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

2nd 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 requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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(Stock Code: 8196)

HIGHLIGHTS:

- Turnover for the six months ended 30 June 2005 was approximately RMB158,891,000; increased by approximately 14.5% compared with corresponding period in 2004.
- Net profit for the six months ended 30 June 2005 reached approximately RMB28,628,000 representing an increase of approximately 50.6% as compared with the corresponding period in 2004; and basic earnings per share was approximately RMB5.5 cents.
- The Directors do not recommend an interim dividend for the six months ended 30 June 2005.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the periods of the three months and the six months ended 30 June 2005.

Financial Overview

	For the six months ended	
	30 June 2005	**30 June 2004**
	(RMB'000)	*(RMB'000)*
Turnover	158,891	138,823
Costs of Sales	76,485	68,219
Gross Profit	82,406	70,064
Net Profit	28,628	19,011
Earnings per share	5.5 cents	3.7 cents

The Group's unaudited consolidated turnover for the three months and six months ended 30 June 2005 amounted to approximately RMB88,723,000 and RMB158,891,000 respectively, representing a growth of approximately 6% and 14.5% over the corresponding period in 2004 respectively. Overseas sales continued to grow satisfactorily during this half year, reaching approximately RMB82 million, and representing approximately 8% increase over the corresponding period of the last 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 the first half of this year by recruiting reputable distributors in these countries. During this half year, the average gross profit margin of the Group was maintained at approximately 52%.

During this period, the selling expenses of the Group rose significantly mainly due to the Group stengthened direct sales work force in domestic market. At the same time, with effective control over cost, the administrative expenses remained stable. The Group's unaudited net profit attributable to shareholders for the three months and six months ended 30 June 2005 amounted to approximately RMB12,960,000 and RMB28,628,000 respectively. Profit attributable to shareholders grew approximately 22.5% and 50.6% as compared with that of the corresponding periods in 2004 respectively.

Business Review

The Group's principle developments in the first half of the year under review are set as follows:

(1) Automotive diagnostic products

X431 Electronic Eye has been the Group's core and popular product. During the first half of the year, approximately 9,000 units were sold, 5,000 units of which were exported to overseas market. Upon solving the language translation problem of the products, sales recorded rapid growth in Europe with total sales achieving the expected target.

The Group's engineers are persistently working on the R&D of the new generation Electronic Eye X431 Color and automotive diagnostic workshop X431 TOP. X431 Color primarily focuses on color monitor and appearance design in an effort to make users feel more convenient and handy. X431 TOP is an integration of various diagnostic functions, with the connection via bluetooth technology and its detail automotive repairing database, being an one-stop diagnostic workshop, and making automotive repairing more intelligent and simple. Such product is expected to lead global automotive diagnostic technology to the highest level and become the best solution and future development of such technology.

(2) Automotive mechanical products

Demand of the Group's lifts was persistently strong, especially in the overseas market. During the first half of the year, approximately 5,000 units were sold, with an average price of approximately US$1,200 each. As production line and production technology continued to improve, monthly production capacity during the period gradually increased to 2,000 units, which was close to annual production target. The Group would further develop large size lifts for commercial automotives and large size vehicles which are expected to bring considerable orders to the Group after completion.

(3) Centralisation of resources, cost control and efficiency enhancement

The project of establishing chain auto supermarkets in various provinces by the Group was terminated during the period. This was mainly attributed to the higher cost for running chained auto stores than expected, based on the Group's internal estimation. After opening experimental stores in a few domestic cities last year, we found that it could only maintain break even. During the period, the Group also terminated auto motive information system and automotive electronic product since management expected that the business could not bring the Group a big return in long term. As at the relevant date of this report, relevant inventories for these businesses were under sales and process. After deducting various expenses and R&D written off, a loss of approximately RMB2,000,000 is expected and will be recorded in the third quarter. In the long term, I consider the closure of these businesses would help the Group to centralise its working capital and talents on more effective projects and strengthen core businesses. On the whole, it would help the Group to control its costs and enhance its efficiency.

(4) Financial management

The Group actively consolidated its financial management. After a series of studies and consultation in the second half of last year, the Group commenced to use a new enterprise resource programme system in the beginning of the year. The effect of such programme was positive, leading the Group's internal management to perfection.

(5) Construction of plant

In line with the business development of the Group, the Group planned to construct Launch Industrial Park in Shenzhen as its headquarters. The planned Launch Industrial Park will be built on an industrial use land of 50,000 square meters, locating at Banxuegang industrial district (坂雪崗工業區), Longgang, Shenzhen, purchased in 2004. The project includes office buildings, warehouses, production lines and staff quarters. Project design and financing are currently under planning and shall be subject to approval at the shareholders' general meeting before being put into implementation. Upon completion, Launch Industrial Park will replace current leased workshops, offices and staff quarters. It will help upgrade the productivity of diagnostic and testing products and is expected to contribute significantly to the Group.

Prospects

Looking ahead, the management and I have full confidence in the prospects for the Group as the development will lead a big step. Possessing clear visions and courages in developing new products by utilizing our strength in R&D, technology advancement, practical application of the Group's resources, management enhancement, and active expansion of market, the Group's management can lead to Group to delivery better service and contribution to automotive after-sales market.

Liu Xin
Chairman

Shenzhen, the PRC, 11 August 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial resources and liquidity

The Group adheres to a prudent financial management policy and holds a healthy financial position. The Group had cash and bank balances of approximately RMB164 million as at 30 June 2005.

As at 30 June 2005, shareholders' equity of the Group amounted to approximately RMB330 million. Current assets amounted to approximately RMB466 million. The Group's long-term liability amounted to approximately RMB3 million, which represented non-current secured loans, and its current liabilities amounted to approximately RMB310 million, which comprised short term bank borrowings amounted to approximately RMB178 million, and the remainder mainly consists of accounts payables and accruals. The Group's net asset value per share amounted to approximately RMB0.63. The Group's gearing ratio, representing the percentage of bank borrowings over gross asset value was 28%.

Pledge of assets

As at 30 June 2005, apart from the pledged bank deposits of approximately RMB29.6 million and certain pledged property and motor vehicles of approximately RMB7,028,000, the Group had no other pledged assets.

Major investment

During the period, the Group did not make substantial disposals of its subsidiaries and associated companies.

Contingent liabilities

The Group did not have any major contingent liabilities as at 30 June 2005.

Foreign exchange exposure

For the period under review, most of the Group's incomes were denominated in RMB whereas all overseas sales were settled in USD, with expenses being paid in RMB. Therefore, the Directors consider that the Group was not under substantial exchange exposure.

Employees

As at 30 June 2005, the Group had approximately 1,700 and 10 employees based in the PRC and overseas respectively. For the six months ended 30 June 2005, the staff cost net of the remunerations of the Directors and Supervisors amounted to approximately RMB22,000,000 (2004: approximately RMB21,741,000). The Group's employment and remuneration policies remained the same as stated in the annual report of the Group for the year ended 31 December 2004.

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 June		Six months ended 30 June	
			(Re-stated)		(Re-stated)
		2005	2004	2005	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*(4)*	88,723	83,668	158,891	138,823
Cost of sales		(44,419)	(42,659)	(76,485)	(68,219)
Gross profit		44,304	41,009	82,406	70,604
Other operating income		1,875	1,251	3,159	1,372
Selling expenses		(11,573)	(9,548)	(20,082)	(15,123)
Administrative expenses		(12,699)	(11,762)	(20,230)	(20,465)
Research and development expenses		(2,302)	(1,100)	(4,138)	(2,500)
Other operating expenses		(699)	(5,418)	(1,061)	(9,709)
Profit from operations	*(5)*	18,906	14,432	40,054	24,179
Finance costs		(4,190)	(2,612)	(7,650)	(2,973)
Profit before taxation		14,716	11,820	32,404	21,206
Taxation	*(6)*	(1,800)	(1,250)	(3,800)	(2,250)
Profit before minority interests		12,916	10,570	28,604	18,956
Minority interests		44	6	24	55
Net profit for the period		12,960	10,576	28,628	19,011
Dividends	*(7)*	–	–	–	–
Earnings per share – basic	*(8)*	RMB0.025	RMB0.020	RMB0.055	RMB0.037

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	(9)	134,100	127,607
Goodwill		3,155	3,353
Development costs		34,012	30,855
Payments for other investments		5,456	5,456
		176,723	167,271
Current assets			
Inventories		112,765	113,672
Trade receivables	(10)	113,208	118,611
Other receivables, deposits and prepayments		41,264	43,268
Amount due from a related company		–	3,457
Pledged bank deposits		29,610	137,700
Bank balances and cash		169,055	195,427
		465,902	612,135
Current liabilities			
Trade payables	(11)	45,804	70,014
Bills payable		45,770	180,621
Receipt in advance, other payables and accrued charges		36,314	45,050
Income tax payable		3,800	9,261
Borrowings		178,113	150,740
		309,801	455,686
Net current assets		156,101	156,449
Total assets less current libailities		332,824	323,720
Non-current liabilities			
Borrowings		2,667	3,967
Minority interests		315	339
Net assets		329,842	319,414
Capital and reserves			
Share capital		52,000	52,000
Reserves		277,842	267,414
Shareholders' funds		329,842	319,414

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Translation reserve	Accumulated profits	Proposed final dividend	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	52,000	169,594	10,118	10,118	–	37,843	18,200	297,873
Net profit for the period (restated)	–	–	–	–	–	19,011	–	19,011
At 30 June 2004	52,000	169,594	10,118	10,118	–	56,854	18,200	316,884
At 1 January 2005	52,000	169,594	10,118	10,118	150	59,234	18,200	319,414
Net profit for the period	–	–	–	–	–	28,628	–	28,628
2004 final dividend paid	–	–	–	–	–	–	(18,200)	(18,200)
At 30 June 2005	52,000	169,594	10,118	10,118	150	87,862	–	329,842

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005	**2004**
	RMB'000	*RMB'000*
Cash flows from operating activities	10,024	41,857
Cash flows from investing activities	90,582	(80,260)
Cash flows from financing activities	(126,978)	48,667
Net (decrease) increase in bank balances and cash	(26,372)	10,264
Bank balances and cash at 1 January	195,427	171,188
Bank balances and cash at 30 June	169,055	181,452

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

(1) General

The Company was established in Shenzhen, the People's Republic of China (the "PRC") as a joint stock limited company and its overseas listed foreign invested shares ("H Share") 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) Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June of 2005 and 2004.

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

(3) Accounting policies and adoption of new or revised statements of standard accounting practice

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

Principal accounting policies adopted in these financial statements are the same as those adopted in preparing the 2004 annual financial statements, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The Directors considered that the adoption of the new HKFRS has had no material effect on how the results for the current or prior accounting periods are prepared and presented.

The condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee.

The unaudited condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

(4) Turnover and segment information

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

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

The Group's operation by geographical analysis as below:

	Turnover For the three months ended 30 June		**Contribution to net profit For the three months ended 30 June**	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Geographical market:				
PRC (not including Hong Kong)	45,990	31,738	22,885	12,117
Europe	7,923	12,269	3,898	6,380
Africa and the Middle East	14,103	9,047	7,124	4,614
America	10,057	14,256	5,009	8,268
Australia	7,970	4,269	4,066	2,135
Asia (not including PRC)	2,680	12,089	1,322	7,495
	88,723	83,668	44,304	41,009
Unallocated other operating incomes			1,875	1,251
Unallocated corporate expenses			(27,273)	(27,828)
Profit from operations			18,906	14,432

	Turnover For the six months ended 30 June		Contribution to net profit For the six months ended 30 June	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Geographical market:				
PRC (not including Hong Kong)	76,956	62,768	39,284	24,904
Europe	18,749	20,026	9,462	11,035
Africa and the Middle East	26,416	10,423	14,280	5,864
America	15,644	21,281	8,102	13,459
Australia	14,953	7,333	8,003	3,891
Asia (not including PRC)	6,173	16,992	3,275	11,451
	158,891	138,823	82,406	70,604
Unallocated other operating incomes			3,159	1,372
Unallocated corporate expenses			(45,511)	(47,797)
Profit from operations			40,054	24,179

(5) Profit from operations

	For the six months ended 30 June	
	2005	**2004**
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
– property, plant and equipment	5,328	3,589
– intangible assets (including goodwill and development costs)	2,728	1,341

(6) Taxation

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

Pursuant to the relevant laws and regulations in the PRC, the Company has been designated as a new and high technology enterprise and was exempted from PRC Enterprise Income Tax, which is currently at the rate of 15%, for the two years 2000 and 2001 from the first profitable year of operation and is eligible for and entitled to a 50% tax relief for the next three years from 2002 to 2004. The tax rate has been 15% effective from 1 January 2005.

The Company's subsidiaries are subject to income tax rates varies from 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.

(7) Dividends

The Board does not recommend an interim dividend for the six months ended 30 June 2005 (2004: Nil).

(8) Earnings per share

The calculation of the basic earnings per share was based on the net profit of approximately RMB12,960,000 and RMB28,628,000 for the three months and six months ended 30 June 2005 respectively (the three months and six months ended 30 June 2004: net profit of approximately RMB10,576,000 and RMB19,011,000) divided by the 520,000,000 shares in issue during the period.

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

(9) Property, plant and equipment

During the period, the Group spent approximately RMB11,821,000 (2004: approximately RMB86,943,000) on acquisition of property, plant and equipment. The expenditure was significantly reduced mainly because the Group had constructed a vehicle lift factory in Shanghai last year.

(10) Trade receivables

The Group allows a credit period of one to six months to its other trade customers.

Aged analysis of trade receivables are as follows:

	30 June 2005 (Unaudited) *RMB'000*	**31 December 2004 (Audited)** *RMB'000*
Within 6 months	68,516	81,171
Over 6 months but less than 1 year	38,942	37,440
Over 1 year but less than 2 years	5,750	–
	113,208	118,611

(11) Trade payables

Aged analysis of trade payables are as follows:

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited) *RMB'000*
Within 6 months	37,458	56,290
Over 6 months but less than 1 year	8,346	10,274
Over 1 year but less than 2 years	–	3,450
	45,804	70,014

(12) Capital commitments

The Group had no significant capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements.

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 30 June 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	Beneficiary Owner	132,000,000	40.00%	25.39%
	Interest in controlled company	138,864,000	42.08% *(Note 1)*	26.70%
	Interest in controlled company	10,261,000	3.11% *(Note 2)*	1.97%
Mr. Liu Jun	Interest in controlled controlled	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 30 June 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 30 June 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% *(note 1)*
Atlantis Investment Management Ltd	Interest in controlled company	16,485,000	8.68%	3.17%
Citigroup Inc.	Interest in controlled company	13,549,000	7.13%	2.61%
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 30 June 2005, the Group did not have transactions with connected parties as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The Company had entered into a RMB5 million agreement with 藍點軟件技術（深圳）有限公司 ("Blue Point") in 2004 in relation to the purchase of a software system and made prepayment to Blue Point totaling RMB3,457,000. During the Period, the Company already paid the balance of RMB1,543,000 and the software system developed by Blue Point was completed and delivered to the Company. Patent registration for this product is now in progress.

Blue Point is a wholly-owned subsidiary of Bluepoint Linux software Corporation, a limited liability company incorporated in the United States. Mr. Liu Xin and Mr. Liu Jun, executive directors and substantial shareholders of the Company, own approximately 70% of Blue Point's controlling shares, with the remaining approximately 30% shares held by the public in the Nasdaq OTC Market in the United States of America. Blue Point is a software development company specializing in providing embedded Linux software solutions to makers of electronic and computing devices in the PRC.

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

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

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

PRE-EMPTIVE RIGHTS

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules during the period except that the Board of the Company is in the process of defining the composition and terms of reference of the Remuneration Committee.

AUDIT COMMITTEE

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

Three audit committee meetings was held this year to perform the following duties:

– review 2004 annual report, 2004 first quarterly report and this report of the Company;

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all directors and the Company are not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period.

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
11 August 2005