

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)

2005

| First Quarterly Report |



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

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)
(Stock Code: 8196)

HIGHLIGHTS:

- Turnover for the three months ended 31 March 2005 was approximately RMB70,168,000; increased by approximately 27.2% as compared with the corresponding period in 2004.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2005.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the period of the three months ended 31 March 2005.

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

- Turnover rose approximately 27.2% as compared with corresponding period in 2004.
- Net profit rose approximately 85.7% as compared with corresponding period in 2004.
- Sales to overseas market reached approximately RMB36 million, representing over 50% of the total turnover for the period.

Financial Overview

	Three months ended 31 March 2005 <i>(RMB'000)</i>	Three months ended 31 March 2004 <i>(RMB'000)</i>
Turnover	70,168	55,155
Costs of sales	32,066	25,560
Gross profit	38,102	29,595
Net profit	15,668	8,435

Financial Review

The Group's unaudited consolidated turnover for the three months ended 31 March 2005 amounted to approximately RMB70,168,000, representing a growth of approximately 27.2% over the corresponding period in 2004.

The Group's unaudited gross profit rose significantly, as compared with that of corresponding period in 2004, due to the rapid growth in turnover as well as recording satisfactory software upgrade fees associated with users of its auto diagnostic tools. The Group's unaudited profit attributable to shareholders for the three months ended 31 March 2005 amounted to approximately RMB15,668,000, grew approximately 85.7% as compared with that of the corresponding period in 2004. The Group's financial conditions improved significantly by the expansion of its product lines, the expansion of its sales networks and the execution of effective market strategies. These factors enhanced Launch's business development in the first quarter of this year. After the expiry of preferential income tax treatment period by the end of 2004, the Company was entitled to a normal income tax rate of 15% during this period.

Business Review

After one year of adjustment, sales in the domestic market resumed growth and reached approximately RMB34 million during this period, which represented approximately 17% increase over the corresponding period of the previous year. Growth in sales covered almost all of the Group's product lines, as the auto market in the PRC was back on a fast growing track and stimulated general demand for auto service equipment by auto repair shops, dealers and distributors. The Group's distribution network in the PRC was consolidated and stabilized after one year of management works. Currently, there are well over 100 product distributors in the PRC, after the elimination of dozens of under-performing ones at the beginning of the year. The Group's domestic distributors are primarily responsible for reselling the Group's products at secondary cities and counties in the PRC. The Group conducted direct sales at 10 major cities in the PRC through its 10 local sales offices, 600 strong direct sales force and 70 "Launch" vans. Direct sales contributed over 50% of domestic sales during the first quarter of 2005.

Overseas sales continued to grow significantly during this period, reaching approximately RMB36 million, which represented approximately 38% increase over the corresponding period of the previous year. The demand for the Group's products remained strong in Europe and Japan, particularly for its diagnostic, testing and mechanical products. The Group maintained market leadership in diagnostic products in markets such as Russia, South Africa and Taiwan. Significant demand for the Group's mechanical products occurred in the Middle East and European markets. Furthermore, the Group was able to enter new markets such as Korea and Thailand during this quarter by recruiting reputable distributors in these countries.

The Group's key product, X431 Electronic Eye, was on its overall sales target during the first quarter. The Group sold close to 4,000 units of X431 Electronic Eye in the first quarter, of which around 2,500 units were sold in the overseas market. Upon the solving of language translation of X431 Electronic Eye's application software, its sales picked up rapidly in different European countries such as France and Spain. Overseas users of this tool contributed all the software upgrade revenues that the Group recorded during this quarter, which was around US\$1 million. The Group was able to earn over 90% gross margin on software upgrade revenues. The R&D of advanced versions of Electronic Eye, X431 Color and X431 TOP, was well under way.

The demand for the Group's lifts was strong, particularly in Europe and the Middle East. Approximately 2,000 units of lifts were sold during this quarter with an average price of approximately US\$1,200 per unit. During the first quarter, the average monthly output of lifts reached around 1,000, a great improvement from the fourth quarter of 2004, and the Group is still on target to produce 20,000 units for the year. The Group also made a breakthrough of sales of other product lines in the overseas market; particularly for its auto maintenance equipment, which acquired a sizable order of Auto A/C Services Stations from customers in Korea.

In 2005, the Group has continued to focus on its key product lines of diagnostic and mechanical products in order to improve its overall profitability. The number of staff and operating expenses have been under control during the first quarter and will start a downward trend for the remaining of the year.

Prospects

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

Liu Xin
Chairman

Shenzhen, the PRC, 22 April 2005

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 March	
		2005	2004 restated
		(Unaudited)	(Unaudited)
	NOTES	RMB'000	RMB'000
Turnover	(2)	70,168	55,155
Cost of sales		(32,066)	(25,560)
		<hr/>	<hr/>
Gross profit		38,102	29,595
Other revenue		1,284	121
Selling expenses		(8,509)	(5,575)
Administrative expenses		(7,531)	(8,703)
Research and development expenses		(1,836)	(1,400)
Other operating expenses		(362)	(4,291)
		<hr/>	<hr/>
Profit from operations		21,148	9,747
Finance costs		(3,460)	(361)
		<hr/>	<hr/>
Profit before taxation		17,688	9,386
Taxation	(3)	(2,000)	(1,000)
		<hr/>	<hr/>
Profit before minority interests		15,688	8,386
Minority interests		(20)	49
		<hr/>	<hr/>
Net profit for the period		15,668	8,435
		<hr/> <hr/>	<hr/> <hr/>
Dividends	(4)	–	–
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share – basic	(5)	RMB0.030	RMB0.016
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(1) **Basis of consolidation**

The consolidated financial statement incorporates the financial statements of the Company and its subsidiaries made up to 31 March 2005 and the corresponding period in 2004.

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

(2) **Turnover**

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

(3) **Taxation**

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

Pursuant to the relevant laws and regulations in the PRC, the Company has been designated as a new and high technology enterprise and was exempted from PRC Enterprise Income Tax, which is currently at the rate of 15%.

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

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

(4) **Dividends**

The Directors do not recommend an interim dividend for the three months ended 31 March 2005.

(5) Earnings per share

The calculation of basic earnings per share is based on the consolidated net profit for the period of approximately RMB15,668,000 (2004: RMB8,345,000) and on the number of 520,000,000 shares in issue during the period (2004: 520,000,000 shares).

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

(6) Reserves

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2004	169,594	10,118	10,118	–	37,843	18,200	245,873
Net profit for the period (restated)	–	–	–	–	8,435	–	8,435
At 31 March 2004	<u>169,594</u>	<u>10,118</u>	<u>10,118</u>	<u>–</u>	<u>46,278</u>	<u>18,200</u>	<u>254,308</u>
At 1 January 2005	169,594	10,118	10,118	150	59,234	18,200	267,414
Net profit for the period	–	–	–	–	15,668	–	15,668
At 31 March 2005	<u>169,594</u>	<u>10,118</u>	<u>10,118</u>	<u>150</u>	<u>74,902</u>	<u>18,200</u>	<u>283,082</u>

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 March 2005, 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%

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 the 31 March 2005, none of the Directors, chief executives or supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

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

So far as known to the Directors, as at 31 March 2005, 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%

Notes:

- (1) The legal and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

(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% <i>(note 1)</i>
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%
APAC Capital Advisors sub a/c APAC Greater China Fund (Cayman) Ltd	Interest in controlled company	10,000,000	5.26%	1.92%

Notes:

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

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 31 March 2005, the Group did not have transaction with connected parties as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

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

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.33 of the GEM Listing Rules during the period.

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

Two audit committee meetings were held in this period to perform the following duties:

- review 2004 annual report and the first quarterly report 2005 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.

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

Shenzhen, the PRC
22 April 2005