and, prior to joining the Company in March 2002, acquired over four years of experience with an international audit firm.

Compliance Officer

Mr. Liu Jun (劉均), executive Director, compliance officer and authorised representative. Mr. Liu will be advising on and assisting the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding efficiently to all inquiries directed to the Company by the Stock Exchange.

AUDIT COMMITTEE

The audit committee was established by the Company on 21 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 principal duties of the committee are the review and supervision of the Company's reporting process and internal control. The Group's audit committee has held five meeting since early 2003. The members of the audit committee are as follows:

Name	Position in the audit committee	Position in the Board
Mr. Zhang Xiao Yu	chairman	independent non-executive Director
Mr. Hu Zi Zheng	member	independent non-executive Director
Mr. Liu Jun	member	executive Director

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Launch Tech Company Limited (the "Company") will be held at the conference room, 3rd Floor, Southern Garden Hotel, 22 Bagua Number Four Road, Futian District, Shenzhen, the PRC at 10:00 a.m. on 18 June 2004 (Friday) for the following purposes:

I. To pass the following matters as ordinary resolutions:

1. To consider and pass the report of the Directors for the year 2003;

2. To consider and pass the report of the supervisory committee for the year 2003;

3. To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2003;

4. To consider and pass the resolution of final dividend distribution for the year 2003;

5. To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2003;

6. To consider and pass plans to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2003 and to authorise the board of Directors to fix their remunerations; and

7. To handle any other matters.

II. To pass the following matters as special resolutions:

1. To consider and resolve that, subject to the approval of China Securities Regulatory Commission and/or other relevant statutory authorities in the People's Republic of China and/or the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the proposed allotment and issue of new H shares and/or domestic shares, the board of Directors be authorised:

   (a) to issue and/or place H Shares and/or domestic Shares within a period of 12 months from the date of this resolution, provided that the total number of H shares and/or domestic shares to be placed and/or issued shall not exceed 20% (the "20% Limit") of the number of H shares and/or domestic shares of the Company in issue respectively;

(b) subject to the 20% Limit, to decide the number of H shares and/or domestic shares to be placed and/or issued and to deal with any matter arising from or related to the placing or issue of the new shares mentioned above;

(c) to amend, in accordance with the increase in registered capital of the Company, the relevant articles contained in the Articles of Association in relation to the registered capital of the Company and any other articles that require corresponding amendments; and

(d) if any chronological variation of the wordings or numbering of the articles contained in the Articles of Association of the Company is necessary upon application to the companies examination and approval authority authorised by the State Council and China Securities Regulatory Commission for examination and approval, to make corresponding amendments to the Articles of Association as required by such authority and China Securities Regulatory Commission.

2. That the Articles of Association of the Company be and hereby amended as follows:

(a) Article 68 be deleted in its entirety and substituted with the following paragraph:

Any shareholder entitled to attend and vote at the general meeting is entitled to appoint one or more proxies (who may not be a member) to attend the meeting and vote on its behalf. The proxy so appointed shall exercise the following rights under the mandate of the shareholder:

(i) the right to speak in the meeting;

(ii) the demand to vote on poll by itself or with other members;

(iii) when exercising its voting right by show of hand or on poll, and there is more than one proxy appointed, such proxy shall only vote on poll.

Where the member is a "recognized clearing house" as defined in the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) or its nominee, it may authorise such person(s) as it thinks fit to act as its representative(s) at any general meeting or at any meeting of any class of members; but if more than one person is so authorised, the number and class of shares it represents shall be specified in the relevant authorization, and the person so authorised shall exercise the rights on behalf of the recognized clearing house (or its nominee(s)) as if such person was an individual shareholder of the Company.

(b) Article 84 be deleted in its entirety and substituted with the following paragraph:

Where as known by the Company, any member is, under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted."

If the chairman of the meeting has any question on the result of a resolution, counting of the votes cast could be proceeded. If the chairman of the meeting would not proceed with the counting, member(s) or the proxy/proxies attending the meeting who have/has any question on the result as announced by the chairman of the meeting may exercise his/their right to request for counting of votes immediately after the result is announced, and the chairman of the meeting should proceed with the counting immediately.

(c) Article 97 be deleted in its entirety and substituted with the following paragraph:

Directors be elected in the Annual General Meeting for a term of three years. Upon expiry of term of office, the directors may be re-elected.

The minimum length of the period, during which written notice to the Company of intention of a member to propose a person for election as a Director and during which written notice to the Company by that person of his willingness to be elected should be at least 7 days.

That the period for lodgement of the notices referred to in the above paragraph will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date appointed for such meeting.

Chairman and vice chairman shall be elected and removed by a majority vote of the board of directors. Chairman and vice chairman serve a term of three years and are qualified for re-election.

Directors are not required to hold any shares of the Company.

A director (including the managing director or other executive directors) while still serving his term of office, may be removed by an ordinary resolution in an Annual General Meeting in accordance with the law and regulations, except that claims under any contract will not be affected.

A director may also assume other positions such as general manager or other senior management duties (except for supervisor).

(d) Article 134 be deleted in its entirety and substituted with the following paragraph:

When a director, supervisor, general manager and other senior management has material interest in any contract, transaction or arrangement entered or to be entered by the Company, whether directly or indirectly (except for the appointment contracts entered into between the Company and the director, supervisor, general manager and other senior management), he is required to disclose to the board of directors the nature and extent of the interest as soon as possible, no matter approval is required or not from the board of directors under normal circumstances in respect of the matter.

Unless the director, supervisor, general manager or other senior management who has any material interest had disclosed to the board of directors in accordance with the previous article not revised yet, and the board of directors had approved the matter in a meeting without counting him in the quorum and he did not attend and vote in that meeting, the Company has the right to withdraw the contract, transaction or arrangement, except that he is not aware of the contravention of duties by the director, supervisor, general manager and other senior management.

If a related party of the director, supervisor, general manager or other senior management has material interest in any contract, transaction or arrangement, the director, supervisor, general manager or other senior management is deemed to have interest in the matter.

In addition, when the board of directors is to resolve on whether a director or his associates are materially interested in the matter, the director should abstain from voting and is not counted in the quorum of the meeting but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of them or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director or any of his associates is/are in aggregate beneficially interested in shares of that company, provided that the Director or his associates are not in aggregate beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of his associate(s) is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not accorded to the employees to which such scheme or fund relates."

In this article, "associate" has the same meaning attributed to it as in the Rules Governing the Listing of Securities on the Growth Enterpriser Market of the Stock Exchange of Hong Kong Limited.

By order of the Board
Launch Tech Company Limited
Liu Xin
Chairman

Shenzhen, the PRC
30 April 2004

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited at (i) the registered office of the Company, at 2nd-3rd, 5th-8th floors, Xin Yang Building, Bagua Number Four Road, Shenzhen, PRC (for holders of domestic shares of the Company); or (ii) the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares of the Company), not less than 24 hours before the time for holding the meeting or appointed time of voting.

3. Shareholders or their proxies shall present proofs of identities when attending the AGM.

4. The Registrar of members will be closed from 19 May 2004 to 18 June 2004, both days inclusive. All transfers accompanied by relevant share certificates must be lodged with Company's H share registrar not later than 4:00 p.m. on 18 May 2004.

5. Shareholders entitled to attend the AGM are requested to deliver the reply slip for attendance to (i) the registered office of the Company (for holders of domestic shares of the Company); or (ii) the Company's H share registrar (for holders of H shares of the Company) before 28 May 2004.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF 深圳市元征科技股份有限公司

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the financial statements on pages 48 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as explained below.

1. During the course of our audit of the Group's inventories, we noted significant unexplained discrepancies between the physical count results which underly inventories of approximately RMB74,016,000 included in the financial statements as at 31 December 2003 and the quantities included in the Group's perpetual inventory records. Also, subsequent to the date of the inventory count, we were informed by management that inventories with a book value of approximately RMB13,860,000 as at 31 December 2003 had erroneously been excluded from the stock lists provided to us at the time of the inventory count and so were not subject to our normal inventory count procedures. Accordingly, we were unable to obtain sufficient evidence to satisfy ourselves as to whether the physical count results were reliable and, hence, as to whether inventories of approximately RMB74,016,000 as at 31 December 2003 were free from material misstatement.

2. Included in turnover are sales recorded as being made to overseas customers of approximately RMB52,300,000. However, we were unable to obtain sufficient documentary evidence, including customs declaration documents, to satisfy ourselves that this amount is free from material misstatement.

3. As explained in note 32 to the financial statements, the Company had outstanding enterprise income tax ("EIT") payable and valued added tax ("VAT") payable of approximately RMB6,961,000 and RMB22,157,000, respectively, as at 31 December 2003 as the Company did not settle the EIT payable and VAT payable on a timely basis as stipulated in the prevailing tax rules and regulations in the People's Republic of China. The directors of the Company are of the opinion that the local tax bureau will not impose any penalty charges on the Company and, on this basis, no provision for penalty charges has been made in the financial statements. However, we have been unable to obtain sufficient information and explanations to satisfy ourselves as to the basis upon which the directors have formed their opinion.

4. We were unable to carry out all the subsequent events review procedures which we considered necessary. Accordingly, we were unable to form any opinion as to whether subsequent events have been appropriately adjusted for, or disclosed, in the financial statements.

Any adjustments to the above figures would affect the net assets of the Group and the Company as at 31 December 2003 and the profit and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 or of the profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work mentioned above:

– we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

– we were unable to determine whether proper books of account had been kept.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 30 April 2004

Consolidated Income Statement

For the year ended 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	4	**209,056**	105,144
Cost of sales		**(97,398)**	(45,131)
Gross profit		**111,658**	60,013
Other operating income		**2,793**	10,905
Selling expenses		**(20,774)**	(12,524)
Administrative expenses		**(25,714)**	(12,313)
Research and development costs		**(5,205)**	(3,367)
Profit from operations	5	**62,758**	42,714
Finance costs	7	**(3,733)**	(2,732)
Profit before taxation		**59,025**	39,982
Taxation	8	**(7,463)**	(2,895)
Profit before minority interests		**51,562**	37,087
Minority interests		**(27)**	(38)
Net profit for the year		**51,535**	37,049
Dividends	9	**18,200**	20,600
Earnings per share – basic	10	**RMB0.113**	RMB0.104

Consolidated Balance Sheet

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	11	**41,562**	29,180
Goodwill	12	**836**	955
Development costs	13	**24,192**	20,170
Payments for other investments	15	**33,994**	–
Deposits paid for acquisition of property, plant and equipment		**1,711**	–
Loans to employees	16	**–**	3,960
		102,295	54,265
Current assets			
Inventories	17	**76,749**	21,197
Trade receivables	18	**86,508**	29,521
Other receivables, deposits and prepayments		**26,107**	10,226
Pledged bank deposits	20	**2,160**	393
Bank balances and cash		**171,188**	76,464
		362,712	137,801
Current liabilities			
Trade payables	21	**33,270**	12,410
Receipt in advance, other payables and accrued charges	32(a)	**36,159**	12,688
Amount due to a related company	22	**291**	–
Income tax payable	32(b)	**6,961**	2,895
Bank loans	23	**76,300**	20,350
Secured loans - amount due within one year	24	**642**	–
		153,623	48,343
Net current assets		**209,089**	89,458
Total assets less current liabilities		**311,384**	143,723
Non-current liabilities			
Secured loans – amount due after one year	24	**5,549**	–
Deferred taxation	25	**3,385**	–
		8,934	–
Minority interests		**228**	188
Net assets		**302,222**	143,535
Capital and reserves			
Share capital	26	**52,000**	44,000
Reserves		**250,222**	99,535
Shareholders' funds		**302,222**	143,535

The financial statements on pages 48 to 82 were approved and authorised for issue by the Board of Directors on 30 April 2004 and are signed on its behalf by:

Mr. Liu Xin
DIRECTOR

Mr. Liu Jun
DIRECTOR

Balance Sheet

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	11	**40,363**	28,493
Development costs	13	**24,192**	20,170
Investments in subsidiaries	14	**2,377**	2,300
Payments for other investments	15	**33,994**	–
Deposits paid for acquisition of property, plant and equipment		**1,711**	–
Loans to employees	16	**–**	3,960
		102,637	54,923
Current assets			
Inventories	17	**74,016**	20,204
Trade receivables	18	**85,228**	29,194
Other receivables, deposits and prepayments		**25,796**	10,059
Amounts due from subsidiaries	19	**1,482**	–
Pledged bank deposits	20	**2,160**	393
Bank balances and cash		**170,517**	76,366
		359,199	136,216
Current liabilities			
Trade payables	21	**30,204**	11,378
Receipt in advance, other payables and accrued charges	32(a)	**35,376**	12,338
Amounts due to subsidiaries	19	**1,213**	932
Amount due to a related company	22	**291**	–
Income tax payable	32(b)	**6,961**	2,895
Bank loans	23	**76,300**	20,350
Secured loans – amount due within one year	24	**642**	–
		150,987	47,893
Net current assets		**208,212**	88,323
Total assets less current liabilities		**310,849**	143,246
Non-current liabilities			
Secured loans – amount due after one year	24	**5,549**	–
Deferred taxation	25	**3,385**	–
		8,934	–
Net assets		**301,915**	143,246
Capital and reserves			
Share capital	26	**52,000**	44,000
Reserves	27	**249,915**	99,246
Shareholders' funds		**301,915**	143,246

Mr. Liu Xin
DIRECTOR

Mr. Liu Jun
DIRECTOR

Consolidated Statement of Changes in Equity

	Share capital RMB'000	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	33,000	–	1,713	1,713	20,718	57,144
Dividend for 2001, paid	–	–	–	–	(11,500)	(11,500)
Dividend for 2002 – interim, paid	–	–	–	–	(7,400)	(7,400)
Issue of H Shares	11,000	73,068	–	–	–	84,068
Expenses incurred in connection with the issue of H Shares	–	(15,826)	–	–	–	(15,826)
Net profit for the year	–	–	–	–	37,049	37,049
Appropriations	–	–	3,395	3,395	(6,790)	–
At 31 December 2002	44,000	57,242	5,108	5,108	32,077	143,535
Dividend for 2002 – final, paid	–	–	–	–	(13,200)	(13,200)
Issue of H Shares	8,000	119,200	–	–	–	127,200
Expenses incurred in connection with the issue of H Shares	–	(6,848)	–	–	–	(6,848)
Net profit for the year	–	–	–	–	51,535	51,535
Appropriations	–	–	5,010	5,010	(10,020)	–
At 31 December 2003	52,000	169,594	10,118	10,118	60,392	302,222

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	NOTE	2003 RMB'000	2002 RMB'000
Cash flows from operating activities			
Profit before taxation		**59,025**	39,982
Adjustments for:			
Interest expense		**2,983**	2,416
Interest income		**(1,378)**	(341)
Amortisation of development costs		**2,215**	1,267
Amortisation of goodwill		**167**	116
Depreciation and amortisation of property, plant and equipment		**5,346**	3,733
Write-off of development costs		**–**	529
Operating cash flows before movements in working capital		**68,358**	47,702
Increase in inventories		**(55,551)**	(10,073)
Increase in trade receivables		**(56,987)**	(10,038)
Increase in other receivables, deposits and prepayments		**(15,846)**	(2,777)
Increase in trade payables		**20,847**	6,237
Increase in receipt in advance, other payables and accrued charges		**23,471**	2,183
Increase in amount due to a related company		**291**	–
Cash (used in) generated from operations		**(15,417)**	33,234
Interest paid		**(2,983)**	(2,416)
Income tax paid		**(12)**	–
Net cash (used in) from operating activities		**(18,412)**	30,818
Cash flows from investing activities			
Payments for other investments		**(33,994)**	–
Purchase of property, plant and equipment		**(8,073)**	(14,523)
Cash paid to directors on purchase of property, plant and equipment		**(3,202)**	–
Additions of development costs		**(6,237)**	(12,899)
(Increase) decrease in pledged bank deposits		**(1,767)**	9,076
Deposits paid for acquisition of property, plant and equipment		**(1,711)**	–
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	28	**(75)**	–
Repayment from (loans to) employees		**3,960**	(3,960)
Interest received		**1,378**	341
Repayment from directors		**–**	11,121
Repayment of loan receivable		**–**	5,000
Repayment from a shareholder		**–**	4,920
Loan receivable		**–**	(5,000)
Acquisition of additional interest in a subsidiary		**–**	(300)
Net cash used in investing activities		**(49,721)**	(6,224)

Consolidated Cash Flow Statement

	2003 RMB'000	2002 RMB'000
Cash flows from financing activities		
Proceeds from issue of H Shares	**127,200**	84,068
Expenses paid in connection with the issue of H Shares	**(6,848)**	(15,826)
Bank loans raised	**94,600**	25,850
Repayment of bank loans	**(38,650)**	(39,620)
Dividends paid	**(13,200)**	(12,336)
Repayment of secured loans	**(245)**	–
Repayment of unsecured loans	**–**	(550)
Capital contribution from a minority shareholder of a subsidiary	**–**	100
Net cash from financing activities	**162,857**	41,686
Net increase in cash and cash equivalents	**94,724**	66,280
Cash and cash equivalents at beginning of the year	**76,464**	10,184
Cash and cash equivalents at end of the year, comprising bank balances and cash	**171,188**	76,464

1. GENERAL

The Company was established in Shenzhen, the People's Republic of China (the "PRC") as a joint stock limited company and its overseas listed foreign invested shares ("H Shares") are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by HKSA.

SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current taxation and deferred taxation). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). The principal accounting policies adopted are as follows.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year 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.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from the sale of software systems is recognised when the software system has been delivered and installed and the customer has examined and accepted the software system.

Revenue from technical services is recognised when services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Construction in progress will not be depreciated until it is put into use and accordingly is stated at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of other items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land under medium-term lease in the PRC	Over the unexpired lease terms
Buildings	5%
Leasehold improvements	20%
Moulds and equipment	20%
Motor vehicles	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is capitalised and amortised using the straight line method over its estimated useful life. On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life of the project from the date of commencement of commercial operation.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing assets ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Pension cost

The pension cost, which represents the amount payable in accordance with the regulations promulgated by the local Municipal Government, is charged to the income statement as incurred.

4. TURNOVER AND SEGMENT INFORMATION

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

The Group's operation is regarded as a single business segment, being an enterprise providing products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

The Group's operation by geographical analysis is as follows:

	Turnover		Contribution to net profit for the year	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Geographical market:				
PRC other than Hong Kong	**156,756**	90,266	**70,325**	50,416
Asia other than PRC	**7,547**	2,670	**2,316**	1,303
Europe	**18,819**	6,771	**7,629**	3,438
Africa and the Middle East	**10,486**	2,284	**4,196**	1,123
America	**8,306**	1,901	**3,519**	1,036
Australia	**7,142**	1,252	**2,899**	576
	209,056	105,144	**90,884**	57,892
Unallocated other operating income			**2,793**	502
Research and development costs			**(5,205)**	(3,367)
Unallocated corporate expenses			**(25,714)**	(12,313)
Profit from operations			**62,758**	42,714
Finance costs			**(3,733)**	(2,732)
Taxation			**(7,463)**	(2,895)
Minority interests			**(27)**	(38)
Net profit for the year			**51,535**	37,049

4. TURNOVER AND SEGMENT INFORMATION (continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, and development costs	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC other than Hong Kong	**441,188**	185,389	**23,948**	27,422
Asia other than PRC	**278**	48	**–**	–
Europe	**10,567**	3,075	**–**	–
Africa and the Middle East	**2,558**	3,554	**–**	–
America	**6,533**	–	**–**	–
Australia	**3,883**	–	**–**	–
	465,007	192,066	**23,948**	27,422

Substantial liabilities of the Group are situated in the PRC.

It is not practicable to present an analysis of the carrying amount of segment assets, and additions to property, plant and equipment by location of customers.

5. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration	**1,393**	580
Other staff costs	**23,300**	12,536
Pension cost	**478**	166
	25,171	13,282
Less: Staff costs capitalised in development costs	**(6,237)**	(4,899)
	18,934	8,383
Research and development expenditure	**9,227**	14,470
Less: Amount (including staff costs) capitalised in development costs	**(6,237)**	(12,899)
	2,990	1,571
Add: Amortisation of development costs	**2,215**	1,267
Write-off of development costs	**–**	529
Research and development costs	**5,205**	3,367
Allowance for bad and doubtful debts	**–**	317
Amortisation of goodwill (included under administrative expenses)	**167**	116
Auditors' remuneration	**701**	850
Depreciation and amortisation of property, plant and equipment	**5,346**	3,733
Rentals in respect of land and buildings	**4,462**	2,511
and after crediting:		
Interest income	**1,378**	341

6. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of emoluments to the directors and supervisors are as follows:

	2003	2002
	RMB'000	RMB'000
Fees for		
- non-executive directors	**30**	8
- independent non-executive directors	**30**	8
- supervisors	**30**	6
	90	22
Other emoluments for executive directors		
- salaries, allowances and other benefits	**1,158**	413
- pension cost	**4**	4
- performance related incentive payments	**–**	–
	1,162	417
Other emoluments for non-executive directors	**–**	–
Other emoluments for independent non-executive directors	**–**	–
Other emoluments for supervisors		
- salaries, allowances and other benefits	**139**	138
- pension cost	**2**	3
- performance related incentive payments	**–**	–
	141	141
	1,393	580

6. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

Details of directors' and supervisors' remuneration by individuals are as follows:

	2003 RMB'000	2002 RMB'000
Executive director A	**238**	113
Executive director B	**499**	161
Executive director C	**425**	143
Non-executive director D	**15**	4
Non-executive director E	**15**	4
Independent non-executive director F	**15**	4
Independent non-executive director G	**15**	4
Supervisor A	**151**	114
Supervisor B	**10**	2
Supervisor C	**10**	2
Supervisor D	**–**	19
Supervisor E	**–**	10

For the year ended 31 December 2003, the five highest paid employees of the Group included three directors (2002: three directors) and one supervisor (2002: one supervisor), details of their emoluments are included above. The emoluments of the remaining individual (2002: one individual) are as follows:

	2003 RMB'000	2002 RMB'000
Employees		
- salaries, allowances and other benefits	**172**	104
- pension cost	**1**	1
- performance related incentive payments	**–**	–
	173	105

No emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and supervisors has waived any emoluments during the year.

7. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on borrowing wholly repayable within five years	**2,840**	2,416
Interest on other borrowing not wholly repayable within five years	**143**	–
	2,983	2,416
Bank charges	**750**	269
Exchange loss	**–**	47
	3,733	2,732

8. TAXATION

	2003 RMB'000	2002 RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC		
– current year	**4,066**	2,895
– underprovision in prior years	**12**	–
	4,078	2,895
Deferred taxation		
– current year	**362**	–
– underprovision in prior years	**3,023**	–
	3,385	–
	7,463	2,895

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. The Company 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.

8. TAXATION (continued)

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

The charge for the year can be reconciled to the profit before taxation as follows:

	2003 HK$'000	2002 HK$'000
Profit before taxation	**59,025**	39,982
Tax at PRC income tax rate of 15% (2002: 15%)	**8,854**	5,997
Tax effect attributable to tax exemption	**(4,592)**	(2,895)
Tax effect of expenses not deductible in determining taxable profit	**355**	333
Tax effect of income not taxable in determining taxable profit	**(98)**	(534)
Underprovision of current tax in respect of prior years	**12**	–
Underprovision of deferred taxation in respect of prior years	**3,023**	–
Effect of different tax rates of subsidiaries	**(29)**	5
Others	**(62)**	(11)
Tax charge for the year	**7,463**	2,895

9. DIVIDENDS

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

On 7 May 2003, a final dividend of RMB0.03 per share amounting to approximately RMB13,200,000 year ended 31 December 2002 was approved at the Company's annual general meeting and the amount was paid to its H shareholders in June 2003.

No interim dividend for the year ended 31 December 2003 was declared.

A final dividend of RMB0.035 per share amounting to approximately RMB18,200,000 for the year ended 31 December 2003 has been proposed by the Directors. The proposal is subject to approval by the shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB51,535,000 (2002: RMB37,049,000) and on the weighted average number of 455,342,466 shares in issue during the year (2002: weighted average number of 355,917,808 shares as if the sub-division of the Company's shares as described in the Prospectus had taken place on 1 January 2002).

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

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Moulds and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP						
COST						
At 1 January 2003	15,470	8,849	11,809	2,942	–	39,070
Additions	7,887	633	3,409	4,771	1,011	17,711
On acquisition of a subsidiary	–	–	17	–	–	17
At 31 December 2003	23,357	9,482	15,235	7,713	1,011	56,798
DEPRECIATION AND AMORTISATION						
At 1 January 2003	3,131	1,253	3,954	1,552	–	9,890
Provided for the year	742	1,685	2,261	658	–	5,346
At 31 December 2003	3,873	2,938	6,215	2,210	–	15,236
NET BOOK VALUE						
At 31 December 2003	19,484	6,544	9,020	5,503	1,011	41,562
At 31 December 2002	12,339	7,596	7,855	1,390	–	29,180

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Moulds and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
THE COMPANY						
COST						
At 1 January 2003	15,470	8,849	11,171	2,738	–	38,228
Additions	7,887	633	2,797	4,691	1,011	17,019
At 31 December 2003	23,357	9,482	13,968	7,429	1,011	55,247
DEPRECIATION AND AMORTISATION						
At 1 January 2003	3,131	1,253	3,865	1,486	–	9,735
Provided for the year	742	1,685	2,088	634	–	5,149
At 31 December 2003	3,873	2,938	5,953	2,120	–	14,884
NET BOOK VALUE						
At 31 December 2003	19,484	6,544	8,015	5,309	1,011	40,363
At 31 December 2002	12,339	7,596	7,306	1,252	–	28,493

The property interests of the Group and the Company are situated in the PRC and are held under medium-term leases.

During the year, the Group and the Company acquired certain land and buildings and motor vehicles from certain directors and assumed the corresponding loan obligations of these directors as follows:

	RMB'000
Cost of assets acquired	
- Land and buildings	7,887
- Motor vehicles	1,751
	9,638
Loan obligations assumed (see note 24)	6,436

The directors purchased the above assets for the Group's use and transferred the assets to the Group at the original cost. The Group did not register the transfer of the above assets or liabilities.

12. GOODWILL

	THE GROUP RMB'000
COST	
At 1 January 2003	1,071
Arising on acquisition of a subsidiary	48
At 31 December 2003	1,119
AMORTISATION	
At 1 January 2003	116
Provided for the year	167
At 31 December 2003	283
CARRYING AMOUNT	
At 31 December 2003	836
At 31 December 2002	955

The goodwill, which arose from acquisitions of subsidiaries, is amortised on a straight line basis over its estimated useful life of not more than nine years.

13. DEVELOPMENT COSTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At 1 January 2003	22,218
Additions	6,237
At 31 December 2003	28,455
AMORTISATION	
At 1 January 2003	2,048
Provided for the year	2,215
At 31 December 2003	4,263
CARRYING AMOUNT	
At 31 December 2003	24,192
At 31 December 2002	20,170

The development costs are amortised on a straight line basis over its estimated useful life of not more than ten years.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Unlisted investments, at cost	**2,377**	2,300

Particulars of the Company's subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Form of business structure	Place of registration and operation	Registered and fully paid capital	Percentage of registered capital directly held by the Company	Principal activities
上海工技大振源汽車科技有限公司 ("Shanghai Zhenyuan")	Limited liability company	PRC	RMB1,000,000	90%	Development of automobile suspension tester
深圳市元和電子材料有限公司 ("Shenzhen Yuanhe")	Limited liability company	PRC	RMB1,000,000	90%	Assembly and testing of automobile diagnostic tools and equipment
深圳市致和汽車用品有限公司 ("Shenzhen Zhihe")	Limited liability company	PRC	RMB500,000	70%	Provision of products and services serving the automotive aftermarket

Shanghai Zhenyuan's remaining 10% equity interest is held by Mr. Hu Kai, head of the Company's production and procurement department.

Shenzhen Yuanhe's remaining 10% equity interest is held by Mr. Chen Jin Ming, a director and deputy general manager of Shenzhen Yuanhe.

Shenzhen Zhihe's remaining 30% equity interest is held by Mr. Liu Jun, a director of the Company.

15. PAYMENTS FOR OTHER INVESTMENTS

		THE GROUP AND THE COMPANY	
	NOTES	**2003**	2002
		RMB'000	RMB'000
The amounts comprise payments in respect of the following companies:			
上海元征機械設備有限責任公司	(a)	**29,994**	–
Launch Europe GmbH	(b)	**1,092**	–
Asia Bridge Inc.	(c)	**2,908**	–
		33,994	–

Notes:

(a) In May 2003, the Company entered into an agreement with Launch Europe GmbH ("Launch Germany"), a company incorporated in Germany, to set up a sino-foreign co-operative joint venture enterprise named as 上海元征機械設備有限責任公司 ("Launch (Shanghai)"). Launch (Shanghai) is established in the Zhejiang Province in the PRC for the purpose of carrying out business in the manufacture and sale of automotive lifters. The registered capital is US$10,000,000 with US$5,000,000 to be contributed by the Company and another US$5,000,000 to be contributed by Launch Germany. At 31 December 2003, the Company injected US$750,000 (equivalent to approximately RMB6,207,000) to Launch (Shanghai) for the acquisition of land use rights and the construction of the production plant. The Company's capital contribution in Launch (Shanghai) was not yet verified by certified public accountants registered in the PRC.

In addition, the Company has, up to 31 December 2003, advanced RMB23,787,000 to Launch (Shanghai). The amount is unsecured and interest-free. It is for the principal purpose for the acquisition of land use rights and the construction of the production plant of Launch (Shanghai).

(b) On 30 October 2002, the Company entered into an agreement with an outside party to acquire the entire issued share capital of Launch Germany, which was at the date of the agreement known as ESP Abgas- und Umweltanalysen GmbH. At 31 December 2003, transfer of the legal title was not yet completed pending principally approval from the relevant PRC authorities. Upon completion of the agreement, Launch Germany and therefore Launch (Shanghai) will become wholly-owned subsidiaries of the Company. At 31 December 2003, the aggregate sum of the consideration paid to the vendor of Launch Germany and advances made to Launch Germany amounted to RMB1,092,000.

(c) The Company is a party to an acquisition agreement and a subscription agreement, both dated 29 September 2003, in respect of the share capital of Asia Bridge Inc. ("Asia Bridge"), a company incorporated in the Cayman Islands. Upon completion of these agreements, the Company will hold approximately 56% equity interest in Asia Bridge. At 31 December 2003, completion of the acquisition agreement has not yet taken place pending principally approval from the relevant PRC authorities and the Company has not subscribed for any new shares of Asia Bridge. The aggregate sum of the consideration paid to the vendor of Asia Bridge and the advances made to Asia Bridge amounted to RMB2,908,000.

The advances to investee companies are unsecured and interest-free.

16. LOANS TO EMPLOYEES

The loans in 2002 represented housing loans made to employees of the Group and the Company. They were unsecured, interest-free and repayable five years after the respective agreements were signed. All the loans were repaid in full during the year.

The loans to employees included the following amounts which were advanced to members of senior management of the Company:

	THE GROUP AND THE COMPANY		
Name of employee	**Balance at 31.12.2003**	**Balance at 1.1.2003**	**Maximum amount outstanding during the year**
	RMB'000	RMB'000	RMB'000
Mr. Hu Kai, head of the Company's production and procurement department	–	300	300
Ms. Huang Zhao Huan, vice president of the Company's PRC marketing department	–	300	300
	–	600	

17. INVENTORIES

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**16,988**	6,582	**16,145**	6,016
Work in progress	**9,510**	2,511	**9,467**	2,435
Finished goods	**50,251**	12,104	**48,404**	11,753
	76,749	21,197	**74,016**	20,204

All inventories were stated at cost.

18. TRADE RECEIVABLES

The Group allows a credit period of one to six months to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**72,722**	29,215	**71,653**	28,911
Over 6 months but less than 1 year	**13,294**	23	**13,258**	–
Over 1 year but less than 2 years	**492**	283	**317**	283
	86,508	29,521	**85,228**	29,194

19. AMOUNTS DUE FROM/TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest-free and repayable on demand.

20. PLEDGED BANK DEPOSITS

The deposits are pledged with banks to secure the general banking facilities granted to the Group and the Company.

21. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**30,221**	12,157	**27,842**	11,125
Over 6 months but less than 1 year	**2,161**	253	**1,508**	253
Over 1 year but less than 2 years	**888**	–	**854**	–
	33,270	12,410	**30,204**	11,378

22. AMOUNT DUE TO A RELATED COMPANY

The amount represents software development cost payable to 藍點軟件技術(深圳)有限公司 ("Bluepoint") (see note 35(b)). The amount is unsecured, interest-free and repayable on demand. Mr. Liu Xin and Mr. Liu Jun have beneficial interests in Bluepoint.

23. BANK LOANS

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Secured	**1,300**	350
Unsecured	**75,000**	20,000
	76,300	20,350

The unsecured bank loans included an amount of RMB15,000,000 (2002: RMB15,000,000) which was guaranteed by 深圳市得時域投資有限公司 ("Shenzhen De Shi Yu"). 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 such guarantee at no cost, and without interest or security required from the Company. The guarantee is effective from 16 December 2002 and will be terminated upon the full repayment of the relevant bank loan. Details of this agreement are set out in the announcement dated 27 December 2002 issued by the Company.

At 31 December 2003, Shenzhen De Shi Yu held approximately 9.52% (2002: 11.25%) interest in the Company. Ms. Liu Yong, a director of the Company, had beneficial interests in Shenzhen De Shi Yu.

24. SECURED LOANS

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
The loans are repayable as follows:		
Within one year	**642**	–
More than one year but not exceeding two years	**642**	–
More than two years but not exceeding five years	**1,102**	–
More than five years	**3,805**	–
	6,191	–
Less: Amount due within one year shown under current liabilities	**(642)**	–
Amount due after one year	**5,549**	–

The loan arrangements were entered into by certain directors with financial institutions in respect of the acquisition of property, plant and equipment (see note 11). The loans bear interest at prevailing market rates and are secured by property, plant and equipment of the Group and the Company with a net book value of RMB9,570,000 (2002: nil).

25. DEFERRED TAXATION

The amount represents deferred tax liabilities recognised in respect of temporary differences arising from development costs.

26. SHARE CAPITAL

	Number of shares		Registered,
	Domestic Shares '000	H Shares '000	issued and fully paid RMB'000
Share capital of RMB1.00 each at 1 January 2002	33,000	–	33,000
Effect of sub-division of shares	297,000	–	–
Shares capital of RMB0.10 each immediately after the sub-division of shares	330,000	–	33,000
Issue of H Shares of RMB0.10 each upon listing on the GEM on 7 October 2002	–	110,000	11,000
Share capital of RMB0.10 each at 31 December 2002	330,000	110,000	44,000
Issue of H Shares of RMB0.10 each	–	80,000	8,000
Share capital of RMB0.10 each at 31 December 2003	330,000	190,000	52,000

Pursuant to a resolution of the extraordinary general meeting of the Company dated 21 March 2002, each of the Company's Domestic Shares with nominal value of RMB1.00 each was sub-divided into ten shares with nominal value of RMB0.10 each. Approval for such sub-division of shares was granted by the China Securities Regulatory Commission (the "CSRC") on 5 June 2002.

By means of placing of new shares to professional and institutional investors, the Company issued and allotted an aggregate of 110,000,000 H Shares of RMB0.10 each at a price of HK$0.72 per H Share on 7 October 2002.

By means of placing of new shares to professional and institutional investors, the Company further issued and allotted an aggregate of 80,000,000 new H Shares of RMB0.10 each at a price of HK$1.50 per H Share on 22 October 2003.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business and for general working capital purposes.

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investor, Domestic Shares and H Shares rank pari passu in all respects with each other.

27. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
THE COMPANY					
At 1 January 2002	–	1,713	1,713	20,718	24,144
Dividend for 2001, paid	–	–	–	(11,500)	(11,500)
Dividend for 2002 – interim, paid	–	–	–	(7,400)	(7,400)
Premium arising on issue of H Shares	73,068	–	–	–	73,068
Expenses incurred in connection with the issue of H Shares	(15,826)	–	–	–	(15,826)
Net profit for the year	–	–	–	36,760	36,760
Appropriations	–	3,395	3,395	(6,790)	–
At 31 December 2002	57,242	5,108	5,108	31,788	99,246
Dividend for 2002 – final, paid	–	–	–	(13,200)	(13,200)
Premium arising on issue of H Shares	119,200	–	–	–	119,200
Expenses incurred in connection with the issue H Shares	(6,848)	–	–	–	(6,848)
Net profit for the year	–	–	–	51,517	51,517
Appropriations	–	5,010	5,010	(10,020)	–
At 31 December 2003	169,594	10,118	10,118	60,085	249,915

Notes:

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve and statutory public welfare fund are based on the net profit in the financial statements prepared under PRC Accounting Standards.

(b) Statutory surplus reserve

The Company's Articles of Association requires the appropriation of 10% of profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

27. RESERVES (continued)

(c) Statutory public welfare fund

Statutory public welfare fund represents the appropriation of profit after taxation according to the requirements of the Company's Articles of Association and the PRC Company Law. According to the requirements, the Company shall make allocation from profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is not distributable other than in liquidation.

(d) Accumulated profits

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and accumulated profits brought forward determined under PRC accounting regulations and that determined under HKGAAP after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

The reserve available for distribution to the shareholders at 31 December 2003 was RMB28,586,000 (2002: RMB6,707,000), after accounting for the proposed dividend of RMB18,200,000 (2002: RMB13,200,000) (see note 9).

28. ACQUISITION OF A SUBSIDIARY

	2003 RMB'000	2002 RMB'000
Net assets acquired:		
Property, plant and equipment	17	–
Inventories	1	–
Other receivables, deposits and prepayments	35	–
Bank balances and cash	2	–
Trade payables	(13)	–
Minority interests	(13)	–
	29	–
Goodwill	48	–
Total consideration	77	–
Satisfied by:		
Cash	77	–
Net cash outflow arising on acquisition:		
Cash consideration	77	–
Bank balances and cash acquired	(2)	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	75	–

The subsidiary acquired during the year had no significant contribution to the Group's turnover and profit from operations.

29. MAJOR NON-CASH TRANSACTIONS

Details of the acquisition of certain assets from certain directors and the assumption of the corresponding loan obligations of these directors are set out in note 11.

30. OPERATING LEASE COMMITMENTS

At balance sheet date, the Group and the Company had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**6,124**	3,253	**5,408**	2,767
After one year but not more than five years	**11,952**	7,654	**11,512**	6,898
After five years	**330**	2,045	**330**	2,045
	18,406	12,952	**17,250**	11,710

The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

31. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital expenditure authorised but not contracted for acquisition of property, plant and equipment	**21,989**	23,000	**21,989**	23,000
Capital expenditure contracted for but not provided in the financial statements:				
– acquisition of property, plant and equipment	**8,148**	–	**8,148**	–
– unpaid capital contribution in respect of investment projects	**–**	662	**36,678**	662
	8,148	662	**44,826**	662

31. CAPITAL COMMITMENTS (continued)

In addition, at the 31 December 2003, an investee company of the Group had committed for capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment of approximately RMB18,939,000 (2002: nil).

32. TAX PAYABLE

(a) Local sales of the Company are subject to value-added tax ("VAT"). The amount of VAT-output payable can be offset by eligible VAT-input. As stipulated in the prevailing tax rules and regulations in the PRC, the Company is obliged to report its VAT position and to make the net VAT payment on a monthly basis. As at 31 December 2003, the outstanding VAT payable which was included in the "receipt in advance, other payables and accrued charges" in the balance sheet comprised VAT payable for year 2002 of RMB4,854,000 and VAT payable for year 2003 of RMB17,303,000. The Company settled all outstanding VAT payable for year 2002 in February and April 2004 without any penalty charges. The directors of the Company are of the opinion that the local tax bureau will not impose any penalty charges on the Company for not making the VAT payment for year 2003 on a timely basis and, on this basis, no provision for penalty charges has been made in the financial statements.

(b) The Company is subject to Enterprise Income Tax ("EIT"). As stipulated in the prevailing tax rules and regulations in the PRC, the Company is obliged to report its results of operations and to make the EIT payment on a quarterly basis. As at 31 December 2003, the outstanding EIT payable comprised EIT payable for year 2002 of RMB2,895,000 and EIT payable for year 2003 of RMB4,066,000 (see note 8). This is because the Company has made an application dated 28 April 2003 to the local tax bureau for an extension of the tax holiday from the "two-year exemption and three-year 50% reduction" to the "five-year exemption and three-year 50% reduction", and year 2000 is the "first profit-making year" for the purpose of EIT. The directors of the Company are confident that the local tax bureau will grant approval of the application within a short period of time and that the Company will be exempted from paying EIT for years 2002 to 2004 upon approval of the application. The directors of the Company are of the opinion that the local tax bureau will not impose any penalty charges on the Company for not making the EIT payment for year 2002 and year 2003 on a timely basis and, on this basis, no provision for penalty charges has been made in the financial statements.

33. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 21 March 2002 (the "Share Option Scheme"), the Company, for the purpose of encouraging the participants to perform their best in achieving the goals of the Group, may grant options to employees including any directors of the Company or its subsidiaries to subscribe for the H Shares in the Company. An offer for the grant of options must be accepted within 28 days from the date of offer, and a consideration of RMB1.00 is payable by each of the participants on acceptance of the grant of options. The Share Option Scheme will remain valid for a period of ten years commencing on 21 March 2002. An option may be exercised at any time during a period to be notified by the directors of the Company to each grantee provided that the period within which the option must be exercised shall be not less than two years and not more than 10 years from the date of grant. The subscription price for H Shares under the Share Option Scheme will be determined by the directors and notified to each grantee and will be no less than the highest of (a) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a H Share.

However, for employees who are PRC nationals and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

(i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and

(ii) The CSRC or other relevant government authorities in the PRC have approved the new issue of H Shares upon the exercise of any options which may be granted under the Share Option Scheme.

The total number of H Shares subject to the Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of issued H Shares of the Company in issue from time to time. The total number of H Shares available for issue under options granted under the Share Option Scheme and any other schemes, must not in aggregate, exceed 10% of the number of H Shares of the Company in issue from time to time. The Company may seek approval from shareholders in general meeting for renewing the 10% limit or for granting further options beyond the 10% limit, provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before such approval is sought.

No employee of the Company or its subsidiaries shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12-month period up to the date of grant, shall not exceed 1% of the H Shares in issue at the date of grant.

33. SHARE OPTION SCHEME (continued)

No option was granted by the Company under the Share Option Scheme since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

34. RETIREMENT PLANS

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group is required to contribute 8.0% to 22.5% of the basic salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirement plans are responsible for the entire present obligation to retired employees.

35. RELATED PARTY TRANSACTIONS

Save as disclosed in note 11, during the year the Group had the following significant transactions with related parties:

(a) 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 guarantee at no cost, and without interest or security required from the Company, in respect of bank loans granted to the Company, which amounted to RMB15,000,000 at 31 December 2003 (2002: RMB15,000,000).

(b) During the year, the Group and the Company paid RMB1,000,000 (2002: nil) to Bluepoint for software systems development. The transaction was carried out in accordance with the terms of the relevant agreement.