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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: 2488)

2013 ANNUAL RESULT ANNOUNCEMENT

The board of directors (the "Board") of Launch Tech Company Limited (the "Company") hereby announces the preliminary consolidated result of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Reporting Period") prepared in accordance with China Accounting Standards for Business Enterprises:

I. FINANCIAL INFORMATION

(All amounts in RMB unless otherwise stated)

CONSOLIDATED BALANCE SHEET

Items	*Notes*	**31 December 2013**	31 December 2012
Current assets:			
Cash		**315,244,998.39**	301,157,431.94
Bills receivables		**20,764,740.93**	20,242,187.00
Accounts receivables	5	**249,351,089.54**	250,252,656.84
Prepayments		**83,504,974.35**	33,170,768.01
Other receivables		**28,249,222.63**	25,814,627.11
Inventories	6	**110,538,015.17**	113,033,322.81
Other current assets		**3,955,512.66**	4,861,431.18
Total current assets		**811,608,553.67**	748,532,424.89

CONSOLIDATED BALANCE SHEET (continued)

Items	*Notes*	**31 December 2013**	31 December 2012
Non-current assets:			
Fixed assets		**342,590,092.43**	254,869,879.24
Construction in progress		**88,067,597.83**	130,161,948.21
Intangible assets		**110,239,142.01**	87,313,097.13
Development expenditure		**16,339,770.14**	11,375,123.59
Goodwill		**1,139,412.80**	1,139,412.80
Deferred income tax assets		**3,921.61**	22,109.07
Total non-current assets		**558,379,936.82**	484,881,570.04
Total assets		**1,369,988,490.49**	1,233,413,994.93
Current liabilities:			
Short-term borrowings		**528,442,468.00**	440,000,000.00
Accounts payables	*7*	**137,202,704.28**	113,986,533.07
Receipts in advance		**56,957,621.86**	52,018,552.52
Wage payables		**2,967,594.15**	3,032,588.42
Tax payables		**-8,012,740.87**	-18,878,050.51
Other payables		**8,764,373.01**	5,896,639.23
Non-current liabilities due within one year		**631,417.50**	623,820.00
Total current liabilities		**726,953,437.93**	596,680,082.73
Non-current liabilities:			
Long-term borrowings		**157,854.38**	779,775.00
Other non-current liabilities		**20,000,000.00**	20,000,000.00
Total non-current liabilities		**20,157,854.38**	20,779,775.00
Total liabilities		**747,111,292.31**	617,459,857.73
Shareholders' equity:			
Share capital		**60,360,000.00**	60,360,000.00
Capital reserve		**283,188,427.20**	283,188,427.20
Surplus reserve		**18,099,377.81**	18,099,377.81
Undistributed profit	*8*	**261,412,303.61**	254,377,625.52
Exchange difference arising on translation of foreign currency statements		**323,440.16**	-71,293.33
Total owners' equity attributable to parent company		**622,736,668.46**	615,954,137.20
Minority shareholders' equity		**140,529.72**	–
Total shareholders' equity		**622,877,198.18**	615,954,137.20
Total liabilities and shareholders' equity		**1,369,988,490.49**	1,233,413,994.93

CONSOLIDATED INCOME STATEMENT

Items	*Notes*	**2013**	2012
Operating income		**678,142,799.36**	612,476,020.56
Less: Operating cost		**447,071,332.05**	421,164,718.92
Business tax and surcharge		**5,102,138.18**	6,576,655.04
Selling expenses		**76,225,695.13**	75,016,825.42
Administrative expenses		**113,354,849.66**	114,997,227.54
Financial expenses		**27,977,359.52**	21,554,496.97
Impairment loss on assets		**11,910,205.29**	28,387,724.29
Add: Gain on investments in associates and joint ventures		**5,600,000.00**	–
Operating profit (loss expressed with "–")		**-7,898,780.47**	-55,221,627.62
Add: Non-operating income		**17,543,361.21**	19,405,565.86
Less: Non-operating expenses		**453,249.55**	705,044.14
Total profit (total loss expressed with "–")		**9,191,331.19**	-36,521,105.90
Less: Income tax expenses	*9*	**2,188,230.03**	7,047,515.14
Net profit (net loss expressed with "–")		**7,003,101.16**	-43,568,621.04
Net profit attributable to owners of parent company		**7,003,101.16**	-43,568,621.04
Profit or loss attributable to minority shareholders		**-31,576.93**	–
Earnings per share:			
Basic earnings per share	*10*	**0.1165**	-0.7218
Other comprehensive income		**-252,146.83**	-1,588,560.51
Total comprehensive income		**6,750,954.33**	-45,157,181.55
Total comprehensive income attributable to owners of parent company		**6,782,531.26**	-45,157,181.55
Total comprehensive income attributable to minority shareholders		**-31,576.93**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. BASIS OF PREPARATION OF FINANCIAL STATEMENT

Financial information in this announcement was extracted from the audited financial statements (the "Financial Statements") published in the 2013 Annual Report.

The Company carried out recognition and measurement on a going concern and actual transaction and event basis in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises") and the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (amended in 2010) issued by the China Securities Regulatory Commission (CSRC) and prepared the Financial Statements on such basis.

In addition, the Financial Statements have also complied with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting period

The accounting period is from 1 January to 31 December.

(2) Reporting currency

Renminbi was adopted as the reporting currency. The Company's foreign subsidiaries choose their reporting currencies on the basis of the primary economic environment in which they operate and converted into when preparing financial statements.

(3) Method of preparing consolidated financial statements

All subsidiaries were included in the consolidated financial statements

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Company. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting periods of the Company. Based on the financial statements of the Company and its subsidiaries, the consolidated financial statements are prepared by the Company according to other relevant information and after the long-term equity investments in the subsidiaries are adjusted in accordance with the equity method. When consolidating the financial statements, the effects of intra-transactions between the Company and its subsidiaries, and among subsidiaries on the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity shall be offset.

3. REVENUE

Revenue from main operations includes the net value of the received and receivable for the sales of different types of vehicle maintenance equipment, and provision of internet upgrade service as follows:

	Current year	Previous year
Product sales	**650,950,809.56**	569,655,656.05
Income of software upgrade fees	**17,754,106.86**	32,546,262.22
Revenue from main operations	**668,704,916.42**	602,201,918.27
Revenue from other operations: rent	**9,437,882.94**	10,274,102.29
	678,142,799.36	612,476,020.56

4. ACCOUNTS RECEIVABLES

	At the year end	At the beginning of the year
Accounts receivables	**286,126,349.69**	288,591,643.88
Less: provision of bad debts	**36,775,260.15**	38,338,987.04
Net amount	**249,351,089.54**	250,252,656.84

Aging analysis of accounts receivable

Aging	**At the year end**	At the beginning of the year
Within 1 year	**136,255,996.93**	148,529,052.75
1 to 2 years	**79,253,569.26**	88,409,470.22
2 to 3 years	**27,737,622.93**	11,156,425.94
3 to 4 years	**5,580,976.07**	1,892,095.61
4 to 5 years	**522,924.35**	265,612.32
Net amount	**249,351,089.54**	250,252,656.84

5. INVENTORIES

	Ending balance Book value	Provision for diminution in value	Carrying amount	Beginning balance Book value	Provision for diminution in value	Carrying amount
Raw materials	35,386,784.71	8,872,107.82	26,514,676.89	62,764,686.60	8,872,107.82	53,892,578.78
Work in progress	15,775,677.93	1,882,454.39	13,893,223.54	12,411,141.85	1,882,454.39	10,528,687.46
Finished goods	71,287,814.49	1,157,699.75	70,130,114.74	56,340,095.72	7,728,039.15	48,612,056.57
Total	122,450,277.13	11,912,261.96	110,538,015.17	131,515,924.17	18,482,601.36	113,033,322.81

6. ACCOUNTS PAYABLES

Accounts payables

Aging	**At the year end**	At the beginning of the year
Within 1 year	**130,635,978.83**	108,036,074.44
1 to 2 years	**4,088,860.91**	3,549,130.48
2 to 3 years	**1,119,986.43**	1,634,656.39
Over 3 years	**1,357,878.11**	766,671.76
Total	**137,202,704.28**	113,986,533.07

At the year end, there was no amount payable to any shareholder of the Group holding 5% or more voting shares.

Foreign currency in the accounts payables for 2013 and 2012 equivalent to 963,345.64 and 2,348,355.86, respectively.

7. UNDISTRIBUTED PROFITS

Current year

	Amount
As at the beginning of the period	254,377,625.52
Add: net profit attributable to parent company in the current year	7,034,678.09
As at the end of the period	261,412,303.61

Previous year

	Amount
As at the beginning of the period	406,594,246.56
Add: net profit attributable to parent company in the current year	-43,568,621.04
Less: paid dividends of ordinary shares	108,648,000.00
As at the end of the period	254,377,625.52

8. INCOME TAX EXPENSE

	Current year	Previous year
Income tax for the current period	**2,170,042.57**	7,054,694.05
Adjustment of deferred tax	**18,187.46**	-7,178.91
Total	**2,188,230.03**	7,047,515.14

	Applicable tax rate for current year and previous year
The Company	**15%**
Launch Software	**15%**
Shanghai Launch	**12.5%**
Launch Europe Gmbh	**32%**
Xi'an Launch	**25%**
Peng Ao Da	**15%**

9. EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the consolidated net profit for holder of ordinary share of the parent company by average weighted number of outstanding ordinary share of the parent company.

Items	**Current year**	Previous year
Consolidated net profit for holder of ordinary share of the parent company	**7,003,101.16**	-43,568,621.04
Consolidated net profit for holder of ordinary share of the parent company after extraordinary items	**-3,108,513.39**	-45,600,399.35
Average weighted number of outstanding ordinary share of the parent	**60,360,000.00**	60,360,000.00
Basic earnings per share (RMB/share)	**0.1165**	-0.7218
Basic earnings per share after extraordinary items (RMB/share)	**-0.0515**	-0.7555

(2) Diluted earnings per share

As there was no ordinary shares with dilutive potential for the year 2013 and 2012, thus no diluted earnings per share was presented.

10. DIVIDEND

From the end of the reporting period, no dividend has been suggested by the board. (2012: nil).

11. SUBSIDIARIES

Name of the corporation	Shareholding	Business nature	Registered capital
上海元征機械設備有限責任公司(“Shanghai Launch”)	Wholly-owned	Manufacturing of equipment and machines for maintenance	USD18,000,000
深圳市元征軟件開發有限公司(“Launch Software”)	Wholly-owned	Software development	RMB40,000,000
Launch Europe GmbH	Wholly-owned	Sales of LAUNCH products	RMB671,875
西安元征軟件科技有限公司(“Xi’an Launch”)	Wholly-owned	Software development	RMB100,000,000
深圳市鵬奧達科技有限公司(“Peng Ao Da”)	Controlling subsidiary (88% shareholding)	Software development	RMB1,000,000

12. CONTINGENT LIABILITY

At the end of the reporting period, the Company did not have any significant contingent liability.

13. PLEDGE OF ASSETS

As at 31 December 2013, the Company pledged properties and buildings with original value approximately amounted to 168,000,000 (2012: 55,000,000) for certain bank borrowings.

14. CAPITAL COMMITMENTS

As at 31 December 2013, the Company had entered into the contract of construction of research building of Shenzhen Launch with a total contract value of 94,000,000, of which approximately 13,000,000 had not been settled.

As at 31 December 2012, the Company had entered into the contract of construction and expansion of Shanghai plant and Shenzhen research building with a total contract value of 180,000,000, of which approximately 50,000,000 had not been settled.

15. LEASE COMMITMENTS

As at 31 December 2013, commitments for the Group in the future which brought by non-cancellable lease contracts are as follows:

Unit: ’000

	Current year	Previous Year
Within 1 year	**2,866**	3,038
2 to 5 years	**9,512**	3,734
	12,378	6,772

16. POST-BALANCE SHEET EVENTS

There is no material post-balance sheet events which is required to be disclosed but has not been disclosed.

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. Direction of Enterprise and Analysis of Operation

Over the years, the Group has been in a leading position in the automotive diagnostic equipment industry. With the onset of the mobile internet era, the Group strives to become the core enterprise of the **Connected Car** in the world. Since 2012, the Group has positioned its development direction as "becoming the core enterprise of the **Connected Car** in the world". In 2013, guided by such a direction, the Group was marching forward.

2013 was a year of development transformation of the Group, a year of deployment for the all around expansion in the **Connected Car** business, and a year of harvest of technological innovation. In order to implement the strategic transformation, the Group swiftly adjusted its operating strategies, which was mainly reflected in: 1) the rapid expansion of research and development team of **Connected Car** and the increase in the investment in the **Connected Car** research and development; 2) maintaining the leading position in the automotive diagnostic equipment and focusing on the development of the automotive diagnostic equipment with higher gross profit and shrinking the product lines with low gross profit; and 3) building the marketing team and optimising the business model with the aim of integral advancement to the **Connected Car** market.

Reviewing the annual operating results of 2013, the Group's traditional businesses achieved steady growth. Of which, the sales revenue from the high-value-added automotive diagnostic equipment increased significantly as compared to last year, and the low value-added businesses dropped significantly. Due to the high input in the research and development of the **Connected Car** technologies, the Group achieved insignificant profit but operating results basically met its expectation. However, the Group is very glad to see that the talents, technologies and products and other works for the transformation into the development of **Connected Car** were implemented as scheduled, which laid a solid foundation for the future development.

II. Analysis of Connected Car Business

1. Connected Car Business

Since coming on to the market, the vehicles have been a separate transportation tool, and are not able to take the initiative to contact with the outsiders, and the outsiders also are not able to real-time understand its conditions of operation. As long as the vehicles enter the maintenance plant, people can understand its relevant operation data and information.

With the development of internet technologies and automobile-related technologies, the **Connected Car** will become a revolution for the vehicles. The **Connected Car** is an application of internet of things on the vehicles, and collects the dynamic and static information for vehicles and people, vehicles and vehicles and vehicles and roads by way of the sensing equipment equipped on the vehicles and through the automobile diagnostic technologies, satellite communications and mobile communication technology and combined with the internet big data and cloud computing. The core is to consistently obtain the related operation data of the automobile and to make full use of these data leveraging on the internet technology and the automobile-related technologies.

According to a report published by the Global System for Mobile Communication (GSMA) and SBD, a market research company, over 50% vehicles in the world will need the **Connected Car** services in 2015. By 2018, the total **Connected Car** market around the world will amount to Euro 39,000,000,000, and every new vehicle will need **Connected Car** services from 2025 onwards.

As one of the key deployment industries in the "Twelfth Five-Year" plan by the PRC government, Ministry of Industry and Information Technology made every effort to push forward the development of **Connected Car** from a number of aspects, including industry plan and technology criteria. Reviewing the development of the domestic automotive industry, it can be basically divided into three phases, 2000 to 2007 was a period of rapid development for the automotive industry, 2008 to 2010 was a boom period, and 2011 onwards was a period of steady growth. Currently, the car ownership in China is over 100,000,000, and is expected to exceed 160,000,000 in 2015, approximately accounting for 10% in the world. The vast car owners are a solid foundation for the development of **Connected Car**.

2. ***Technical Research and Development***

Based on more than 20 years of accumulation of automotive diagnostic technologies, the Group gained insight into the industry need and the future development trend several years ago, and input a large quantity of human resources and capital to develop **Connected Car**. In 2013, the Group accelerated the direction of research and development to shift to the **Connected Car** application technologies, recruited a large number of internet researchers, and achieved better results.

As of the end of 2013, the number of people of research and development team of the **Connected Car** increase 200, and amounted to 300. During the reporting period, the research and development investment in **Connected Car** technologies and products amounted to RMB48,000,000. In the meantime, the Group established small-sized **Connected Car** research and development teams in the U.S., Germany and Japan and other regions, so as to accelerate the local development of the **Connected Car** technology.

The research and development work of the Group strictly implements the CMMI system, adopts the advanced agile and IPD development flow, divides the research and development flow to 6 phases of concept, plan, development, test, publish and life cycle, and emphasizes the structured flow, professional talents and separation of technologies and product development. Meanwhile, in order to improve the research and development efficiency and arouse the innovative spirits of technicians, the Group implemented incentive mechanism that includes 9 five-level items with contribution and efficiency at the core. Overall, research and development team maintained steady, very experienced and morale.

In 2013, the Group submitted 47 patents in respect of **Connected Car** technologies. Currently, the Group owns 15 patented technologies of **Connected Car**. Of which, the patented chips based on OBD technology is world-first, and such technology can obtain the instant data of vehicles and are compatible with as many as 2,800 vehicle types. Such technology will transform to **Connected Car** products, change the traditional automobile repair and maintenance and the life style of people human with car, become the essential housekeeper of the car owners and bring wonderful human with car life style to the car owners.

3. ***Product Development***

In 2013, the Group successfully developed **golo** series of **Connected Car** core application product, which should be **Connected Car** product with the most advanced function on the market currently.

The functions of the **golo** series of products mainly include: 1) obtaining the instant data of vehicles, 2) real-time long-distance diagnosis for the vehicles, 3) consistent vehicle physical examination, 4) vehicle alarming, 5) driving record management and 6) instant communication, etc.

Using **golo** series of products, through smartphones with Apple iOS and Android system, car owners are able to realize the vehicle physical examination, long distance diagnosis, process management, safety management as well as instant communication, including video, audio and text, but also share their thoughts among the friends community, maintenance community and conversion community, etc. Its strong function will build an all around vehicle safe life platform for the car owners.

golo series of products are planned to gradually put onto the market since the second quarter of 2014. Meanwhile, the Group will open more applications, and develop more new products based on new technologies, including 4G.

Although the Group's **Connected Car** application products have not yet been put onto the market in 2013, the relevant products have gained recognition from the market, for example, sales of X431-iDiag and X431 Pro reached 62,000 units, and the market feedback information made the Group to be more determined to develop **Connected Car**.

4. *Domestic Market*

In 2013, the production and sales volume of automobile exceeded 22,000,000 in China market with vehicle ownership of more than 120,000,000. Coping with this vast market, in order to better transform the **Connected Car** business, the Group conducted a lot of work in aspects, including the market organisation, market promotion and customer expansion.

The main work of the market organisation was: 1) setting up of the internet online distribution platform; 2) the establishment of network marketing team and **golo** vehicle repair workstation experts group; and 3) strengthening the construction of both online and offline marketing team by increase nearly hundred of sales person of **Connected Car**.

The main work of the marketing was: 1) conducting **Connected Car** product publicity targeting more than 300,000 end users; 2) organizing about ten product promotion conferences and nearly a hundred training sessions; and 3) conducting a market survey of replacement of the traditional diagnostic equipment with **Connected Car** products. Through these activities, the domestic customers are confident about the prospect of the development of the Group's **Connected Car** business.

The main work of customer expansion was: 1) establishing connection with major communication carriers in cities across the country; 2) establishing connection with major insurance companies; 3) establishing connection with large automotive organizations, thus building a foundation for future cooperation.

5. *Overseas Market*

In 2013, the production and sales volume of automobile amounted to 84,000,000 in the world with vehicle ownership of more than 1,000,000,000. Facing this vast market, in order to better transform the **Connected Car** business, the Group also conducted a lot of work in aspects, including the market organisation and market promotion.

The main work of the market organisation was: 1) establishing the network marketing team; 2) setting up of the internet online distribution platform; and 3) strengthening the construction of marketing team with the sales person of **Connected Car** increasing by 60.

The main work of the marketing was: 1) conducting **Connected Car** product publicity targeting end users; 2) organizing more than 10 product promotion conferences through 6 offices; and 3) conducting a survey of replacement of the traditional diagnostic equipment with **Connected Car** products. Through these activities, the overseas customers are also confident about the prospect of the development of the Group's **Connected Car** business.

The main work of customer expansion was: 1) establishing connection with communication carriers in major countries; 2) establishing connection with major insurance companies; 3) establishing connection with large automotive organizations.

III. Analysis of Traditional Business

Operating income for current year increased by 67,000,000, of which Diagnostic series increased by 105,000,000 and revenue increased by 53% compared with last year. Average gross profit margin for the year was 33%, representing an increase of 3% compared with last year. The increase in operating income was mainly attributable to the recovery in demand due to the improved desire in purchasing resulting from the effect of the global economic environment and domestic recovery. For regional sales, America and domestic recovered the most with an increase of approximately 39% and 14% respectively, compared with the decrease of 6% and 30% in Europe and other regions.

1. Traditional Business

Principal businesses by industry and by product

Unit: ’000

Principal business by product

Sector of Product	Operating income of this year	Operating income of previous year	Operating costs of this year	Operating costs of previous year	Profit margin of current year	Profit margin of previous year	Increase/ decrease in Operating income over previous year	Increase/ decrease in Operating costs over previous year
Diagnostic series	301,000	196,000	135,000	75,000	55	62	54	80
Machinery series	274,000	279,000	258,000	273,000	6	2	-2	5
Software upgrade fees	18,000	32,000	–	–	100	100	-44	–
Inspection series	37,000	40,000	26,000	28,000	30	32	8	-7
Vehicle electronics series	–	5,000	–	3,000	–	40	-100	-100
Maintenance series	15,000	18,000	10,000	13,000	33	28	-17	-23
Tools series	–	4,000	–	5,000	–	-25	-100	-100
Other series	24,000	27,000	18,000	23,000	25	15	-11	-22
Total	669,000	602,000	447,000	420,000	33	30	11	6

As compared to 2012, the sales of the automotive diagnostic device was 62,000 units in 2013, an increase of 19,000 units, representing a 48% growth; the sales of personal diagnostic reading cards was 86,000 units, an increase of 32,000 units, representing a 61% growth. The sales of testing and maintenance products with low gross profit dropped by 13%, the sales of equipment, including lifts declined by 8%, and the automobile electronic business decreased significantly.

The sales revenue in automotive diagnostic device with high gross profit was approximately RMB301,000,000, accounting for 44% of the total, an increase of RMB100,000,000, representing a 53% growth; the sales revenue in testing and maintenance products was approximately RMB51,000,000, accounting for 8 % of the total, representing a 12% decline; the sales revenue in lifts and other equipment was approximately RMB270,000,000, accounting for 41% of the total, representing a 2% drop; the revenue from the automotive electronics was approximately RMB24,000,000, accounting for 4% of the total, representing a 23% decrease; the revenue in software upgrade was RMB18,000,000 and decreased due to the update and upgrade of the products and the new products are in a period of free upgrade; the sales revenue for the year was approximately RMB669,000,000, representing a 11% growth as compared to last year. Overall, the sales of the main products of the Group increased significantly and the sales of the products with low gross profit dropped significantly, which is in line with the Group's operating strategy.

2. Technical Development

Since its establishment, the Group has been devoting to the development of the automotive technologies and products. More than two decades of commitment and technological accumulation as well as more than 200 of patented technology cast the Group's leading position in the industry.

The Group adheres to the principle of technological innovation and self-development and carries out global development with a vision of market need. In 2013, the Group established the local research and development offices in the U.S., Germany, Japan, Korea and Latin America region. As of the end of the 2013, the number of people of research and development team of the traditional business increased 70, and amounted to over 280.

In 2013, the Group adjusted the direction of the research and development for the traditional business, increased the input in the research and development of high value-added technologies and products and restricted the research and development expenditures for businesses with low gross profit. During the reporting period, the research and development costs for the traditional businesses was RMB50,000,000, an increase of 11%; the research and development investment in the traditional business and **Connected Car** business totaled RMB98,000,000, an increase of 43%, accounting for 14.6% of the total revenue.

In 2013, the Group applied 87 invention patented technologies and 13 other patents. Currently, the Group owns an accumulated 173 patented technologies, of which 22 was invention patents, and 47 software copyrights, and the Group has a total of 220 patented technologies and software copyrights.

In 2013, the Group received 11 certificates of honours, and received an accumulated 106 certificates of honours, of which 12 was of national level, 5 provincial level, 12 Shenzhen municipal level and 67 others. The Group received 10 certificates of honours in the U.S., Germany and Australia.

3. *Product Development*

In 2013, the Group successfully development more than ten types of new products, of which X-431PRO, X431-iDiag and other cloud diagnostic products was able to conduct real-time long distance diagnosis of vehicles by way of Internet with very strong functions, and became one of the core products of the **Connected Car** transformation.

As one of the Group's core technologies, the results of the diagnostic technologies development was satisfied in 2013, great breakthrough was made to a number of car series and over 1,000 versions of software were published.

In 2013, the Group successfully developed the following products: 1) personal diagnostic equipment: CresetterII, CresetterII, CreaderProfessional129,CreaderIV+, CReaderV+OBDII reading cards, etc; 2) battery testing equipment: BST-460 battery testing device, BST-760 battery testing device, etc; 3) vehicle cloud diagnostic equipment: X-431PRO, EasyDiag, X431-iDiag etc.

4. *Market*

Principal businesses by geographical location

Unit: '000

Geographical location	Operating income of this year	Operating income of previous year	Increase/decrease in operating income compared over previous year
Domestic	387,000	339,000	14
America	148,000	107,000	38
Europe	94,000	99,000	-5
Others	40,000	57,000	-30
Total	669,000	602,000	11

4.1. Domestic Market

In 2013, the Group continued to maintain its leading position in the industry. As compared to 2012, the sales of the automotive diagnostic device was 45,000 units, accounting for 73% of the sale of such type of products, an increase of 19,000 units, representing a 77% growth; the sales of personal diagnostic reading cards was 13,000 units, accounting for 15 % of the sale of such type of products, an increase of 1,600 units, representing a 14% growth, and the sales of the **Connected Car**-related products was 17,000 units; the sales of testing and maintenance products was 3,400 units, representing a 5% growth; the sales of equipment, including lifts was 36,000 units, accounting for 77% of the sale of such type of products; the sales of tire equipment dropped by 4%, and the automotive electronic business declined by 38%, etc.

In 2013, the sales revenue in the domestic market was approximately RMB386,000,000, an increase of 14%, accounting for 58% of the total revenue. Of which, the sales revenue in automotive diagnostic device was approximately RMB147,000,000, an increase of 70%, accounting for 38% of the total domestic revenue; the sales revenue in lifts and other equipment was approximately RMB198,000,000, essentially maintaining the same level, accounting for 51% of the total domestic revenue; the sales revenue in testing and maintenance products was approximately RMB24,000,000, representing a 12% decline; the revenue from the automotive electronics and other low gross profit products declined significantly.

In 2013, the Group organised about one hundred tour promotion conferences in China, targeting more than four hundreds distributors and teachers and students in over 50 vocational colleges.

5. Overseas Market

In 2013, driven by the pick-up in the US economy, the Americas, Asia-Pacific, Middle East and Africa markets improved. The Group's overseas sales results made a new high with sales of the diagnostic products with high gross profit steady, the sales of the personal diagnostic products increasing significantly and the products with low gross profit presenting a declining trend, essentially in line with our expectation. Analyzing from the results, the Group's automotive diagnostic equipment has relatively strong competitive strength in the overseas market, and the **Connected Car** products have a positive prospect.

In 2013, the sales of the automotive diagnostic device in overseas market was 16,000 units, representing a slight increase; the sales of personal diagnostic reading cards was 73,000 units,, an increase of 30,000 units, representing a 75% growth, accounting for 85% of the sale of such type of products and the sales of the **Connected Car**-related products was 45,000 units; the sales of testing and maintenance products was 2,840 units, representing a 28% decline; the sales of equipment, including lifts exceeded 10,000 units, a decline of 8%, etc.

In 2013, the sales revenue in the overseas market was approximately RMB280,000,000, an increase of 7%, accounting for 42% of the total revenue. Of which, the sales revenue in automotive diagnostic device was approximately RMB149,000,000, an increase of 36%, accounting for 53% of the total overseas revenue; the sales revenue in lifts and other equipment was approximately RMB76,000,000, a drop of 12%.

In 2013, the Group participated in approximately forty international-renowned exhibitions in the Europe, Americas, Asia and Australia, and organised about one hundred sessions of professional training through the overseas offices. Through these activities, the Group introduced our new products and the **Connected Car** business plan, etc.

IV. Operation Management

1. Marketing

In 2013, the main work of the market by the Group was: 1) strengthening the construction of marketing networks of the traditional businesses, continuing to develop quality distributors and optimising the sales channel; 2) focusing on promoting the automotive diagnostic products with higher added-value and controlling the input in the businesses with low gross profit; and 3) training and developing end user groups with excellent services.

Overall, though the adjustment of operating strategies, the traditional businesses achieved sustainable growth, the costs of businesses with low added-value were controlled and the customers at home and abroad are confident about the prospect of the development of the Group's **Connected Car** products.

2. Organisation of Production

In 2013, the main work of production by the Group was: 1) focusing on better quality control; 2) retaining the manufacturing of core components and implementing the mode of lean production; and 3) outsourcing the production work with low added-value but monitored by the Group's Supply Chain Management Centre.

3. Quality Management

Centering on the quality and comprehensively leveraging on the management technologies, the Group established a quality management system covering the whole process from design, production to services. The Group continued to improve our thoughts according to PDCA, form quality improvement team for the ongoing quality analysis, inspection and improvement, etc.

4. Finance

In 2013, the revenue of the Group increased by 11%. Because the sales of the products with high gross profit increased significantly and the sales of the products with low gross profit were controlled, the average gross profit margin slightly increased. From the breakdown of the revenue from the principal business, the diagnostic products accounted for 45% with an average gross profit margin of 55%, and were the major profit contributor of the Group. From the market sales, the China market accounted for 58%, Americas market 22% followed by the European market, from which it can be seen that the overseas market still has vast room for development. We have a relatively long period of cooperation with the overseas distributors and it is difficult to change the settlement terms in the short term, the amounts of accounts receivable was great. Despite the good long-term credit performance of the overseas distributors, in the principle of prudence, the Group made bad debts provision as required, and strengthened the accounts receivable management. Because the Group plans to transform to develop the **Connected Car** business, it did a lot of deployment work in research and development, human resources and marketing in 2013, the expenses increased significantly, and the bank borrowings and finance cost also increased. In addition, due to the exchange rate fluctuation, the exchange profit or loss increased as compared to last year, therefore the net profit was insignificant. However, from the feedback information of the products introduced by the **Connected Car**, the Group is confident about the direction of the development as determined.

4.1 Table of movement analysis for the related items in income statement and cash flow statement

Unit: '000

Items	Current period	Corresponding period of previous year	Changes
			%
Operation income	678,000	612,000	11
Operation cost	447,000	421,000	6
Selling cost	76,000	75,000	1
Administrative expenses	113,000	115,000	-2
Financing expenses	38,000	22,000	73
Net Cash Flow from Operating Activities	113,000	49,000	131
Net Cash Flow from Investing Activities	-159,000	-138,000	15
Net Cash Flow from Financing Activities	63,000	89,000	-29
R&D expenditure	71,000	58,000	22

4.2 Major clients and suppliers

(1) Sales to major clients

During the Reporting Period, total operation revenue from the top five clients of the Company was approximately 135,000,000 (2012: 87,000,000), accounting for approximately 20% (2012: 14%) of total operation revenue for the year. The largest client accounted for approximately 9% of the total operation revenue for the year.

(2) Major suppliers

During the Reporting Period, total purchasing amount from top five suppliers of the Company amounted to 127,000,000 (2012: 141,000,000), accounting for approximately 32% (2012: 33%) of the total purchasing amount for the year. The largest supplier accounted for approximately 11% of the total purchasing amount for the year.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the share capital of listed issuer) had any interest in any of the five largest clients or the five largest suppliers.

4.3 Cost

Unit: ’000

Items	**Current period**	**Corresponding period of previous year**	**Changes in amount over previous year**
Selling expenses	76,000	75,000	1
Administrative expenses	113,000	115,000	-2
Finance expenses	38,000	22,000	73

Description:

Bank loans have increased since the second half of last year, resulting a 76% increase in finance expenses of the Group during the year.

4.4 R&D expenditure

R&D expenditure

Unit: '000

R&D expenditure for current period	25,000
Capitalized R&D expenditure for current period	46,000
Total R&D expenditure	71,000
Percentage of total R&D expenditure over operation income (2012: 10%)	10%

Description:

We actively invested in research and development projects during the year and expenditure increased by 22% compared with last year. Research and development expenditure to total operating income ratio remains at 10%, which is in line with the annual budget plan of the Company.

4.5 Cash Flow

Unit: '000

Items	**Current period**	**Previous year**	**Changes**
			%
Other cash receipts in operating activities	740,000	633,000	17
Cash payments for goods and services acquired	478,000	397,000	20
Other cash payments from operating activities	74,000	103,000	-28
Cash received from return of investment	6,000	–	100
Cash paid for investment	1,000	10,000	-90
Cash receipts from borrowings	802,000	500,000	60
Cash repayments of borrowings	712,000	281,000	153
Distribution of dividends	–	109,000	-100

Description:

Other Cash receipts in operating activities increased over previous year, which was mainly attributable to the increase of overall turnover and the increased speed of payment collection in the second half of the year;

Cash payments for goods and services acquired increased over previous year, which was mainly attributable to the increase in production input in accord with market demand during the year;

Other cash payments from operating activities decreased over previous year, which was mainly attributable to the increase in research expenditure and other expenses during the year;

During the year, cash received from return of investment was the cash recovered from dealing with the shares in joint ventures. Cash paid for investment for the current year was the cash paid to acquire Peng Ao Da, and cash paid for investment for last year was the prepayment of investment fund of a subsidiary in Xi'an.

Cash receipts from borrowings increased over previous year, which was mainly attributable to the increase in short-term loan for the huge expenses of the construction projects during the year;

Cash repayments of borrowings increased over previous year, which was mainly attributable to the borrowings amount of previous two year was increasing gradually.

2. Analyzing of asset and liability

Unit: '000

Items	At the end of current period	Percentage of the amount at the end of current period over total assets	At the end of previous period	Percentage of the amount at the end of previous period over total assets	Changes in amount from the end of previous period to current period
		%		%	%
Monetary fund	312,000	23	301,000	24	4
Receivables	250,000	18	250,000	20	–
Inventories	111,000	8	113,000	9	-2
Fixed assets	343,000	25	255,000	21	35
Construction in progress	88,000	6	130,000	11	-32
Intangible assets	110,000	8	87,000	7	26
Short-term loan	528,000	39	440,000	36	20
Total assets	1,370,000		1,233,000		

Descriptions:

Project in progress recorded a large change over the previous year was mainly due to the construction of Shanghai plant and Shenzhen research building had commenced but not yet completed;

Short-term loan recorded a large change over the previous year was mainly attributable to the increase in funds required for construction in progress.

3. Analysis of Financial Status and Business Performance During the Reporting Period

3.1 Operating results

In 2013, total profit of the Company increased by 51,000,000 as compared with the same period last year.

(1) Operation revenues, operation costs and gross profits margin were 11%, 5% and 3% higher than the same period of last year respectively. Gross profit increased by 40,000,000 compared with previous year.

(2) During the period, provision for asset impairment of accounts receivables and other receivables amounted to approximately 12,000,000 and 1,000,000 respectively and totaling to 13,000,000.

(3) With the gradual increase of operating income for the period, value-added tax refund from government decreased by 3,000,000, due to the requirements of approval.

3.2 Analysis of assets, liabilities and equity interests

Total assets value amounted to 1,370,000,000 during the reporting period, increased by 11% as compared with the beginning of the year, of which inventory decreased by 2% and fixed asset and construction in progress increased by 12%. Total liabilities amounted to 747,000,000, increased by 21% as compared with the beginning of the year, mainly due to increase in short term loans. Total equity interest attributable to shareholders amounted to 623,000,000, increased by 1% as compared with the beginning of the year, mainly due to a turn from loss to gain for the year.

4. Principal Sources of Fund and Its Use

4.1 Cash flows from operating activities

The Company's cash inflows are mainly derived from revenue of goods selling. Cash outflow was mainly related to production and operating activities. The Company's cash inflow from operating activities for the reporting period amounted to 797,000,000, while cash outflow amounted to 684,000,000. Net cash flow during the reporting period from operating activities amounted to 113,000,000.

4.2 Cash flows from investment activities

Cash inflow from investment activities during the reporting period amounted to 7,000,000 which was mainly attributable to the disposal of fixed assets. Cash outflow to investment activities amounted to 166,000,000, which was mainly used for capital expense on construction of plant and research building. The above expenditures were partly financed by the Company's internal resources and bank loans. Net cash flow from investment activities for the reporting period amounted to 159,000,000.

4.3 Cash flows from fund-raising activities

Cash inflow from fund-raising activities during the reporting period amounted to 803,000,000, which was mainly derived from bank loans. Cash outflow from fund-raising activities during the reporting period amounted to 740,000,000 was mainly for repayment of bank loans and interest. Net cash flow from fund-raising activities for the reporting period amounted to 63,000,000.

Net cash flow from operating activities in 2013 increased by 131% over last year, mainly due to a much higher amount of cash received from sales of goods and provision of services. Net cash flow generated from investment increased by 15% over last year mainly attributable to the cash paid for the expansion of the Shanghai plant and Shenzhen research building. Net cash flow generated from fund-raising activities decreased by 29% over last year, mainly due to the decrease in loan borrowed and repayment of debt as compared to last year.

Total net cash flow turned to positive of 13,000,000. This year saw a turn from loss to gain, with a net profit of 7,000,000, cash level remain stable.

5. Capital Structure

The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. Interests attributable to shareholders amounted to 623,000,000; and total liabilities amounted to 747,000,000. Total assets amounted to 1,370,000,000. As at the end of the year, the Company's gearing ratio was 183% (2012: 200%).

Capital structure by liquidity

Total current liabilities	727,000,000 (2012: 597,000,000)	Accounting for 53% (2012: 48%) of the capital
Total equity interest	623,000,000 (2012: 616,000,000)	Accounting for 45% (2012: 50%) of the capital

6. Administrative Management

In 2013, with human the first, the Group optimised a number of internal management measures, and the main work was: 1) Position and hierarchy of the personnel was determined, and the staff remuneration was streamlined based on the recommendations from the consulting institution, so as to ensure the fair remuneration system; 2) the internal examination and reward and penalty was implemented for the staff; 3) nine five-level items and five care and incentive measures for the staff were implemented; 4) a large number of excellent technical talents were introduced; and 5) the professional training was strengthened. Through such work, the work enthusiasm and sense of responsibility of the staff was fully aroused, in particular the research and development staff and marketing personnel.

In 2013, the Group optimised the CRM, IO and OA system flow, and further improved the IPD research and development system. In addition, the Group continued to improve, optimise and lean on the marketing, cost control, efficiency and the corporate culture construction, etc.

V. Future Prospects

In development plan, the Group will control low value-added businesses, focus on the development of the **Connected Car** application technologies and services, strive to build the vehicle cloud platform as the centre and construct the business chain of car owners, technicians, repair enterprise and third-party service.

In marketing, the Group will:1) strengthen the accounts receivable management; 2) optimise the network of distributors; 3) improve the internet marketing team; 4) conduct marketing activities from various channels, for example, various exhibitions, annual conferences, tour marketing conferences, technical competitions, and media advertisements, continuously enhancing the brand recognition; and 5) keeping improving services, etc.

In research and development, the Group will: 1) continue to implement IPD research and development system; 2) recruit research and development talents, optimise the team structure; 3) increase the team cohesiveness and inspire the team innovation capability; and 4) accelerate the research and development of the new products to win the market with the differentiated advantages in technology and services.

In production, the Group will: 1) improve the lean production mode of the core components; 2) assure the product quality and lower the production cost; and 3) effectively control the inventory, etc.

In finance, the Group will: 1) focus on its cash flows 2) strengthen the accounts receivable management; 3) optimise the cooperation programs with financial institutions and control the financing cost; and 4) appropriately relax on the labour cost, research and development cost and marketing costs, etc.

The Group will continue to strengthen and improve the internal management, continue to deepen its corporate culture of "innovation, quality, efficiency, professionalism and competitiveness". The Group will inspire the staff's potential, which will in turn enhance the overall competitive advantage of the Group and create greater values for the shareholders.

III NOTES TO OTHER MATERIAL EVENTS

1. Receipt of government subsidies

The Company had received return of value-added tax amounting to approximately 13,000,000 (Last year: approximately 16,000,000) from the government. Other government subsidies concerning the development of science and technology was approximately 3,000,000.

2. **Scope of consolidation**

During the reporting period, the changes in respect of the consolidation of subsidiaries are set out below:

Inclusion of Xi'an Launch as a wholly-owned subsidiary, and Peng Ao Da as a controlling subsidiary which the Company owns 88% interests.

3. **Audit of financial statements for the reporting period by the audit committee**

The 2013 financial statements has been reviewed and confirmed by the audit committee of the Board of the Company.

4. **Code on Corporate Governance Practices**

During the reporting period, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited. Details of implementation of the Code on Corporate Governance Practices will be set out on the Corporate Governance Report in 2013 Annual Report.

5. **Model Code for securities transactions by directors and supervisors**

During the reporting period, the Company has adopted a set of code of practice regarding securities transactions by directors and supervisors on terms no less exacting than the standards set out in the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiry to all directors and supervisors of the Company, the Company confirmed that, each of the Directors and supervisors has complied with the required standards regarding securities transactions by directors set out in the Model Code within the 12 months ended 31 December 2013.

6. **Share capital**

(1) During the reporting period, there was no change in the total number of shares and the structure of share capital of the Company.

(2) During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

(3) During the reporting period, the Company had no share options granted under the share option scheme.

IV. ANNUAL REPORT AND OTHER INFORMATION

This announcement is set out on the websites of the Company (www.cnlaunch.com) and the Stock Exchange (www.hkexnews.hk). Annual report will be despatched to shareholders and will be published on the aforesaid websites in due course.

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

Shenzhen, the PRC
28 March 2014

As at the date of this announcement, the board of directors of the Company comprises Mr. Liu Xin (Chairman), Mr. Liu Jun, Ms. Huang Zhao Huan and Mr. Jiang Shiwen as executive Directors, Ms. Liu Yong as non-executive Director, and Mr. Pan Zhongmin, Mr. Liu Yuan and Dr. Zou Shulin as independent non-executive Directors.