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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)

2018 INTERIM RESULT ANNOUNCEMENT

The board of directors (the “Board”) of Launch Tech Company Limited (the “Company”) hereby announces the preliminary unaudited consolidated result of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 (the “Reporting Period”) prepared in accordance with China Accounting Standards for Business Enterprises:

I. FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2018	31 December 2017 (Audited)
Current assets:			
Bank balances and cash		423,847	538,009
Bills receivable		65,483	30,338
Accounts receivable	4	199,307	202,079
Prepayments		73,641	52,732
Other receivables		26,492	12,500
Inventories	5	193,910	155,349
Other current assets		10,530	6,490
Total current assets		993,210	997,497

CONSOLIDATED BALANCE SHEET (continued)

	<i>Notes</i>	30 June 2018	31 December 2017 (Audited)
Non-current assets:			
Investment properties		76,188	78,675
Fixed assets		254,643	253,207
Construction in progress		56,641	43,018
Intangible assets		128,392	149,862
Development expenditure		69,886	35,896
Goodwill		1,139	1,139
Deferred income tax assets		4,394	4,394
Other non-current assets		28,000	48,893
Total non-current assets		619,283	615,084
Total assets		1,612,493	1,612,581
Current liabilities:			
Short-term borrowings		353,033	288,205
Accounts payable	6	111,490	117,681
Bills payable		15,000	–
Receipts in advance		68,700	63,615
Wage payables		856	3,216
Tax payables		4,973	10,974
Other payables		27,983	24,235
Non-current liabilities due within one year		–	532
Total current liabilities		582,035	508,458
Non-current liabilities:			
Long-term borrowings		409	143
Deferred income		17,577	19,162
Total non-current liabilities		17,986	19,305
Total liabilities		600,021	527,763
Shareholders' equity:			
Share capital		375,460	375,460
Capital reserve		562,482	562,482
Other Comprehensive income		2,746	1,988
Surplus reserve		30,085	30,085
Undistributed profit	7	41,879	114,981
Total owners' equity attributable to parent company		1,012,652	1,084,996
Minority shareholders' equity		180	-178
Total shareholders' equity		1,012,472	1,084,818
Total liabilities and shareholders' equity		1,612,493	1,612,581

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	<i>Notes</i>	2018	2017
Operating income	3	422,856	486,894
Less: Operating costs		239,970	277,514
Tax and surcharge		3,795	3,510
Selling expenses		51,728	48,531
Administrative expenses		103,134	86,370
Finance costs		12,739	18,026
Impairment loss on assets		2,015	8,493
Gain in investment		1,730	–
Other revenue		9,791	–
Operating profit		20,996	44,450
Add: Non-operating income		673	6,479
Less: Non-operating expenses		211	6,250
Total profit		21,458	44,679
Less: Income tax expenses	8	697	1,083
Net profit		20,761	43,596
Net profit attributable to owners of parent company		20,762	43,611
Profit or loss attributable to minority shareholders		-1	-15
Earnings per share:			
Basic earnings per share (RMB)	9	0.055	0.132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. BASIS OF PREPARATION OF FINANCIAL STATEMENT

Financial information in this announcement was extracted from the unaudited financial statements (the “Financial Statements”) published in the 2018 Interim 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 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations (hereafter referred to as “the Accounting Standards for Business Enterprises”), in combination with the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (amended in 2014) issued by the China Securities Regulatory Commission (CSRC) and prepared the Financial Statements. The accounting policies are consistent with those adopted in the preparation of the Group’s 2017 annual results.

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 Reporting Period is from 1 January 2018 to the six months ended 30 June 2018.

(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 RMB 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. OPERATING INCOME

Income 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:

	For the six months ended 30 June	
	Current year	Previous year
Revenue from main operations	402,476	482,174
Revenue from other operations: rent	20,380	4,720
	<u>422,856</u>	<u>486,894</u>

4. TRADE RECEIVABLES

	At the period end	At the beginning of the year
Trade receivables	258,490	260,378
Less: provision for bad debts	59,183	58,299
Net amount	<u>199,307</u>	<u>202,079</u>

Aging

Within 1 year	146,054	140,944
Over 1 year	53,253	61,135
	<u>199,307</u>	<u>202,079</u>

5. INVENTORIES

	At the period end	At the beginning of the year
Raw materials	26,050	18,545
Work in progress	60,693	8,874
Finished goods	107,167	127,930
	<u>193,910</u>	<u>155,349</u>

6. TRADE PAYABLES

Aging	At the period end	At the beginning of the year
Within 1 year	106,853	112,413
Over 1 year	4,637	5,268
	<u>111,490</u>	<u>117,681</u>

7. UNDISTRIBUTED PROFITS

Current year

	Amount
As at the beginning of the period	114,981
Less: distribution of special dividend in the current period	93,865
Add: net profit (loss) attributable to owners of parent company in the current period	<u>20,763</u>
As at the end of the period	<u>41,879</u>

8. INCOME TAX EXPENSE

	Applicable tax rate
The Company	15%
Launch Software	15%
Shanghai Launch	25%
Launch Europe GmbH	19%
Golo Internet	25%
Xi'an Launch	25%
PAD	15%
Hesvit	25%
PJS	25%
Launch International	16.5%
Nanjing Launch	25%

9. EARNINGS PER SHARE

(1) BASIC EARNINGS PER SHARE

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

Items	Current year	Previous year
Consolidated net profit for holder of ordinary shares of the parent company	20,763	43,611
Average weighted number of outstanding ordinary shares of the parent	375,460,000	329,160,000
Basic earnings per share (RMB/share)	0.055	0.132
After adjustment (RMB/share)	0.055	0.132

(2) DILUTED EARNINGS PER SHARE

As there was no ordinary share with dilutive potential for the year 2018 and 2017, thus no diluted earnings per share is presented.

10. DIVIDEND

	2018	2017
Special dividend of RMB0.25 per share declared on 4 April 2018 (2017: RMB0.20)	<u>93,865</u>	<u>65,832</u>

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”)	100%	Equipment	USD18,000,000
深圳市元征軟件開發有限公司 (“Launch Software”)	100%	Software	RMB40,000,000
Launch Europe GmbH	100%	Distribution	RMB671,875
西安元征軟件科技有限公司 (“Xi’an Launch”)	100%	Software	RMB100,000,000
深圳市鵬奧達科技有限公司 (“Peng Ao Da”)	88%	Software	RMB1,000,000
Hesvit Health Tech Co., Ltd (“Hesvit”)	100%	Equipment	RMB10,000,000
Shenzhen Golo Internet of Vehicle Data Technology Co., Ltd. (“Golo Internet”)	100%	Equipment	RMB10,000,000
深圳鵬巨術信息技術有限公司 (“PJS”)	100%	R&D	RMB2,000,000
元征科技國際有限公司 (“Launch International”)	100%	Equipment	RMB50,000
南京元征智能科技有限公司 (“Nanjing Launch”)	100%	R&D	RMB50,000,000

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 30 June 2018, the Company pledged land, properties and buildings with original value approximately amounted to 289,000,000 for certain bank borrowings.

14. CAPITAL AND OPERATING COMMITMENT

As at 30 June 2018, the Company did not have any significant capital and operating commitment.

15. POST-BALANCE SHEET EVENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back over the past six months, the Group has developed major areas as follows:

In the first half of the year, the Company adhered to the concept of innovation and actively tried in the directions such as model innovation and product innovation, etc. At the same time, the Company continued 2017's steady strategy to continue developing Internet-based automotive diagnostic equipment by not only vigorously developing B2B2C cooperation model of the car network business, developing the vehicle maintenance technicians operating platform, but also constantly optimising and improving the automobile Big Data, and actively explore the commercial value of the automobile Big Data. The focus is as follows:

- Actively explored the import value of equipment in the automotive aftermarket, integrated SAAS, auto parts inquiries and other applications that are highly concerned by aftermarket stores, tested closed-loop ecosystem application scenarios, and converged traffic;
- followed the development trend of the Internet of Things, considered the IOT of the automotive aftermarket tools, and explored the shared maintenance station model based on the sharing concept;
- paid attention to the transformation of advanced technology in the industry, and actively explored the application of advanced technologies such as artificial intelligence and laser imaging in the aftermarket. The upcoming Handfree Laser wheel aligner will lead the industry to Industry 4.0;
- continued introduction of new series of equipment, we are committed to improving efficiency and accumulating experience to meet the different needs of the market, improving the market occupancy of Internet equipment;
- formed a ground promotion team, provided services directly to the end customers, significantly improved service efficiency, empowered the stores by creating a strong link with them;
- implemented a comprehensive open strategy, and vigorously develop B2B2C business model, to promote human and vehicle data aggregation;
- service technicians and operational technicians, activating and enriching technician ecosphere;
- refined the data particles, increased and optimised the data dimension, and improved data quality;
- actively promoted industry cooperation, considered the application scenarios of using artificial intelligence diagnostic equipment AIT in the field of insurance claims and used vehicles, explore the commercial value of big data, tried to realize the data and changed the income model;

With focus around our core strategy of Big Data, the Company increased investment in network equipment to capture a greater market share of our network equipment. On the other hand, we paid close attention to new products, maintained steady cash flow, lowered operations costs, continued our optimisation of internal management, and adjusted the business structure. Our profitability has shown a notable positive trend, and substantial progress was achieved in the mode of generating revenue based on service.

For technical innovation, the Company emphasised on its core strengths of diagnostic technology, the cloud diagnostic technology and artificial intelligence and blockchain technology. The Company also made intensified efforts to promote and realise the application in the field of automotive maintenance and continued to launch new service experience on devices. At the same time, the Company attached great importance to the combination of advanced technology and other industries. The Company also made substantial progress in insurance and used car areas. Cooperations in police gear, environmental protection and other areas are in a steady progress.

Under prudent and pragmatic strategy, the Group will continue to strengthen and perfect the internal management, continuously deepen enterprise culture of “innovation, quality, efficiency, specialty, and competition”, stimulate staff’s innovation potential, enhance the whole competitive advantage, so as to create a better benefit for the shareholders.

FINANCIAL ANALYSIS

Analysis of Financial Status and Business Performance During the Reporting Period

Operating results

In the first half of 2018, diagnostic reports collected through our vehicle diagnostic equipment continued to increase rapidly. The collection of about 52 million copies of vehicle maintenance data reported in the first half of the year, showing an increase of 17 million or 48.57% as compared with the same period of last year; the number of vehicles coverage of the diagnostic report was about 10.08 million units, with an increase of 5.58 million units or 124% as compared with the same period of last year; As of the Reporting Period, about 200 million copies of vehicle maintenance data reports accumulated that covered accumulated 18.95 million units. With the network to accelerate the promotion of diagnostic equipment, it is expected to the end of this year the relevant data will have a further breakthrough.

In the first half of 2018, affected by external factors such as global economic slowdown, China-US trade war, domestic environmental protection investigation, foreign exchange control in some overseas regions, etc., and increase in cost, gross margin decrease to approximately 38% and the operation of the Company slightly decreased. Approximately 60,000 units of the Internet car diagnostic equipment were sold. Total operating income was approximately 423 million. Net profit was approximately 21,000,000. The Company will adopt a more active market strategy in the second half of the year. With the introduction of new products to the market and fully implementation of industry cooperation in the second half of the year, a series of steady growth strategies will ensure the performance of the second half of the year.

Analysis of assets, liabilities and equity interests

Total assets value amounted to 1,612,000,000 during the Reporting Period, which is substantially the same as compared with the beginning of the year. Total liabilities amounted to 582,000,000, increased by 14% as compared with the beginning of the year, mainly due to increase in bank borrowings. Total equity interest attributable to shareholders amounted to 1,012,000,000, decreased by 7% as compared with the beginning of the year, reflecting the net profit for the period and distribution of special dividend.

Principal Sources of Fund and Its Use

Cash flows from operating activities

The Company's cash inflows from operating activities during the Reporting Period were mainly derived from revenue of goods selling. Cash outflow was mainly related to production and operating activities. The Company's net cash outflow from operating activities for the Reporting Period amounted to 31,000,000.

Cash flows from investment activities

Cash inflow from investment activities during the Reporting Period was nil. Cash outflow to investment activities amounted to 55,000,000, which was mainly used for capital expense on purchase of plant facilities and R&D. The above expenditures were mainly financed by the Company's internal resources.

Cash flows from financing activities

Net cash outflow from financing activities during the Reporting Period amounted to 29,000,000. Most of the inflow was caused by increased in bank loans by 65,000,000, while most of the outflow was caused by distribution of special dividend of 94,000,000 in April.

Capital Structure

The Company's capital structure consists of interests attributable to shareholders and liabilities during the Reporting Period. Interests attributable to shareholders amounted to 1,012,000,000; and total liabilities amounted to 600,000,000. Total assets amounted to 1,612,000,000. As at the end of the period, the Company's gearing ratio (total liabilities/interest attributable to shareholder) was 0.59 (At the beginning of the period: 0.49).

NOTES TO OTHER MATERIAL EVENTS

1. Scope of consolidation

During the Reporting Period, there was no change in respect of the consolidation.

2. Review of financial statements for the Reporting Period by the audit committee

The 2018 interim financial statements has been reviewed and confirmed by the audit committee of the Board of the Company.

3. 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.

4. 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, 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 6 months ended 30 June 2018.

5. Pre-emptive rights

There are no provisions for pre-emptive rights under the Company’s articles of association, the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

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.

USE OF PROCEEDS

The circular of the Company dated 12 May 2017 in relation to, among others, the connected transaction in respect of the proposed subscription of new Domestic Shares, and the announcement dated 28 March 2017, 2 August 2017 and 7 August 2017 in relation to the domestic share subscription. Unless otherwise defined, capitalised terms used herein shall have the same meaning as those set out in the content.

Use of Proceeds	Disclosed in announcement dated 28 March 2017 and circular dated 12 May 2017 (RMB' million)	Actual proceeds received according to Adjusted subscription number of shares announced in 2 August 2017 (RMB' million)	Utilized up to 30 June 2018 (RMB' million)	Unutilized (RMB' million)
1. development fee of new technology	136.2	113.4	113.4	—
2. marketing development fee which are mainly applied to promote new products	272.5	226.8	89	137.8
3. reserve fund for working capital	45.4	37.8	37.8	—
	<u>454.1</u>	<u>378.0</u>	<u>240.2</u>	<u>137.8</u>

The shortfall of proceeds between original plan announced in 28 March 2017 and actual proceeds received in August 2017, will be financed by the internal resources of the Company.

The remaining proceeds is expected to be utilized in 2018 and applied in the same areas as announced in 28 March 2017. No material delay and change in utilization and application of proceeds was noted and expected.

INTERIM REPORT AND OTHER INFORMATION

This announcement will set out on the websites of the Company (www.cnlaunch.com) and the Stock Exchange (www.hkexnews.hk). Interim 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
31 August 2018

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. Xia Hui as non-executive Director, and Ms. Zhang Yan, Mr. Liu Yuan and Mr. Ning Bo as independent non-executive Directors.

* *For identification purpose only*