

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)

First Quarterly 2004 Report



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

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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)
(Stock Code: 8196)

HIGHLIGHTS:

- Turnover for the three months ended 31 March 2004 was approximately RMB55,155,000; increased by approximately 89.2% as compared with the corresponding period in 2003.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2004.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the period of the three months ended 31 March 2004.

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

- Turnover rose approximately 89.2% as compared with corresponding period in 2003.
- Sales to overseas market reached approximately RMB32 million, representing over 50% of the total turnover for the period.

Financial Overview

	Three months ended 31 March 2004 <i>(RMB '000)</i>	Three months ended 31 March 2003 <i>(RMB '000)</i>
Turnover	55,155	29,146
Costs of sales	25,560	10,368
Gross profit	29,595	18,778
Net profit	12,726	12,046

Financial Review

The Group's unaudited consolidated turnover for the three months ended 31 March 2004 amounted to approximately RMB55,155,000, representing a growth of approximately 89.2% over the corresponding period in 2003.

The Group's unaudited profit attributable to shareholders for the three months ended 31 March 2004 amounted to approximately RMB12,726,000, grew approximately 5.6% as compared with that of the corresponding period in 2003. The research and development expenses, administrative expenses and selling expenses increased sharply mainly because the number of staff increased by 200% compared with corresponding period in 2003. The Group's financial conditions improved significantly by the expansion of its product lines, the expansion of its sales networks and the execution of effective market strategies. These factors enhanced Launch's business development in the first quarter of this year.

Business Review

The Group recorded significant increase in overseas sales for the three months ended 31st March 2004. As the Group entered the US market in the end of 2003 and the Japan market in the beginning of 2004, sales from these two markets have contributed significantly to the Group's overseas sales in the first quarter. During the same period, sales to Europe, the Middle East and Australia also recorded significant increase as compared with the corresponding period in the previous year. The Group's diagnostic products, namely the X431 Electronic Eye, still remained the most demanded products in the overseas market, along with the increasing reception of several other key auto testing and maintenance products, such as the engine analyzer, wheel aligner and injector cleaner. In Japan, the Group had initiated negotiations with Nissan regarding the supply of auto service equipment, including diagnostics and lifts, to Nissan's service shops in the PRC. In the US, the Group had negotiated distribution arrangements two large auto diagnostics distributors for the distribution of X431 Electronic Eye in the western part of the US and with a well known auto product retail chain regarding the distribution of readers across the US.

As the Group conducted more direct sales with its "Launch Van" program in the PRC in the first quarter of 2004, orders from the Group's distributors in the PRC had decreased during this period and resulted in the slight decrease of the Group's domestic sales as compared with the corresponding period in the previous year. As at 31st March 2004, there were a total of 70 Launch Vans servicing over 20,000 end users in eight major cities in the PRC. The number of Launch Vans would increase to 100 during the year, and the Group would expect more direct sales contributions from the Launch Vans in the near future. On the other hand, the Group would still organize and maintain a strong dealership network in the areas not covered by the Launch Vans in the PRC. The Group's auto diagnostic and testing products made most of the sales contributions in the PRC during the first quarter.

In March 2004, the construction of phase one of the Group's lift plant in Shanghai was completed. An opening ceremony was held in Anting Town, Shanghai, with over 200 guests from 14 different nations attending the ceremony. Sample lifts were exhibited during the ceremony and made good impressions upon potential customers, as the Group's lifts combined world class designs with advanced technologies such as automatic equilibrium calibration, lift control bus and maintenance warning system. Trial production of lifts had begun in March 2004, and mass production with over 1,000 units per month is expected to start in June 2004. The Group had begun the mass production of two other machinery equipment, tire changers and wheel balancers, in February 2004. As these products are still awaiting their CE and Underwriters Laboratories ("UL") certifications, they will be destined for overseas sales in the second quarter. During the three months ended 31st March 2004, the Group had much emphasis on the development of its Auto Electronics Division. A major product of this business division, WIMC, a 2.5G CDMA based mini-positioning system, had passed trial testing with potential customers and China Unicom, the telecom carrier. A new factory was set up in Shenzhen for the Group's Auto Electronics Division in the first quarter, where WIMC will be produced.

Prospects

The Group has a clear vision in the production, management, promotion and distribution of automotive service equipment in the near future. Looking forward, the Group will continue to capitalize on its strengths in research and development as well as extensive local and overseas distribution networks. Relying on its sound financial position and the team spirit of the management and staff, I believe the Group's business will continue to prosper.

Liu Xin
Chairman

Shenzhen, the PRC, 14 May 2004

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		31 March	
		2004	2003
	<i>NOTES</i>	(Unaudited)	(Unaudited)
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(2)	55,155	29,146
Cost of sales		<u>(25,560)</u>	<u>(10,368)</u>
Gross profit		29,595	18,778
Other operating income		121	457
Selling expenses		(5,575)	(2,741)
Administrative expenses		(8,703)	(2,370)
Research and development costs		<u>(1,400)</u>	<u>(784)</u>
Profit from operations		14,038	13,340
Finance costs		<u>(361)</u>	<u>(324)</u>
Profit before taxation		13,677	13,016
Taxation	(3)	<u>(1,000)</u>	<u>(976)</u>
Profit before minority interests		12,677	12,040
Minority interests		<u>49</u>	<u>6</u>
Net profit for the period		<u>12,726</u>	<u>12,046</u>
Dividends	(4)	<u>–</u>	<u>–</u>
Earnings per share – basic	(5)	<u>RMB0.024</u>	<u>RMB0.027</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF CONSOLIDATION

The consolidated financial statement incorporates the financial statements of the Company and its subsidiaries made up to 31 March 2004 and the corresponding period in 2003.

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

(2) TURNOVER

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

(3) TAXATION

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

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

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

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

(4) DIVIDENDS

The Directors do not recommend an interim dividend for the three months ended 31 March 2004.

(5) EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit for the period of approximately RMB12,726,000 (2003: RMB12,046,000) and on the number of 520,000,000 shares in issue during the period (2003: 440,000,000 shares as if the sub-division of the Company's shares as described in the Prospectus dated 30 September 2002 ("Prospectus"), which had taken place on 1 January 2002).

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

(6) RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2003	57,242	5,108	5,108	32,077	99,535
Net profit for the period	—	—	—	12,046	12,046
At 31 March 2003	<u>57,242</u>	<u>5,108</u>	<u>5,108</u>	<u>44,123</u>	<u>111,581</u>
At 1 January 2004	169,594	10,118	10,118	60,392	250,222
Net profit for the period	—	—	—	12,726	12,726
At 31 March 2004	<u>169,594</u>	<u>10,118</u>	<u>10,118</u>	<u>73,118</u>	<u>262,948</u>

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

(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 March 2004, 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 5.46 to 5.68 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%

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.

(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% <i>(note 1)</i>	23.00%
Shenzhen De Shi Yu	Corporate	49,500,000	15.00% <i>(note 2)</i>	9.52%
Shenzhen Jie Xin	Corporate	19,239,000	5.83% <i>(note 3)</i>	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.

(ii) *H Shares*

Name	Types of interests	Interests in underlying Interests in H Shares long position	Approximate percentage of the H Shares pursuant to debentures	Approximate percentage of the Company's issued H Shares	Company's total issued Shares
Baring Asia II Holdings (20) Limited	Corporate	45,755,000	–	24.08%	8.80%
Baring Asia Private Equity Fund II L.P.1	Corporate	45,755,000	–	24.08% <i>(note 1)</i>	8.80%
Carlson Fund Equity Asian Small Cap	Corporate	12,180,000	–	17.36%	6.34%
Deutsche Bank Aktiengesellschaft	Corporate	15,000,000	–	7.89%	2.88%
Best Dividend Investments Limited	Corporate	–	39,000,000	20.52% <i>(note 2)</i>	7.50%
Russell AIF Asia II, L.P.	Corporate	–	39,000,000	20.52% <i>(note 3)</i>	7.50%
Russell AIF Investments, L.P.	Corporate	–	39,000,000	20.52% <i>(note 4)</i>	7.50%

Name	Types of interests	Interests in underlying Interests in H Shares long position	Approximate percentage of the H Shares pursuant to debentures	Approximate percentage of the Company's issued H Shares	Company's total issued Shares
Russell AIF Investments, Limited	Corporate	–	39,000,000	20.52% <i>(note 5)</i>	7.50%
Frank Russell Investments (Delaware) Inc	Corporate	–	39,000,000	20.52% <i>(note 6)</i>	7.50%
Good View Group Limited	Corporate	–	39,000,000	20.52% <i>(note 6)</i>	7.50%
Frank Russell Company	Corporate	–	39,000,000	20.52% <i>(note 7)</i>	7.50%
The Northwestern Mutual Life Insurance Company	Corporate	–	39,000,000	20.52% <i>(note 7)</i>	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. 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.
3. 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.
4. 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.
5. 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.

6. 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.
7. 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 31 March 2004, the Group had the following transactions with connected parties as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

Pursuant to an agreement dated 13 December 2002 entered into between the Company and Shenzhen De Shi Yu, Shenzhen De Shi Yu agreed to provide a shareholder guarantee to a bank amounting to RMB15,000,000, at no cost and expense and without interest or security from the Company, to secure the bank loan of RMB15,000,000 granted to the Company. The guarantee was effective from 16 December 2002 and will be terminated upon full repayment of the relevant bank loan. Shenzhen De Shi Yu is a company which holds 9.52% interest in the Company and Ms. Liu Yong, a Director, has beneficial interests. Details of this arrangement are set out in the announcement dated 27 December 2002 issued by the Company.

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

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

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

An audit committee was established on 21 March 2002 with written terms of reference in compliance 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.

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

- review 2003 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 March 2004.

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

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

Shenzhen, the PRC
14 May 2004