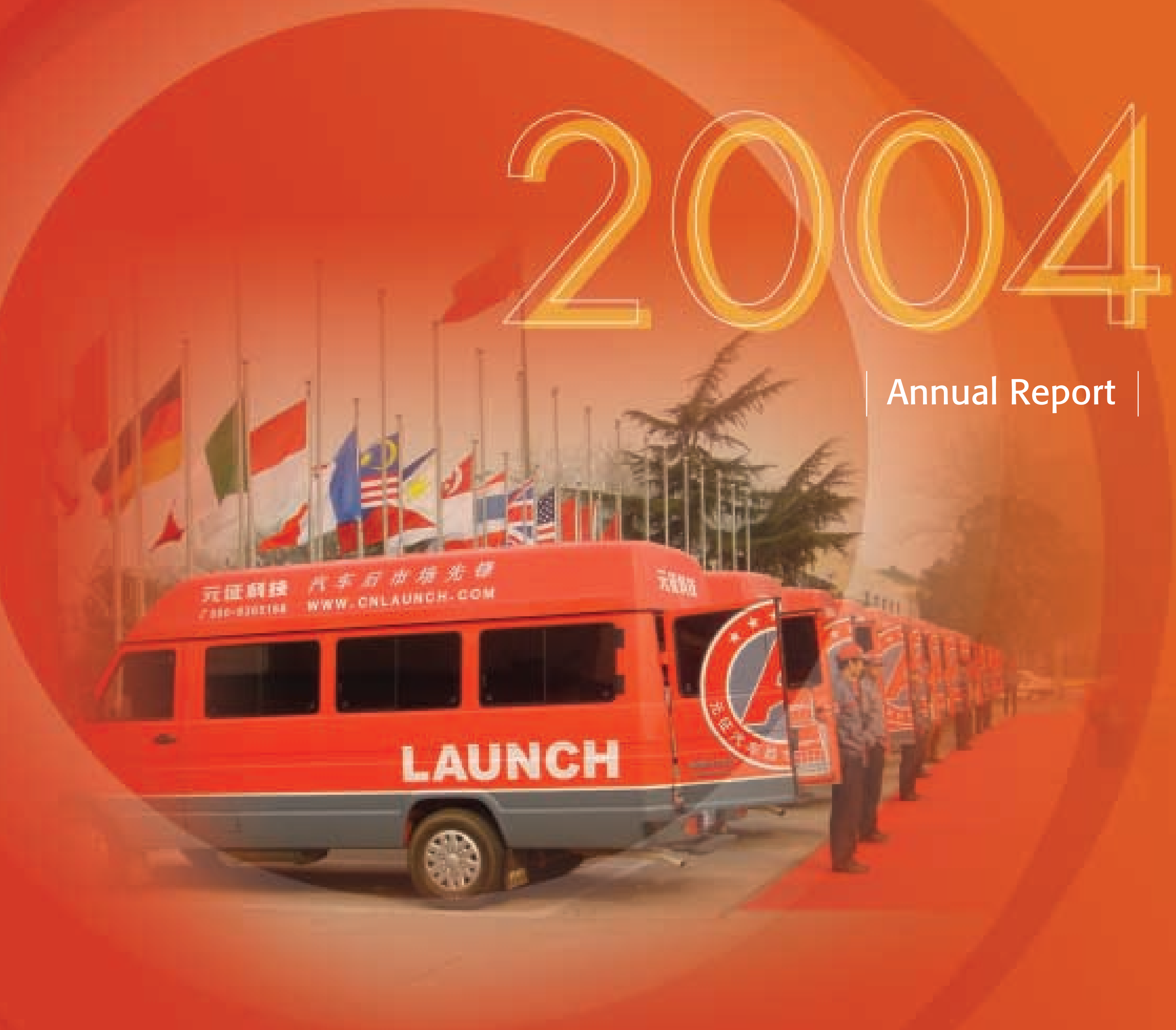
# LAUNCH

## 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 )




# 2004

## Annual Report

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

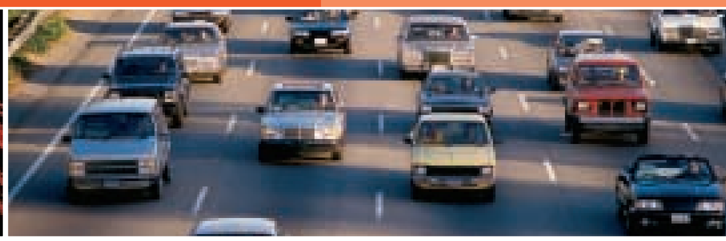
**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this annual report.*

*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

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

## 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. Yim Hing Wah

## COMPLIANCE OFFICER

Mr. Liu Jun

## AUTHORISED REPRESENTATIVES

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

## AUDITORS

Grant Thornton
13th Floor, Gloucester Tower
The Landmark
11 Peddar Street, 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

Bank of Communications Shenzhen Branch
Honlilu Sub-branch
3002 Hongli Road
Shenzhen, the PRC

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

Hua Xia Bank Shenzhen Branch
Yitian Sub-branch
1st–2nd Floor, Mingyue Garden Buildings
Shenzhen, the 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

603, 6th Floor, Lower Tower
New Millennium Plaza
181 Queen's Road Central
Hong Kong

## STOCK CODE

8196

# Chairman's Statement

Liu Xin (Louis Liu) *Chairman*

"The Group maintained rapid development in 2004 and captured the growth opportunities in the overseas automotive aftermarket, and achieved satisfactory results."

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 2004 to the shareholders.

The Group maintained rapid growth in 2004 by capturing the opportunities of the overseas market, and recorded satisfactory turnover. In 2004, the management's focus was to improve its financial management and reporting skills, and the Board had instructed the Group's newly appointed auditors, Grant Thornton (the "Auditors"), to conduct a special audit of the Group's operating results for the nine months ended 30 September 2004 (the "Special Audit"). Based on the results of the Special Audit and the advice of the Auditors, the Group had adopted conservative financial policies and made substantial provisions and write offs on the Group's pre-operating expenses relating to local branches, value-added tax and inventories. The Special Audit had revealed approximately RMB19.6 million deficit in net profit from our previously announced unaudited results for the same period; however, it also removed the qualifications that imposed on the Group's financial statement of the previous year (please refer to our announcement dated 20 January 2005 regarding the details of the results of the Special Audit).

## OPERATING RESULTS

In the financial year 2004, the Group's turnover was approximately RMB277.6 million, representing a growth of approximately 35.6% over the previous corresponding period. The Group's net profit was approximately RMB39.6 million, representing a decline of approximately 16.1%. At the forthcoming annual general meeting on 17 May 2005 (Tuesday), the Board will propose a payment of dividends of RMB3.5 cents per share for the year ended 31 December 2004.

## BUSINESS REVIEW

With over 30,000 units sold worldwide during the past two years, the Group's X431 Electronic Eye had established itself as one of most popular automotive diagnostic tools in the world. In 2004, "Kfz-Meister Service", a popular auto mechanic magazine in Europe ranked our X431 Electronic Eye as the number one auto diagnostic tool. In 2004, over 11,000 units of X431 Electronic Eye were sold in the overseas market while over 6,000 units were sold in the PRC. In the second half of 2004, overseas users had started to make software upgrade from our website and provided the Group with approximately US$1 million of software upgrade fees. The R&D of updated versions, namely X431TOP and X431 Colour, was well under way.

The Group also made substantial progress in the sales of its testing product line and maintenance product line. For testing products, our 4-wheel aligner product was further improved with measuring functions and multi-language software. For our maintenance products, we launched the "Launch Auto Maintenance Centre Franchise" in the PRC and recruited dozens prominent auto service centres as our franchise members.

As for our lift factory in Shanghai, the construction work for phase one was completed with annual capacity of producing 28,000 units per year, making it the largest automotive lift factory in Asia. In the second half of 2004, the factory produced around 4,000 units and sold around 3,000 units mainly in the overseas market.

## PROSPECTS

With prominent market position of our X431 Electronic Eye in the world, we intended to further establish a comprehensive product series by launching the X431TOP with advanced diagnostic and repair functions and the X431 Colour, with colour display. We intended to sell over 20,000 units of X431 Electronic Eye worldwide in 2005, or around 10% of world market share. We also intended to triple the software upgrade revenue from the Internet.

For the lift factory in Shanghai, as the trial production period was completed and all product certifications for export had been obtained, we intended to produce and sell over 23,000 units and 20,000 units respectively, and to make this factory the fourth largest lift manufacturing base in the world in 2005. Both tire changer and wheel balancer products would also become important complementary equipment to out lifts, as we intended to sell at least 5,000 units each in 2005.

As for our testing and maintenance product lines, we would formally introduce the newly developed 3D 4-wheel Aligner and KEA-503 Multi-function Emission Analyzer in the international market. The "Launch Auto Maintenance Centre Franchise" programme would be further expanded in the PRC market in 2005. In order to focus on core business, we would discontinue further investment in the auto electronics products and limit the number of auto department stores to the current four. We hoped to turn the current auto department store franchise into a profitable business segment before opening any new stores by the end of 2005.

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

**Liu Xin**
*Chairman*

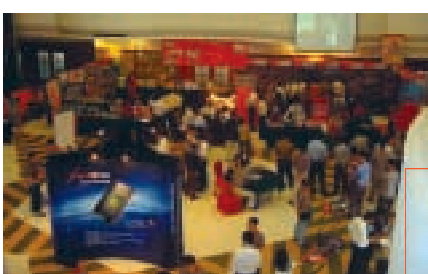
Shenzhen, the PRC
29 March 2005

# Management
# Discussion and Analysis

## FINANCIAL REVIEW

Audited consolidated turnover of Launch Tech Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2004 amounted to approximately RMB277.6 million, representing a growth of approximately 35.6% over 2003. The growth in turnover is mainly attributable to the excellent sales performance of the Group's products in both domestic and overseas markets, which enhanced Launch's market recognition and business development in the year.

Audited profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2004 amounted to approximately RMB39.6 million and RMB7.6 cents respectively. Profit attributable to shareholders decreased by approximately 16.1% compared with the previous year. The decrease in the profit attributable to shareholders was mainly attributable to a special audit conducted by the Group during the year (the "Special Audit") and the adoption of more conservative accounting policies, and as a consequence, the Group made an one-off and substantial provision and write off on the pre-operating expenses of the Group's local branches, inventories and VAT, etc.. The net profit revealed by the result of the Special Audit had shown a deficit of approximately RMB19.6 million as compared with that of the unaudited result as at the 30 September 2004 announced by the Group earlier. In addition, the Special Audit also removed the qualifications included in the Group's financial statements of the previous year. Please refer to the announcement of "Result of the Special Audit" published by the Company on 20 January 2005 for details.



## FINANCIAL RESOURCES AND LIQUIDITY

The Group adopts to a prudent financial management policy and has a healthy financial position. As at 31 December 2004, The Group had cash and bank balances of approximately RMB195.4 million.

As at 31 December 2004, shareholders' equity of the Group amounted to approximately RMB319.4 million. Current assets amounted to approximately RMB612.1 million. The Group's long-term liabilities amounted to approximately RMB4.0 million which were non-current secured loans, and its current liabilities amounted to approximately RMB455.7 million, which comprised of short-term bank borrowings amounting to approximately RMB150.1 million, and the others were mainly account payables and accruals. The Group's net asset value per share amounted to approximately RMB0.61. The Group's gearing ratio, which represented the percentage of bank borrowings over gross asset value, was approximately 20%.

For the year ended 31 December 2004, most of the Group's income was denominated in RMB whereas all overseas sales were transacted in USD, and expenses were paid in RMB. Therefore, the Directors consider that the Group was not under substantial foreign exchange risk exposure.

## EMPLOYEES

As at 31 December 2004, the Group had 1,950 and 10 employees (2003: 1,360 and 40 respectively) based in the PRC and overseas respectively. Staff costs, after deducting directors' and supervisors' emoluments, amounted to approximately RMB50.0 million (2003: approximately RMB23.8 million). The Group remunerates employees by their performance and experience. It has adopted a share option scheme whereby employees of the Group may be granted options to acquire shares. The Group also offers benefits such as professional training programs to the staff to enhance their skills, knowledge and sense of belonging.




## OTHERS

As at 31 December 2004 and 2003, the Group did not hold any material investments.

As at 31 December 2004 and 2003, apart from the pledged bank deposits of approximately RMB137.7 million (2003: approximately RMB2.2 million) and certain pledged properties and motor vehicles with net book value of approximately RMB7.5 million (2003: approximately RMB9.5 million). The Group had no other pledged assets.

As at 31 December 2004, the Group had no material future investment, other than the acquisition of capital assets purchases as mentioned in the section of "Statement of Business Development 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, the PRC, in the second half of 2004 (the construction has not yet been commenced ) as stated in the circular of the Company dated 21 November 2003 ("the November 2003 Circular").

As at 31 December 2004, except for an estimated late payment surcharge and penalty arising from corporate income tax amounting to approximately RMB2.8 million, the Group did not have any material contingent liabilities.

The acquisition of the total issued capital of Launch Europe GmbH ("Launch Germany") from an outside party by the Group was completed on 30 June 2004. The aggregate amount of the investment was USD 80,000. Launch Germany was the Group's principal distributor in Europe and would continue to develop overseas business of the Group after acquisition. Furthermore, the Company and Launch Germany set up a Sino-foreign cooperative joint venture named Shanghai Launch Machinery Equipment Company Limited ("Launch Shanghai") to operate the Group's automotive lift factory in Shanghai. Launch Shanghai was established in Shanghai, PRC and is mainly engaged in the production of automotive lifts. The registered capital of Launch Shanghai is USD 10,000,000 in which the Company and Launch Germany each will contribute USD 5,000,000. The joint investment in Launch Shanghai was completed on 30 June 2004. As at 30 June, Launch Germany was a wholly-owned subsidiary of the Company, thus the Company wholly-owned Launch Shanghai indirectly. Relevant information about the investment in Launch Shanghai has been disclosed in the Circular of the Company dated 9 July 2004. During the year, the Group did not make substantial disposals of its subsidiaries and associated companies.

## BUSINESS REVIEW

### Overview

The Group recorded a satisfactory turnover of approximately RMB277.6 million in 2004, representing a growth of 35.6% over 2003. For the year ended 31 December 2004, domestic sales of the Group amounted to approximately RMB157.0 million, and representing approximately 57% of the total turnover (2003: 77%). Overseas sales reached approximately RMB120.6 million, representing a growth of approximately 151.6% as compared with 2003 and accounting for approximately 43% of the total turnover. The Group has achieved a breakthrough in overseas markets.

The rapid growth of sales in 2004 was mainly attributable to: (1) the Group was proactive in its expansion of the overseas market, resulting in a rapid development of its overseas business; 2) the commencement of production of the lift factory, and the launch of the "Launch Auto Maintenance Centre Franchise" program, adding new sources for operational growth; 3) the Group expanded its direct sales team and intensified its sales team training; 4) the opening of the Group's four auto supermarkets chain stores as well as the full participation of the "Launch Vans" strengthened the establishment of sales channels; 5) the Group was focusing on moulding the brand name and increasing input in the market.

### Sales & Marketing

In 2004, the Group's principal computerized automotive diagnostic system, the X431 Electronic Eye, obtained a substantial market share in both domestic and overseas markets with an accrued sales volume of over 30,000 units in the market. In 2004, the authoritative European auto aftermarket magazine "Auto Master Service" (Kfz-Meister Service) conducted a strict test on five well-known brands of automotive diagnostic systems with the most sales in the world. As a result, the X431 Electronic Eye performed excellently in many aspects of the test, winning first place with overwhelming edges in the comprehensive appraisal, and was deemed by the committee of experts as the most competitive product. The Launch X431 Electronic Eye was also accredited as one of the "Top 20" repair tools of 2004 in the 2004 "Top 20" Repair Tool Appraisal held by the well-respected domestic auto-aftermarket periodical "Car Repair and Maintenance" (汽車維修與保養). These accomplishments added the X431 Electronic Eye yet another boost in its prominence, giving it an exclusive position on many parts of the domestic market.

In the second half of 2004, the sales of lifts achieved approximately RMB22.3 million, marking a new sales growth in the domestic market. In 2004, Launch Tech became the world's third and China's first 4-wheel aligner maker to utilise the world's most advanced wheel alignment measuring method, 3-D imaging measuring method, to produce 4-wheel aligners. In 2004, the sales of testing products and maintenance products of the Group both saw a steady growth in the market.

In 2004, the Group's domestic marketing department, while continuing its business of providing total equipment solutions, also focused much on the development of the "Launch Automotive Maintenance Center Franchise". According to its strategy for 2004, the Group upheld its tradition of developing its major customers and maintained strategic partnerships with them, and continued to expand the business with major customers, such as the automotive manufacturers.

## BUSINESS REVIEW (continued)

### Sales & Marketing (continued)

In 2004, the first series of Launch Vans were delivered to and had been servicing the market. Also in 2004, auto supermarkets were opened in Chengdu, Wuhan, Shenyang and Xian, providing the auto repair shops and auto owners with one-stop-services.

The Group's newly developed automotive diagnostic and testing projects in 2004 included Chongqing Lifan (重慶力帆), Dongfeng Peoguet (東風標緻), Dongfeng Electronics (東風電子), Dongfeng Commercial (東風商用) and Dongfeng Honda (東風本田).

In 2004, the Group increased the percentage of direct sales, further sub-dividing the domestic market by adding 22 second-level branches. The domestic agent network was further consolidated and expanded.

To further the local influence and establish brand image, the Group fully utilized various marketing tools and means including advertisement, promotion, exhibition, promotional seminar, training session, industry forum and public relation activities, substantially boosting the brand image.

(1) At the end of 2004, our domestic marketing department conducted promotion seminars in cities such as Beijing, Shenyang, Suzhou, Hangzhou, Chengdu, Changsha, Nanning, Xiamen, Wuhan and Xian, in which there were more than 5,000 participants. In 2004, 122 training sessions were organized by the Group and its branches and nearly 10,000 trainees attended the trainings.

(2) Besides, the domestic marketing department of the Group had also participated in 10 trade fairs in the industry, including "The 41st National Exhibition of Automobile Maintenance, Repair, Testing and Diagnostic Equipment and Automobile Tool Services and Products", "The 11th China International Exhibition of Automobile Repair Technology, Tools and Equipment", "China International Exhibition of Automobile Cleaning, Oil Products, Refueling Machinery and Maintenance Products", "International Exhibition of Automobile Parts and Accessories, Repair, Testing and Diagnostic Equipment and Services and Products in Shanghai".

(3) For its advertising campaigns, in 2004, the Group mainly adopted means of magazine advertisement, outdoor advertisement, store advertisement and promotional pamphlets. 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, Shenzhen, Chengdu, Xian and Shenyang.

(4) On 20 July 2004, the annual "Forum of High New Technology of the Launch Automotive Aftermarket" sponsored by the Group was held in Shenzhen. It attracted nearly 200 overseas participants from more than 20 countries and regions, with senior officials who administer the aftermarket industry and important business partners attending in person. The forum has already become a pageant in the domestic automotive aftermarket, which also has a great brandname value.

## BUSINESS REVIEW (continued)

### Research and development

The Group's major research and developments in 2004 were as follows:

- The software development of X431 made a substantial progress. The auto testing ranges covered the main types of automobiles globally. We provided OEM equipment to tens of automobile manufacturers. The purchase of the software and the payment for upgrade were already accepted. The expanded series of products include X431TOP which has integrated the functions of automobile diagnosis, engine analyzer, oscillometer, sensor testing box, sensor analog box, battery testing box and automobile information. The research and development of X431 Colour was underway and making satisfactory progress.

- The extension of 4-Wheel Aligner's functions and expansion of product range development.

- Completion of the development of 3D 4-Wheel Aligner.

- Completion of development of KEA-503 Multi-function Emission Analyzer.

- Completion of development of testing system project of Nanjing Iveco (南京依維柯) autometer electric system.

## PROSPECTS

In 2005, the domestic marketing department will make some adjustments to the existing business management model so as to keep abreast with and facilitate more rapid business development. Various branches in the PRC will become independent profit centres, and will be take charge of their own respective profits and losses.

The year 2005 will see the domestic marketing department pursuing strictly in line with the principal strategies of "Focus Key Products – Consolidating and Breaking Through; Focus Key Markets – Working Bit by Bit". It will continue to consolidate its leading position in the market of diagnostic products to accomplish the steady growth of its sales; strengthen the marketing of lifts, wheel alignment systems and tools and to make them to become new sources of income generation in the domestic market.

In 2005, on top of the endeavor for business management of the existing auto supermarkets chain stores, the domestic marketing department will continue to further establish an appropriate number of chain stores in the right places timely in line with the optimization of location deployment and economic effectiveness. In 2005, based on the network of auto supermarkets, the domestic marketing department will gradually integrate the branches, secondary branches (offices) and auto supermarkets together in order to create and realize a membership-based sales system for the continual sales growth in the future.

## PROSPECTS (continued)

The Group will strengthen the guidance, supervision and support provided by the headquarters for the works of various branches in the PRC, and enhance the standards of internal management and business management. The structure of the direct sales network will also be diversified. The Oracle ERP System implementation is under pilot operation generally. The ERP System 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 on income, costs and expenses, thereby helping the accomplishment of operating goals.

The diagnostic product department of the Group will launch its new X431TOP and X431 Colour. X431TOP will input the functions of engine analyzer, oscillometer, sensor testing box, sensor analog box, battery testing box and automobile information in addition to the existing functions of X431. The functions of X431 Colour will be the same as X431, except that the former will have a colour monitor which will certainly improve the sales of products. The Group also will launch the following products in 2005:

- Intelligent 4-Wheel Aligner
- 4-Wheel Aligner for Large Vehicles
- Flat Platform Automobile Testing Line
- Motorcycle Testing Line

To conclude, our research staff will try every effort to deliver more 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.

## USE OF PROCEEDS (continued)

For the year ended 31 December 2004, 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 utilized as follows:

| | **Intended use of proceeds** *HK$ million* | **Actual expenditure** *HK$ million* |
|---|---|---|
| *As set out in the Prospectus:* | | |
| Stengthening research and development | 4.7 | 10.0 |
| Developing the domestic market | 9.0 | 28.0 |
| Developing overseas markets | 1.0 | 6.0 |
| Construction of new corporate headquarters | 7.0 | 8.7 |
| | 21.7 | 52.7 |

The actual use of proceeds from listing of shares exceeded the estimation in the Prospectus, and the differences were satisfied by the cash generated from the Group's operating activities.

| | **Intended use of proceeds** *HK$ million* | **Actual expenditure** *HK$ million* |
|---|---|---|
| *As set out in the July 2003 Circular:* | | |
| Construction of a production base of lifts in Shanghai | 68.04 | 68.04 |
| Enhancing the existing capacity of the plant | 22.68 | 22.68 |
| Expanding distribution channels by setting up overseas offices | 11.34 | 11.34 |
| Working capital | 11.34 | 11.34 |
| | 113.40 | 113.40 |

As at 31 December 2004, the actual use of proceeds from placing of shares was fully in line with the estimation as set out in the July 2003 Circular.

## 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 2004 and its various business objectives as stated in the Prospectus are 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 manufacturers. |
| | Introduce advanced version of "mobile container testing line" | The project was terminated due to change of market environment. |
| | Launch of "automobile satellite positioning, logistics and diagnostic system" | In progress |
| | Launch of iLAM_iLAS Service System version 2.0 | The project was terminated due to market uncertainties and the excessive time required. |
| **2. Expansion of PRC market** | Continue to expand Launch GD programme by entering into arrangement with 22 operators in strategic locations in the PRC, including Sichuan, Shanxi, Shaanxi, Chongqing, Hunan, Hubei, Shandong, and Xinjiang<br><br>Continue to expand Total Launch GD Programme by entering into arrangement with 30 operators in strategic locations in the PRC, including Sichuan, Shanxi, Shaanxi, Chongqing, Hunan, Hubei, Shandong, and Xinjiang | 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. |

## COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

| | Expected progress of projects | Actual progress of projects |
|---|---|---|
| **2. Expansion of PRC market (continued)** | Expand distribution network by entering into arrangement with 12 Launch Franchise Dealers located in strategic locations in the PRC, including Sichuan, Shanxi, Shaanxi, Chongqing, Hunan, Hubei, Shandong, and Xinjiang | Ten dealers were added in South China region, including three franchised dealers and four tool dealers. Furthermore, the direct sales network was enhanced. |
| | Continue to enter into collaborative arrangement with reputable academic institutions in the PRC to establish 15 training centres in strategic locations in the PRC, including Sichuan, Shanxi, Shaanxi, Chongqing, Hunan, Hubei, Shandong, and Xinjiang | All original training centers had met the Group's requirements. |
| | 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.<br><br>"The Annual Forum of China's Auto Aftermarket and Launch Annual Meeting," a yearly conference hosted by the Group was held on 20 July 2004 with great success. |

## COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

| | Expected progress of projects | Actual progress of projects |
|---|---|---|
| **2. Expansion of PRC market (continued)** | Advertise in trade journal, magazines and the 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.<br><br>Road side advertisements were set out in large automobile accessories markets and along busy roads in locations including Shanghai, Guangzhou and Quanzhou. |
| | Commence the construction of the new headquarters in Shenzhen | The commencement of the construction of the new corporate headquarters will be postponed to 2005 due to changes in design and budget. |

## COMPARISON BETWEEN BUSINESS PLANS AND ACTUAL PROGRESS (continued)

| | Expected progress of projects | Actual progress of projects |
|---|---|---|
| **3. Expansion of overseas markets** | Continue to expand Launch GD programme by entering into arrangement with 5 overseas operators in strategic locations, (including the US, Canada, Egypt, Lebanon and Taiwan) | 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; |
| | Expand distribution network by entering into arrangement with 5 Launch Franchise Dealers located in strategic overseas locations, (including the US, Canada, Egypt, Lebanon and Taiwan) | Developed general dealers for individual products in the US, Canada, South America, Australia, Middle East, Russia, Germany and Japan; |
| | | Successfully added more than 80 overseas dealers; |
| | 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. |

# Report of the Directors

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2004.

## 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 and consolidated statement of changes in equity on page 36 and page 41 respectively and the accompanying note 26 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 30 June 2005 amounting to RMB18.2 million and the retention of the remaining profit for the year of approximately RMB21.4 million.

## SHARE CAPITAL

No movement during the year in the registered and issued share capital of the Company.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group expended an aggregate of approximately RMB64.5 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 (resigned on 27 October 2004)
Ms. Xu Xin, Kathy (appointed on 17 May 2004 and resigned on 4 February 2005)

Independent non-executive directors:

Mr. Zhang Xiao Yu
Mr. Hu Zi Zheng
Mr. Yim Hing Wah (appointed on 28 September 2004)

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.

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.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' 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 December 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 Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to Rules 5.48 to 5.67 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 | Nature and Types of Shares Held | 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) Beneficiary owner | 132,000,000 | 40.00% | 25.39% |
| | (2) Interest in controlled company | 138,864,000 | 42.08% *(Note 1)* | 26.70% |
| | (3) Interest in controlled company | 10,261,000 | 3.11% *(Note 2)* | 1.97% |
| Mr. Liu Jun | Interest in controlled company | 138,864,000 | 42.08% *(Note 3)* | 26.70% |
| Mr. Wang Xue Zhi | Beneficiary Owner | 9,636,000 | 2.92% | 1.85% |

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (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 42.08% 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 42.08% 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 Xin holds 40.00% interest in 深圳市得時域投資有限公司("Shenzhen De Shi Yu") which holds 3.11% interest in the issued domestic shares of the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen De Shi Yu, Mr. Liu Xin is deemed, under the Part XV of the SFO, to be interested in 3.11% 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.

(3) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 42.08% 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 42.08% 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 42.08% interest in the issued domestic shares of the Company.

Save as disclosed above, as at 31 December 2004, none of the Directors, Chief Executives and 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.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (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 31 December 2004, 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 | Nature and Types of Shares Held | Number of Domestic Shares | Approximate percentage of the Company's issued Domestic Shares | Approximate percentage of the Company's total issued Shares |
|---|---|---|---|---|
| Shenzhen Langqu | Interest in controlled company | 138,864,000 | 42.08% *(Note 1)* | 26.70% |

*Note:*

(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.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (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 (continued)

*(ii) H Shares*

| Name | Nature and Types of Shares Held | Interests in H Shares long position | Approximate percentage of the Company's issued H Shares | Approximate percentage of the Company's total issued Shares |
|---|---|---|---|---|
| Baring Asia II Holdings (20) Limited | Interest in controlled company | 45,755,000 | 24.08% | 8.80% |
| Baring Asia Private Equity Fund II L.P.1 | Interest in controlled company | 45,755,000 | 24.08% | 8.80% *(note 1)* |
| Victory Investment China Limited | Interest in controlled company | 18,500,000 | 9.74% | 3.56% |
| Atlantis Investment Management Ltd | Interest in controlled company | 16,485,000 | 8.68% | 3.17% |
| Carlson Fund Equity Asian Small Cap | Interest in controlled company | 12,180,000 | 6.41% | 2.34% |
| GAM Hong Kong Limited | Interest in controlled company | 12,000,000 | 6.32% | 2.31% |

*Note:*

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.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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 ended 31 December 2004.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 31% of the Group's total turnover and the Group's largest customer accounted for approximately 8% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 23% of the Group's total purchases and the Group's largest supplier accounted for approximately 10% of the Group's total purchases.

None of the Directors, or 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 is 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.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during this year.

## AUDIT COMMITTEE

An audit committee was established on 21 March 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 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 three independent non-executive directors, Mr. Zhang Xiao Yu, Mr. Hu Zi Zheng and Mr. Yim Hing Wah.

## AUDIT COMMITTEE (continued)

Five audit committee meetings were held in the year 2004 and up to the date of this report to perform the following duties:

– review the 2003 and 2004 annual reports and first to third quarterly reports of 2004 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 2004.

CPY Capital has entered into a sponsor agreement with the Company whereby, for a fee, CPY Capital was 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.

## AUDITORS

The financial statements of the Company for the year ended 31 December 2004 were audited by Grant Thornton.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Grant Thornton as auditors of the Company.

The financial statements of the Company for the years ended 31 December 2002 and 2003 were audited by Deloitte Touche Tohmatsu.

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

Shenzhen, the PRC
29 March 2005

# Report of the Supervisory Committee

To: All Shareholders

During the year ended 31 December 2004, 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 Grant Thornton, 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 2004 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
29 March 2005

# Profile of Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. Liu Xin** (劉新), also known as **Liu Yi Zhi** (劉易之), aged 36, 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 34, 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 68, 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 42, 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)

Independent non-executive Directors

**Mr. Zhang Xiao Yu** ( **張小虞** ), aged 60, 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 67, 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.

**Mr. Yim Hing Wah** (**嚴慶華**), aged 40, has more than 15 years experience in auditing, accounting, taxation, business consulting and financial management. He had worked for Deloitte Touche Tohmatsu as manager for 9 years from July 1992 to December 2000. After that, he was the financial controller of Jiangsu Nandasoft Company Limited and Chinasoft International Limited, the companies listed on GEM. Currently, he is a partner of Chan, Yim, Cheng & Co., an accounting firm in Hong Kong. Mr. Yim is a graduate of Hong Kong Polytechnic University and holds a Bachelor Degree in Accounting. He is a member of the Hong Kong Society of Accountants, a fellow member of Association of Chartered Certified Accountants and a member of Hong Kong Securities Institute. Mr. Yim also serves as the independent non-executive director of Artel Solutions Holdings Limited (listed on Main Board) and Jiangsu NandaSoft Company Limited (listed on GEM).

## 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 65, 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 57, 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 41, 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. Peter Toland**, aged 48, 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 32, 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.

**Mr. Hu Kai (胡凱)**, aged 31, 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.

## SENIOR MANAGEMENT (continued)

### Qualified Accountant and Company Secretary

**Mr. Liu Chun Ming** (廖俊明), aged 29, 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. Yim Hing Wah | member | independent non-executive Director |

# Notice of Annual General Meeting

**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 17 May 2005 (Tuesday) 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 2004;

2. To consider and pass the report of the supervisory committee for the year 2004;

3. To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2004;

4. To consider and pass the resolution of final dividend distribution for the year 2004;

5. To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2004;

6. To consider and pass plans to re-appoint Grant Thornton as auditors of the Company for the year 2005 and to authorise the board of Directors to fix their remunerations;

7. To re-appoint Directors and Supervisors; and

8. 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 12 be deleted in its entirety and substituted with the following paragraph:

The Company's scope of operations shall be based on items approved by the company registration authorities.

The Company's scope of operations includes development, production and sales of computer software and hardware; economic information enquiry services; information network services (excluding licenses, controlled businesses, sole proprietary rights and restricted items); operation of import and export businesses stipulated by "Registration Certificate for proprietary exports and imports business" of Shen Mao Guan Deng Ji Zheng Zi No. 17.

Based on domestic and foreign market changes, domestic and foreign businesses demands, the Company's own developing ability, and resolutions passed on the Annual General Meeting and reported and being approved by related State authorities, the Company can make suitable adjustment to its scope of operations, investment direction or method etc., and establish branch and office throughout PRC and Hong Kong, Macau and Taiwan areas (whether wholly owned by the Company or not).

(b) Article 18 be deleted in its entirety and substituted with the following paragraph:

Being approved by the securities regulatory authorities under the State Council, the issued ordinary shares of the Company after its incorporation are 190,000,000 shares, all being overseas listed foreign shares, and accounted for 36.54% of the aggregate issued ordinary shares of the Company.

The existing capital structure of the Company is 520,000,000 shares of aggregate issued ordinary shares, in which:

(1) 290,761,000 shares are being held by promoters, accounted for 55.91% of the Company's aggregate share capital;

132,000,000 shares are being held by Liu Xin, accounted for 25.39% of the Company's aggregate share capital;

138,864,000 shares are being held by Shenzhen Langqu, accounted for 26.70% of the Company's aggregate share capital;

10,261,000 shares are being held by Shenzhen De Shi Yu, accounted for 1.97% of the Company's aggregate share capital;

9,636,000 shares are being held by Wang Xue Zhi, accounted for 1.85% of the Company's aggregate share capital;

(2) 39,239,000 shares are being held by holders of unlisted foreign shares, accounted for 7.55% of the Company's aggregate share capital:

16,467,000 shares are being held by Crosby ChinaChips Holdings (1) (BVI) Limited, accounted for 3.17% of the Company's aggregate share capital;

2,772,000 shares are being held by China Special Situations Holdings (1) (BVI) Limited, accounted for 0.53% of the Company's aggregate share capital;

20,000,000 shares are being held by China Special Situations Holdings (2) (BVI) Limited, accounted for 3.85% of the Company's aggregate share capital;

(3) 190,000,000 shares are being held by holders of listed foreign shares, accounted for 36.54% of the Company's aggregate share capital:

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

Shenzhen, the PRC
29 March 2005

*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 18 April 2005 to 17 May 2005, 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 17 April 2005.

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 26 April 2005.

# Auditors' Report

Grant Thornton
均富會計師行

**Certified Public Accountants**
**Hong Kong Member Firm of Grant Thornton International**

**To the members of Launch Tech Company Limited**
**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 36 to 70 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 Institute of Certified Public Accountants. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed 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. 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.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**
*Certified Public Accountants*
Hong Kong

29 March 2005

# Consolidated
# Income Statement

*for the year ended 31 December 2004*

| | Notes | 2004<br>RMB'000 | (Restated)<br>2003<br>RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **277,627** | 204,707 |
| Cost of sales | | **(144,687)** | (97,398) |
| **Gross profit** | | **132,940** | 107,309 |
| Other revenue | 3 | **21,392** | 2,793 |
| Selling expenses | | **(35,056)** | (20,774) |
| Administrative expenses | | **(47,055)** | (25,714) |
| Research and development expenses | | **(8,008)** | (5,205) |
| Other operating expenses | | **(17,164)** | – |
| **Profit from operations** | 4 | **47,049** | 58,409 |
| Finance costs | 6 | **(8,432)** | (3,733) |
| **Profit before taxation** | | **38,617** | 54,676 |
| Taxation | 7 | **1,085** | (7,463) |
| **Profit before minority interests** | | **39,702** | 47,213 |
| Minority interests | | **(111)** | (27) |
| Profit attributable to shareholders | 8 | **39,591** | 47,186 |
| **Dividends** | 9 | **18,200** | 18,200 |
| **Earnings per share - basic** | 10 | **RMB0.076** | RMB0.104 |

# Consolidated Balance Sheet

*as at 31 December 2004*

| | Notes | 2004 RMB'000 | (Restated) 2003 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **127,607** | 41,562 |
| Goodwill | 12 | **3,353** | 836 |
| Development costs | 13 | **30,855** | 24,192 |
| Payments for other investments | 15 | **5,456** | 33,994 |
| Deposits paid for acquisition of property, plant and equipment | | **–** | 1,711 |
| | | **167,271** | 102,295 |
| **Current assets** | | | |
| Inventories | 16 | **113,672** | 76,749 |
| Trade receivables | 17 | **118,611** | 86,508 |
| Other receivables, deposits and prepayments | 18 | **43,268** | 26,107 |
| Amount due from a related company | 20 | **3,457** | – |
| Pledged bank deposits | 21 | **137,700** | 2,160 |
| Cash at banks and in hand | | **195,427** | 171,188 |
| | | **612,135** | 362,712 |
| **Current liabilities** | | | |
| Trade payables | 22 | **70,014** | 33,270 |
| Bills payable | 21 | **180,621** | – |
| Receipts in advance, other payables and accrued charges | | **45,050** | 40,508 |
| Amount due to a related company | | **–** | 291 |
| Income tax payable | | **9,261** | 6,961 |
| Current portion of borrowings | 23 | **150,740** | 76,942 |
| | | **455,686** | 157,972 |
| **Net current assets** | | **156,449** | 204,740 |
| **Total assets less current liabilities** | | **323,720** | 307,035 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | **3,967** | 5,549 |
| Deferred taxation | 24 | **–** | 3,385 |
| | | **3,967** | 8,934 |
| **Minority interests** | | **339** | 228 |
| **Net assets** | | **319,414** | 297,873 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 25 | **52,000** | 52,000 |
| **Reserves** | 26(a) | **267,414** | 245,873 |
| **Shareholders' funds** | | **319,414** | 297,873 |

**Mr. Liu Xin**
*Director*

**Mr. Liu Jun**
*Director*

# Balance Sheet

*as at 31 December 2004*

| | Notes | 2004 RMB'000 | (Restated) 2003 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **68,640** | 40,363 |
| Development costs | 13 | **30,855** | 24,192 |
| Investments in subsidiaries | 14 | **9,256** | 2,377 |
| Payments for other investments | 15 | **5,456** | 33,994 |
| Deposits paid for acquisition of property, plant and equipment | | **–** | 1,711 |
| | | **114,207** | 102,637 |
| **Current assets** | | | |
| Inventories | 16 | **74,872** | 74,016 |
| Trade receivables | 17 | **110,503** | 85,228 |
| Other receivables, deposits and prepayments | 18 | **38,863** | 25,796 |
| Amounts due from subsidiaries | 19 | **74,030** | 1,482 |
| Amounts due from a related company | 20 | **3,457** | – |
| Pledged bank deposits | 21 | **137,700** | 2,160 |
| Cash at banks and in hand | | **193,039** | 170,517 |
| | | **632,464** | 359,199 |
| **Current liabilities** | | | |
| Trade payables | 22 | **39,173** | 30,204 |
| Bills payable | 21 | **180,621** | – |
| Receipts in advance, other payables and accrued charges | 30 | **39,347** | 39,725 |
| Amounts due to subsidiaries | 19 | **676** | 1,213 |
| Amount due to a related company | | **–** | 291 |
| Income tax payable | | **9,261** | 6,961 |
| Current portion of borrowings | 23 | **150,740** | 76,942 |
| | | **419,818** | 155,336 |
| **Net current assets** | | **212,646** | 203,863 |
| **Total assets less current liabilities** | | **326,853** | 306,500 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | **3,967** | 5,549 |
| Deferred taxation | 24 | **–** | 3,385 |
| | | **3,967** | 8,934 |
| **Net assets** | | **322,886** | 297,566 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 25 | **52,000** | 52,000 |
| **Reserves** | 26(b) | **270,886** | 245,566 |
| **Shareholders' funds** | | **322,886** | 297,566 |

**Mr. Liu Xin**
*Director*

**Mr. Liu Jun**
*Director*

# Consolidated Cash Flow Statement

*for the year ended 31 December 2004*

| | Notes | 2004 RMB'000 | (Restated) 2003 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **38,617** | 54,676 |
| Adjustments for : | | | |
| Interest expenses | | **8,224** | 2,983 |
| Interest income | | **(1,681)** | (1,378) |
| Amortisation of development costs | | **3,919** | 2,215 |
| Amortisation of goodwill | | **257** | 167 |
| Depreciation of property, plant and equipment | | **9,208** | 5,346 |
| Loss on disposal of property, plant and equipment | | **16** | – |
| Provision for doubtful debts | | **544** | – |
| Provision for slow-moving inventories | | **2,706** | – |
| Operating profit before working capital changes | | **61,810** | 64,009 |
| Increase in inventories | | **(25,818)** | (55,551) |
| Increase in trade receivables | | **(23,234)** | (56,987) |
| Decrease/(Increase) in other receivables, deposits and prepayments | | **3,213** | (15,846) |
| Increase in trade payables | | **21,484** | 20,847 |
| (Decrease)/Increase in receipts in advance, other payables and accrued charges | | **(20,717)** | 27,820 |
| Increase in bills payable | | **180,621** | – |
| Increase in amount due to a related company | | **–** | 291 |
| Net cash inflow/(outflow) from operations | | **197,359** | (15,417) |
| Interest paid | | **(8,224)** | (2,983) |
| Income tax paid | | **–** | (12) |
| *Net cash generated from/(used in) operating activities* | | **189,135** | (18,412) |

# Consolidated Cash Flow Statement

*for the year ended 31 December 2004*

| | Notes | 2004 RMB'000 | (Restated) 2003 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Payments for other investments | | **(2,548)** | (33,994) |
| Deposits paid for acquisition of property, plant and equipment | | – | (1,711) |
| Purchase of property, plant and equipment | | **(62,747)** | (8,073) |
| Cash paid to directors on purchase of property, plant and equipment | | – | (3,202) |
| Additions of development costs | | **(10,582)** | (6,237) |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | 27 | **(5,617)** | (75) |
| Repayment from employees | | – | 3,960 |
| Advance to a related company | | **(3,748)** | – |
| Interest received | | **1,681** | 1,378 |
| *Net cash used in investing activities* | | **(83,561)** | (47,954) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of H Shares | | – | 127,200 |
| Expenses paid in connection with the issue of H Shares | | – | (6,848) |
| Increase in pledged bank deposits | | **(135,540)** | (1,767) |
| Bank loans raised | | **170,000** | 94,600 |
| Repayment of borrowings | | **(97,784)** | (38,895) |
| Dividends paid | | **(18,200)** | (13,200) |
| *Net cash (used in)/ generated from financing activities* | | **(81,524)** | 161,090 |
| **Net increase in cash and cash equivalents** | | **24,050** | 94,724 |
| **Cash and cash equivalents at beginning of the year** | | **171,188** | 76,464 |
| Effect of foreign exchange rate changes | | **189** | – |
| **Cash and cash equivalents at end of the year, comprising cash at banks and in hand** | | **195,427** | 171,188 |

# Consolidated
# Statement of Changes in Equity

*for the year ended 31 December 2004*

| | | Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory surplus reserve | Statutory public welfare fund | Translation reserve | Accumulated profits | Proposed final dividend | Total | Shareholders' funds |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RBM'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2003 | 44,000 | 57,242 | 5,108 | 5,108 | – | 32,077 | – | 99,535 | 143,535 |
| 2002 final dividend paid | – | – | – | – | – | (13,200) | – | (13,200) | (13,200) |
| Issue of H Shares | 8,000 | 119,200 | – | – | – | – | – | 119,200 | 127,200 |
| Expenses incurred in connection with the issue of H Shares | – | (6,848) | – | – | – | – | – | (6,848) | (6,848) |
| Profit for the year | | | | | | | | | |
| – as previously reported | – | – | – | – | – | 51,535 | – | 51,535 | 51,535 |
| – prior year adjustment *(note 35)* | – | – | – | – | – | (4,349) | – | (4,349) | (4,349) |
| – as restated | – | – | – | – | – | 47,186 | – | 47,186 | 47,186 |
| 2003 proposed final dividend | – | – | – | – | – | (18,200) | 18,200 | – | – |
| Appropriations | – | – | 5,010 | 5,010 | – | (10,020) | – | – | – |
| At 31 December 2003 and 1 January 2004 | 52,000 | 169,594 | 10,118 | 10,118 | – | 37,843 | 18,200 | 245,873 | 297,873 |
| 2003 final dividend paid | – | – | – | – | – | – | (18,200) | (18,200) | (18,200) |
| Currency translation differences | – | – | – | – | 150 | – | – | 150 | 150 |
| Profit for the year | – | – | – | – | – | 39,591 | – | 39,591 | 39,591 |
| 2004 proposed final dividend | – | – | – | – | – | (18,200) | 18,200 | – | – |
| **At 31 December 2004** | **52,000** | **169,594** | **10,118** | **10,118** | **150** | **59,234** | **18,200** | **267,414** | **319,414** |

# Notes
# to the Financial Statements

*for the year ended 31 December 2004*

## 1. GENERAL INFORMATION

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. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of preparation

The financial statements on pages 36 to 70 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention.

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

*for the year ended 31 December 2004*

## 2. PRINCIPLE ACCOUNTING POLICIES (continued)

### (c) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

### (d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

### (e) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses. Construction in progress will not be depreciated until it is put into use and accordingly is stated at cost less accumulated impairment losses.

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

| | |
|---|---|
| Buildings | 5% |
| Leasehold improvements | 20% |
| Mould and equipment | 10% - 20% |
| Motor vehicles | 20% |

Leasehold land is amortised over the unexpired lease terms.

Gain or loss arising from the disposal or retirement of an asset, being the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in the income statement.

## 2. PRINCIPLE ACCOUNTING POLICIES (continued)

### (f) Research and development expenditure

Expenditure on research activities is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes are recognised as intangible assets, provided that the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development.

The development costs capitalised, which include cost of materials and director labour, are amortised on a straight line basis over the estimated useful life of the products or processes from the date of commencement of commercial operation. Other development costs are recognised as an expense in the period as incurred.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, computed using the weighted average method, comprises direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

### (h) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

*for the year ended 31 December 2004*

## 2. PRINCIPLE ACCOUNTING POLICIES (continued)

### (i) 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 which is the greater of its net selling price and value in use, 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 is subsequently reversed due to changes in the estimates used to determine the recoverable amount, the carrying amount of the asset is increased to the revised estimate of its recoverable amount which should 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. An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

### (j) Taxation

Income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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.

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.

*for the year ended 31 December 2004*

## 2. PRINCIPLE ACCOUNTING POLICIES (continued)

### (j) Taxation (continued)

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.

### (k) 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.

### (l) 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.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling on the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

### (m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rental applicable to such operating leases is recognised in the income statement on a straight line basis over the lease terms.

*for the year ended 31 December 2004*

## 2. PRINCIPLE ACCOUNTING POLICIES (continued)

### (n) 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.

### (o) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

### (p) Recognition of revenue

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.

### (q) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

*for the year ended 31 December 2004*

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

| | **2004** | (Restated) 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Turnover | **277,627** | 204,707 |
| Other revenue | | |
| Bank interest income | **1,681** | 1,378 |
| VAT refund | **18,679** | – |
| Others | **1,032** | 1,415 |
| | **21,392** | 2,793 |
| Total revenue | **299,019** | 207,500 |

Turnover represents the net amount received and receivable for goods and software systems sold and services rendered. As detailed in note 35, certain amount of sales in the prior year was subject to value-added tax ("VAT") of approximately RMB4,349,000 but the VAT liability was not properly recorded in the prior year's financial statements. A prior year adjustment was therefore made during the current year to decrease the revenue for the year ended 31 December 2003 by RMB4,349,000.

VAT refund relating to certain sales during the period from 1 January 2003 to 30 June 2004 was approved and paid by the PRC tax bureau in the current year.

The Group has determined that business segment is presented as the primary reporting segment and geographical segment as the secondary reporting format.

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. As such, no business segment analysis is provided.

*for the year ended 31 December 2004*

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

The Group's geographical segment analysis is as follows :

| | Turnover | | Segment results | |
|---|---|---|---|---|
| | | (Restated) | | (Restated) |
| | **2004** | 2003 | **2004** | 2003 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Geographical market : | | | | |
| PRC other than Hong Kong | **157,001** | 156,756 | **76,471** | 85,901 |
| Asia other than PRC | **29,414** | 6,920 | **12,893** | 2,439 |
| Europe | **40,337** | 17,254 | **22,837** | 7,935 |
| Africa and the Middle East | **13,606** | 9,614 | **6,162** | 4,366 |
| America | **29,142** | 7,615 | **11,121** | 3,653 |
| Australia | **8,127** | 6,548 | **3,456** | 3,015 |
| | **277,627** | 204,707 | **132,940** | 107,309 |
| Unallocated revenue | | | **21,392** | 2,793 |
| Unallocated expenses | | | **(107,283)** | (51,693) |
| Profit from operations | | | **47,049** | 58,409 |

Sales are based on the countries in which the customers are located and total assets and capital expenditure are based on where the assets are located.

No geographical analysis of the carrying amount of segment assets and capital expenditure is provided as less than 10% of the segment assets and capital expenditure are attributable to markets outside the PRC.

*for the year ended 31 December 2004*

## 4. PROFIT FROM OPERATIONS

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit from operations has been arrived at after charging : | | |
| Staff costs | | |
| Directors' and supervisors' remuneration *(note 5)* | **1,504** | 1,393 |
| Other staff costs | **46,137** | 23,300 |
| Pension cost | **3,892** | 478 |
| | **51,533** | 25,171 |
| Less : Staff costs capitalised as development costs | **(10,582)** | (6,237) |
| | **40,951** | 18,934 |
| Research and development expenses | **14,671** | 9,227 |
| Less : Staff costs capitalised as development costs | **(10,582)** | (6,237) |
| | **4,089** | 2,990 |
| Add : Amortisation of development costs | **3,919** | 2,215 |
| | **8,008** | 5,205 |
| Provision for bad and doubtful debts* | **544** | – |
| Provision for slow-moving inventories* | **2,706** | – |
| Amortisation of goodwill# | **257** | 167 |
| Auditors' remuneration | **2,252** | 701 |
| Depreciation of property, plant and equipment | **9,208** | 5,346 |
| Operating lease charges in respect of land and buildings | **8,798** | 4,462 |
| Pre-operating expenses of branches* | **13,075** | – |
| and after crediting : | | |
| Net exchange gains | **1,379** | 559 |

* included in other operating expenses

\# included in administrative expenses

*for the year ended 31 December 2004*

## 5. DIRECTORS' AND SUPERVISORS' REMUNERATION

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees for | | |
| – non-executive directors | **30** | 30 |
| – independent non-executive directors | **31** | 30 |
| – supervisors | **30** | 30 |
| | **91** | 90 |
| Other emoluments for executive directors | | |
| – salaries, allowances and other benefits | **1,201** | 1,158 |
| – pension cost | **12** | 4 |
| | **1,213** | 1,162 |
| Other emoluments for non-executive directors | **–** | – |
| Other emoluments for independent non-executive directors | **–** | – |
| Other emoluments for supervisors | | |
| – salaries, allowances and other benefits | **196** | 139 |
| – pension cost | **4** | 2 |
| | **200** | 141 |
| | **1,504** | 1,393 |

*for the year ended 31 December 2004*

## 5. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Executive director A | **121** | 238 |
| Executive director B | **558** | 499 |
| Executive director C | **534** | 425 |
| Non-executive director D | **15** | 15 |
| Non-executive director E | **15** | 15 |
| Independent non-executive director F | **15** | 15 |
| Independent non-executive director G | **15** | 15 |
| Independent non-executive director H | **1** | – |
| Supervisor A | **210** | 151 |
| Supervisor B | **10** | 10 |
| Supervisor C | **10** | 10 |

For the year ended 31 December 2004, the five highest paid individuals of the Group included two directors (2003: three directors) and one supervisor (2003: one supervisor), details of their emoluments are included above. The emoluments of the remaining two highest paid individuals (2003: one individual) are as follows:

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and other benefits | **738** | 172 |
| Pension cost | **4** | 1 |
| | **742** | 173 |

The emoluments of each of the two individuals fall within the band of nil to HKD1,000,000.

No emoluments were paid by the Group to the directors, supervisors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003 : Nil). None of the directors waived or agreed to waive any emoluments during the year (2003 : Nil).

*for the year ended 31 December 2004*

## 6. FINANCE COSTS

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest charges on bank loans : | | |
| – wholly repayable within five years | **8,108** | 2,840 |
| – not wholly repayable within five years | **116** | 143 |
| | **8,224** | 2,983 |
| Bank charges | **208** | 750 |
| | **8,432** | 3,733 |

## 7. TAXATION

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The tax (credit)/charge comprises : | | |
| Enterprise income tax - PRC | | |
| – current year | **2,300** | 4,066 |
| – underprovision in prior years | **–** | 12 |
| | **2,300** | 4,078 |
| Deferred taxation (note 24) | **(3,385)** | 3,385 |
| | **(1,085)** | 7,463 |

PRC enterprise income tax ("EIT") has been provided based on the estimated taxable income for PRC taxation purposes at the rates of taxation prevailing in the provinces in which the group companies operate. The Company is subject to income tax at the rate of 15% (2003: 15%) and the Company's subsidiaries are subject to income tax at the rates of 15% to 33%.

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 for the financial years 2000 and 2001 and is eligible for and entitled to 50% tax relief for the financial years 2002 to 2004.

上海元征機械設備有限責任公司 ("Shanghai Launch"), a subsidiary of the Company established in the PRC, is entitled to the tax holiday of "two-year exemption and three-year 50% reduction" from the first profitable year of operation. No provision for EIT has been made for Shanghai Launch as the company did not derive any taxable income for the year.

## 7. TAXATION (continued)

Reconciliation between tax (credit)/charge and accounting profit at applicable tax rate is as follows :

| | 2004 | (Restated) 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **38,617** | 54,676 |
| Tax at PRC income tax rate of 15% (2003 : 15%) | **5,793** | 8,201 |
| Tax effect attributable to tax exemption | **(2,219)** | (4,592) |
| Tax effect of non-deductible expenses | **643** | 355 |
| Tax effect of non-taxable revenue | **(3,158)** | (98) |
| Tax effect of prior year's tax losses utilised this year | **(207)** | – |
| Tax losses not recognised as deferred tax assets | **1,304** | – |
| (Over)/Underprovision of deferred taxation in respect of prior years | **(3,385)** | 3,023 |
| Effect of different tax rates of subsidiaries | **(160)** | (29) |
| Underprovision of current tax in respect of prior years | **–** | 12 |
| Others | **304** | 591 |
| Tax (credit)/charge | **(1,085)** | 7,463 |

At 31 December, 2004, the Group has net deferred tax assets mainly arising from tax losses of approximately RMB3,952,000 (2003: Nil). However, the net deferred tax assets are not recognised as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses. Under the current tax legislation, the tax losses can be carried forward for five years from the year the losses were incurred.

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of RMB39,591,000 (2003: RMB47,186,000, restated), a profit of RMB43,520,000 (2003: RMB47,168,000, restated) has been dealt with in the financial statements of the Company.

## 9. DIVIDENDS

A final dividend of RMB0.035 per share amounting to approximately RMB18,200,000 for the year ended 31 December 2003 was approved at the Company's annual general meeting conducted in June 2004 and the amount was paid in July 2004.

No interim dividend for the year ended 31 December 2004 was declared.

*for the year ended 31 December 2004*

## 9. DIVIDENDS (continued)

A final dividend of RMB0.035 per share amounting to approximately RMB18,200,000 for the year ended 31 December 2004 has been proposed by the Directors after the balance sheet date. The proposal is subject to approval by the shareholders at the forthcoming annual general meeting. The final dividend proposed has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of accumulated profits for the year ended 31 December 2004.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB39,591,000 (2003: RMB47,186,000, restated) and on 520,000,000 shares (2003: the weighted average number of 455,342,466 shares) in issue during the year.

No diluted earnings per share has been presented as there are no dilutive potential shares (2003 : Nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | **Land and buildings** | **Leasehold improvements** | **Mould and equipment** | **Motor vehicles** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | | |
| At 1 January 2004 | 23,357 | 9,482 | 15,235 | 7,713 | 1,011 | 56,798 |
| Additions | 2,207 | 1,857 | 16,799 | 11,971 | 31,661 | 64,495 |
| Acquisition of subsidiaries | 11,707 | – | 8,791 | 476 | 9,800 | 30,774 |
| Transfer | 32,897 | – | – | – | (32,897) | – |
| Disposals | – | – | (18) | – | – | (18) |
| **At 31 December 2004** | **70,168** | **11,339** | **40,807** | **20,160** | **9,575** | **152,049** |
| **Depreciation** | | | | | | |
| At 1 January 2004 | 3,873 | 2,938 | 6,215 | 2,210 | – | 15,236 |
| Charge for the year | 1,246 | 1,900 | 3,431 | 2,631 | – | 9,208 |
| Disposals | – | – | (2) | – | – | (2) |
| **At 31 December 2004** | **5,119** | **4,838** | **9,644** | **4,841** | **–** | **24,442** |
| **Net book value** | | | | | | |
| **At 31 December 2004** | **65,049** | **6,501** | **31,163** | **15,319** | **9,575** | **127,607** |
| At 31 December 2003 | 19,484 | 6,544 | 9,020 | 5,503 | 1,011 | 41,562 |

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

**Company**

| | Land and buildings | Leasehold improvements | Mould and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | | |
| At 1 January 2004 | 23,357 | 9,482 | 13,968 | 7,429 | 1,011 | 55,247 |
| Additions | – | 1,858 | 14,634 | 11,971 | 8,170 | 36,633 |
| **At 31 December 2004** | **23,357** | **11,340** | **28,602** | **19,400** | **9,181** | **91,880** |
| **Depreciation** | | | | | | |
| At 1 January 2004 | 3,873 | 2,938 | 5,953 | 2,120 | – | 14,884 |
| Charge for the year | 1,121 | 1,901 | 2,749 | 2,585 | – | 8,356 |
| **At 31 December 2004** | **4,994** | **4,839** | **8,702** | **4,705** | **–** | **23,240** |
| **Net book value** | | | | | | |
| **At 31 December 2004** | **18,363** | **6,501** | **19,900** | **14,695** | **9,181** | **68,640** |
| At 31 December 2003 | 19,484 | 6,544 | 8,015 | 5,309 | 1,011 | 40,363 |

The Group's and the Company's interests in land and buildings are situated in the PRC and are held under medium-term leases.

Certain land and buildings and motor vehicles of the Group and the Company are held under the names of certain directors. As at 31 December 2004, the net book value of those assets and the corresponding loan obligations are as follows:

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net book value of the assets | | |
| Land and buildings | **6,038** | 7,887 |
| Motor vehicles | **1,412** | 1,566 |
| | **7,450** | 9,453 |
| Loan obligations related to the assets *(note 23)* | **4,707** | 6,191 |

The directors concerned have confirmed that these assets are in substance owned by the Group and the Company which are liable for the corresponding loan obligations.

*for the year ended 31 December 2004*

## 12. GOODWILL

**Group**

| | *RMB'000* |
|---|---|
| **Cost** | |
| At 1 January 2004 | 1,119 |
| Acquisition of subsidiaries *(Note 27)* | 2,774 |
| **At 31 December 2004** | **3,893** |
| **Accumulated amortisation** | |
| At 1 January 2004 | 283 |
| Charge for the year | 257 |
| **At 31 December 2004** | **540** |
| **Net book value** | |
| **At 31 December 2004** | **3,353** |
| At 31 December 2003 | 836 |

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

## 13. DEVELOPMENT COSTS

**Group and Company**

| | *RMB'000* |
|---|---|
| **Cost** | |
| At 1 January 2004 | 28,455 |
| Additions | 10,582 |
| **At 31 December 2004** | **39,037** |
| **Accumulated amortisation** | |
| At 1 January 2004 | 4,263 |
| Charge for the year | 3,919 |
| **At 31 December 2004** | **8,182** |
| **Net book value** | |
| **At 31 December 2004** | **30,855** |
| At 31 December 2003 | 24,192 |

*for the year ended 31 December 2004*

## 14. INVESTMENTS IN SUBSIDIARIES

| | 2004 | 2003 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Unlisted investments, at cost | **9,256** | 2,377 |

Particulars of the Company's subsidiaries as at 31 December 2004 are as follows :

| Name of subsidiary | Form of business structure | Place of registration and operations | Registered and fully paid capital | Percentage of registered capital held by the Company directly | Percentage of registered capital held by the Company indirectly | Principal activities |
|---|---|---|---|---|---|---|
| 上海工技大振源汽車科技有限公司 ("Shanghai Zhenyuan") *(note (a))* | 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") *(note (b))* | 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") *(note (c))* | Limited liability company | PRC | RMB500,000 | 70% | – | Provision of products and services serving the automotive aftermarket |
| 上海元征機械設備有限責任公司 ("Shanghai Launch") | Limited liability company | PRC | RMB750,000 | 50% | 50% | Manufacturing of equipment and machines for maintenance of automobiles |
| Launch Europe GmbH ("Europe Launch") | Limited liability company | Germany | DM50 | 100% | – | Sales of accessories, equipment and machines for the automotive aftermarket |

*Notes :*

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

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

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

*for the year ended 31 December 2004*

## 15. PAYMENTS FOR OTHER INVESTMENTS

**Group and Company**

| | Notes | 2004<br>RMB'000 | 2003<br>RMB'000 |
|---|---|---|---|
| The amounts comprise payments in respect of the following companies | | | |
| Shanghai Launch | (a) | – | 29,994 |
| Europe Launch | (a) | – | 1,092 |
| Asia Bridge Inc. | (b) | **5,456** | 2,908 |
| | | **5,456** | 33,994 |

*Notes:*

(a) On 30 June 2004, the acquisitions of Shanghai Launch and Europe Launch were completed and the contributions made by the Company to these companies were classified as investments in subsidiaries and amounts due from subsidiaries accordingly.

(b) 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 2004, completion of the acquisition agreement had not yet taken place and the Company has not subscribed for any new shares of Asia Bridge. The aggregate sum of the consideration and advances paid to Asia Bridge amounted to RMB5,456,000 as at 31 December 2004 (2003: RMB2,908,000).

## 16. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2004<br>RMB'000 | 2003<br>RMB'000 | 2004<br>RMB'000 | 2003<br>RMB'000 |
| Raw materials | **32,772** | 16,988 | **23,465** | 16,145 |
| Work in progress | **11,094** | 9,510 | **7,184** | 9,467 |
| Finished goods | **69,806** | 50,251 | **44,223** | 48,404 |
| | **113,672** | 76,749 | **74,872** | 74,016 |

As at 31 December 2004, the carrying amount of the Group's and the Company's inventories that are stated at net realisable value amounted to HK$6,027,000 (2003: Nil).

*for the year ended 31 December 2004*

## 17. TRADE RECEIVABLES

The Group allows a credit period of one to six months to its trade customers. The following is the aging analysis of trade receivables as at 31 December 2004 :

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 6 months | **81,171** | 72,722 | **73,063** | 71,653 |
| Over 6 months but less than 1 year | **37,440** | 13,294 | **37,440** | 13,258 |
| Over 1 year but less than 2 years | **–** | 492 | **–** | 317 |
| | **118,611** | 86,508 | **110,503** | 85,228 |

## 18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments are advances to the general managers of the branches by the Group and the Company which amounted to RMB7,420,000 in aggregate as at 31 December 2004. Such advances are unsecured, interest-free and have no fixed repayment terms.

## 19. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

*for the year ended 31 December 2004*

## 20. AMOUNT DUE FROM A RELATED COMPANY

**Group and Company**

Details of amount due from a related company as at 31 December 2004 are as follows :

| | |
|---|---|
| Name of the related company | 藍點軟件技術(深圳)有限公司 |
| Directors connected with the related company | Mr. Liu Xin and Mr. Liu Jun |
| Amount outstanding at | |
| **31 December 2004 (RMB'000)** | **3,457** |
| 31 December 2003 (RMB'000) | – |
| Maximum amount outstanding in 2004 (RMB'000) | 3,457 |

During the year, the Group and the Company entered into an agreement with 藍點軟件技術(深圳)有限公司 ("Blue Point") under which Blue Point is appointed to develop a software system for the Group and the Company. The consideration for the software development as stated in the agreement is RMB5,000,000. As at 31 December 2004, advances of RMB3,457,000 were made to Blue Point. The advances are unsecured, interest-free and have no fixed repayment terms.

## 21. PLEDGED BANK DEPOSITS/BILLS PAYABLE

The deposits are pledged to banks to secure certain bills granted to the Group and the Company.

## 22. TRADE PAYABLES

The aging analysis of trade payables as at 31 December 2004 is as follows :

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 6 months | **56,290** | 30,221 | **25,449** | 27,842 |
| Over 6 months but less than 1 year | **10,274** | 2,161 | **10,274** | 1,508 |
| Over 1 year but less than 2 years | **3,450** | 888 | **3,450** | 854 |
| | **70,014** | 33,270 | **39,173** | 30,204 |

## 23. BORROWINGS

**Group and Company**

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank loans | | |
| Secured | **4,707** | 7,491 |
| Unsecured | **150,000** | 75,000 |
| | **154,707** | 82,491 |
| Less : Current portion due within one year included under current liabilities | **(150,740)** | (76,942) |
| Non-current portion included under non-current liabilities | **3,967** | 5,549 |

As at 31 December 2004, the Group's and the Company's borrowings were repayable as follows :

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **150,740** | 76,942 |
| In the second year | **510** | 642 |
| In the third to the fifth year | **650** | 1,102 |
| After the fifth year | **2,807** | 3,805 |
| | **154,707** | 82,491 |

Certain loan arrangements with outstanding loan amount of RMB4,707,000 as at 31 December 2004 (2003 : RMB6,191,000) were entered into by certain directors with the banks 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 RMB7,450,000 as at 31 December 2004 (2003 : RMB 9,453,000).

*for the year ended 31 December 2004*

## 24. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using the applicable tax rates.

The movement on the deferred tax liabilities of the Group and the Company which were recognised in respect of the temporary differences arising from development costs is as follows :

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **3,385** | – |
| (Credited)/Charged to income statement *(note 7)* | **(3,385)** | 3,385 |
| At 31 December | **–** | 3,385 |

As at 31 December 2004, the Group and the Company did not have material unprovided deferred tax liabilities.

## 25. SHARE CAPITAL

| | **Number of shares** | | **Registered, issued and fully paid** |
|---|---|---|---|
| | **Domestic Shares** | **H Shares** | |
| | ***'000*** | ***'000*** | ***RMB'000*** |
| Share capital of RMB0.10 each at 1 January 2003 | 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 and **31 December 2004** | **330,000** | **190,000** | **52,000** |

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 RMB 0.10 each at a price of HK $1.50 per H Share on 22 October 2003.

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.

*for the year ended 31 December 2004*

## 26. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements. Nature and purpose of the statutory surplus reserve, statutory public welfare fund and accumulated profits are included in note (b) below.

### (b) Company

| | Share premium *RMB'000* | Statutory surplus reserve *RMB'000* | Statutory public welfare fund *RMB'000* | Accumulated profits *RMB'000* | Proposed final dividend *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2003 | 57,242 | 5,108 | 5,108 | 31,788 | – | 99,246 |
| 2002 final dividend paid | – | – | – | (13,200) | – | (13,200) |
| Premium arising from issue of H Shares | 119,200 | – | – | – | – | 119,200 |
| Expenses incurred in connection with the issue of H Shares | (6,848) | – | – | – | – | (6,848) |
| Profit for the year | | | | | | |
| – as previously reported | – | – | – | 51,517 | – | 51,517 |
| – prior year adjustment *(note 35)* | – | – | – | (4,349) | – | (4,349) |
| – as restated | – | – | – | 47,168 | – | 47,168 |
| 2003 proposed final dividend | – | – | – | (18,200) | 18,200 | – |
| Appropriations | – | 5,010 | 5,010 | (10,020) | – | – |
| At 31 December 2003 and 1 January 2004 | 169,594 | 10,118 | 10,118 | 37,536 | 18,200 | 245,566 |
| 2003 final dividend paid | – | – | – | – | (18,200) | (18,200) |
| Profit for the year | – | – | – | 43,520 | – | 43,520 |
| 2004 proposed final dividend | – | – | – | (18,200) | 18,200 | – |
| **At 31 December 2004** | **169,594** | **10,118** | **10,118** | **62,856** | **18,200** | **270,886** |

*for the year ended 31 December 2004*

## 26. RESERVES (continued)

### (b) Company (continued)

*Notes:*

(i) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(ii) 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, under 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. The transfer to the statutory surplus reserve is based on the net profit in the financial statements prepared under PRC accounting standards. No appropriation to this reserve was made during the year as the financial statements prepared under PRC accounting standards for the year are not available up to the date of approval of these financial statements.

(iii) 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. The transfer to the statutory public welfare fund is based on the net profit in the financial statements prepared under PRC accounting standards. No appropriation to this reserve was made during the year as the financial statements prepared under PRC accounting standards for the year are not available up to the date of approval of these financial statements.

(iv) 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 Hong Kong generally accepted accounting principles after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

## 27. ACQUISITION OF SUBSIDIARIES

| | **2004** | 2003 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net assets acquired : | | |
| Property, plant and equipment | **30,774** | 17 |
| Inventories | **13,267** | 1 |
| Trade receivables | **8,820** | – |
| Other receivables, deposits and prepayments | **20,241** | 35 |
| Bank balances and cash | **1,262** | 2 |
| Trade payables | **(14,057)** | (13) |
| Other payables | **(56,202)** | – |
| Minority interests | **–** | (13) |
| | **4,105** | 29 |
| Goodwill | **2,774** | 48 |
| Total consideration | **6,879** | 77 |
| Satisfied by : | | |
| Cash | **6,879** | 77 |
| Cash flows arising from the acquisition : | | |
| Cash consideration | **6,879** | 77 |
| Bank balances and cash acquired | **(1,262)** | (2) |
| Net cash outflow in respect of the acquisition of subsidiaries | **5,617** | 75 |

*for the year ended 31 December 2004*

## 28. OPERATING LEASE COMMITMENTS

As at 31 December 2004, 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 :

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within one year | **9,486** | 6,124 | **8,849** | 5,408 |
| In the second to the fifth year | **26,831** | 11,952 | **25,945** | 11,512 |
| After five years | **–** | 330 | **–** | 330 |
| | **36,317** | 18,406 | **34,794** | 17,250 |

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

## 29. CAPITAL COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Capital expenditure authorised but not contracted for acquisition of property, plant and equipment | **13,819** | 21,989 | **13,819** | 21,989 |
| Capital expenditure contracted for but not provided in the financial statements : | | | | |
| – acquisition of property, plant and equipment | **9,948** | 8,148 | **–** | 8,148 |
| – unpaid capital contribution in respect of investment projects | **–** | – | **36,678** | 36,678 |
| – software development | **5,000** | – | **5,000** | – |
| | **14,948** | 8,148 | **41,678** | 44,826 |

*for the year ended 31 December 2004*

## 30. VALUE-ADDED TAX PAYABLE

The local sales of the Company are subject to VAT. The amount of VAT-output payable can be offset by eligible VAT-input receivable. Amongst the current year's sales of the Company, approximately RMB47,404,000 were recorded as being made to overseas customers and were reported to the local tax bureau after the year end. The remaining sales of approximately RMB224,384,000 were treated as local sales and are therefore subject to output VAT of approximately RMB38,145,000.

## 31. CONTINGENT LIABILITIES

The Company is subject to 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 monthly or quarterly basis. As at 31 December 2004, the outstanding EIT payable comprised EIT payable for the year ended 31 December 2002 of RMB2,895,000, EIT payable for the year ended 31 December 2003 of RMB4,066,000 and EIT payable for the year ended 31 December 2004 of RMB2,300,000 (see note 7). This is because the Company has made an application on 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 financial year 2000 is the "first profit-making year" for the purpose of EIT. If approval of the application is granted by the local tax bureau, the Company will be exempted from paying EIT for the financial years 2002 to 2004. Since the Company did not settle the EIT on a timely basis as stipulated in the prevailing tax rules and regulations in the PRC, surcharge and penalty might be imposed on the Company by the local tax bureau. The amount of surcharge and penalty is estimated to be approximately RMB2,800,000. However, 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 financial years 2002 to 2004 on a timely basis and, on this basis, no provision for surcharge and penalty has been made in the financial statements.

## 32. 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 China Securities Regulatory Commission 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.

*for the year ended 31 December 2004*

## 32. SHARE OPTION SCHEME (continued)

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.

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

## 33. 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.

## 34. RELATED PARTY TRANSACTIONS

The Group and the Company did not enter into any material related party transactions during the year other than as disclosed in note 20.

## 35. PRIOR YEAR ADJUSTMENT

Amongst the prior year's sales of the Company which were recorded as being made to overseas customers of approximately RMB52,300,000, approximately RMB26,714,000 were reported to the local tax bureau as overseas sales during the current year. The remaining sales of approximately RMB25,586,000 were treated as local sales and were reported to the local tax bureau during the current year. Such sales were subject to VAT of approximately RMB4,349,000 which was not recorded and reported in the prior year's financial statements. A prior year adjustment of RMB4,349,000 was therefore made during the current year to properly account for the tax effect. The effect of the prior year adjustment is to decrease the turnover, the profit for the year ended 31 December 2003 and the opening accumulated profits brought forward as at 1 January 2004 of the Group and the Company by RMB4,349,000.

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 36 to 70 were approved by the board of directors on 29 March 2005.