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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 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 2018 (the “Reporting Period”) prepared in accordance with China Accounting Standards for Business Enterprises:

FINANCIAL INFORMATION

(All amounts in RMB unless otherwise stated)

CONSOLIDATED BALANCE SHEET

Items	<i>Notes</i>	31 December 2018	31 December 2017
Current assets:			
Cash		319,387,733.38	538,008,718.76
Bills receivable and Accounts receivable	4	320,274,371.24	232,417,436.02
Prepayments		58,074,232.18	52,731,784.60
Other receivables		25,600,061.97	12,499,959.29
Inventories	5	149,178,660.08	155,348,922.25
Other current assets		18,091,750.94	6,489,785.62
Total current assets		890,606,809.79	997,496,606.54

CONSOLIDATED BALANCE SHEET (continued)

Items	Notes	31 December 2018	31 December 2017
Non-current assets:			
Investment in other equity instruments		15,000,000.00	
Investment properties		73,700,924.66	78,674,919.26
Fixed assets		244,650,076.60	253,206,965.97
Construction in progress		57,364,230.46	43,018,366.06
Intangible assets		179,602,645.89	149,862,090.66
Development expenditure		23,116,610.57	35,895,550.37
Goodwill		1,139,412.80	1,139,412.80
Deferred income tax assets		5,612,614.15	4,393,836.51
Other non-current assets		52,000,000.00	48,892,928.43
Total non-current assets		652,186,515.13	615,084,070.06
Total assets		1,542,793,324.92	1,612,580,676.60
Current liabilities:			
Short-term borrowings		285,454,656.00	288,205,200.00
Bills payable and Accounts payable		162,375,254.30	117,680,699.31
Contracts payable	6	52,834,338.01	55,581,115.22
Wage payables		3,452,114.55	3,215,949.73
Tax payable		23,696,243.30	10,973,572.21
Other payables		19,508,163.11	24,234,588.07
Non-current liabilities due within one year		138,917.09	532,195.29
Other current liabilities		5,789,833.96	8,034,340.01
Total current liabilities		553,249,520.32	508,457,659.84
Non-current liabilities:			
Long-term borrowings		—	143,054.88
Deferred income		20,268,680.90	19,162,000.00
Total non-current liabilities		20,268,680.90	19,305,054.88
Total liabilities		573,518,201.22	527,762,714.72
Shareholders' equity:			
Share capital		375,460,000.00	375,460,000.00
Capital reserve		562,481,725.91	562,481,725.91
Less: Treasury Share		80,356,846.06	—
Other Comprehensive Income		1,581,939.58	1,988,515.02
Surplus reserve		41,036,682.03	30,085,085.10
Undistributed profits	7	69,071,463.23	114,980,997.00
Total owners' equity attributable to parent company		969,274,964.69	1,084,996,323.03
Minority shareholders' equity		159.01	-178,361.15
Total shareholders' equity		969,275,123.70	1,084,817,961.88
Total liabilities and shareholders' equity		1,542,793,324.92	1,612,580,676.60

CONSOLIDATED INCOME STATEMENT

Items	Notes	2018	2017
Operating income	3	1,048,538,385.96	977,972,859.33
Less: Operating costs		617,315,936.04	540,423,800.03
Taxes and surcharges		12,070,254.15	10,701,856.46
Selling expenses		119,251,144.60	98,548,007.61
Administrative expenses		89,190,406.63	96,455,721.00
Research and Development expenses		158,166,763.83	124,494,578.78
Financial expenses		16,315,721.99	38,679,498.59
Impairment loss on assets		10,253,672.51	25,213,913.50
Impairment loss on credit		13,895,762.43	
Add: Investment -loss/gain		1,730,120.79	
Gain on disposals of assets		26,258.78	1,003,681.92
Other revenue		48,775,315.49	21,365,746.87
Operating profit (-loss)		62,610,418.84	65,824,912.15
Add: Non-operating income		2,730,768.43	1,356,608.97
Less: Non-operating expenses		2,491,036.72	4,122,905.15
Total profit (-loss)		62,850,150.55	63,058,615.97
Less: Income tax expenses	8	3,764,567.23	2,994,823.63
Net profit (-loss)		59,085,583.32	60,063,792.34
Net profit attributable to owners of parent company		58,907,063.16	60,076,887.68
Profit or loss attributable to minority shareholders		178,520.16	-13,095.34
Earnings per share:			
Basic earnings per share	9	0.1573	0.1743
Other comprehensive income		-406,575.44	-1,343,771.07
Total comprehensive income (-loss)		58,679,007.88	58,720,021.27
Total comprehensive income (-loss) attributable to owners of parent company		58,500,487.72	58,733,116.61
Total comprehensive income (-loss) attributable to minority shareholders		178,520.16	-13,095.34

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 2018 Annual Report.

The Company based on the actual transaction and event basis, in accordance with the Basic Standard and specific standards of the Accounting Standards for Business Enterprises, 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 prepared the Financial Statements on such basis.

The Company carried out assessment on the going concern for the 12 months’ period after the report date, and did not recognize any matters and situation which leading to material doubt on the continuity of operation. Therefore this financial report is based on recognition and measurement on a going concern and actual transactions.

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 the basing on 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

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.

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.

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
Revenue from main operations	1,007,493,813.06	960,037,276.97
Revenue from other operations: rent	41,044,572.90	17,935,582.36
	1,048,538,385.96	977,972,859.33

4. BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE

	At the year end	At the beginning of the year
Bills receivable	41,180,034.20	30,338,048.60
Accounts receivable	279,094,337.04	202,079,387.42
	320,274,371.24	232,417,436.02

The Company basically used credit terms when dealing with customers and normally offered credit period from 30 days to 210 days. Should a customer possessed long and good records or in case of being a major customer, or under the circumstances that the Company would like to maintain prolong operational relationship, and then a different credit period might be considered.

	At the year end	At the beginning of the year
Accounts receivables	349,590,294.60	260,378,081.14
Less: provision for bad debts	70,495,957.56	58,298,693.72
Net amount	279,094,337.04	202,079,387.42

Aging analysis of accounts receivable

Aging	At the year end	At the beginning of the year
Within 1 year	203,878,962.45	140,943,498.31
1 to 2 years	53,149,979.20	37,235,700.50
2 to 3 years	13,088,998.18	11,544,885.91
3 to 4 years	5,614,990.83	10,055,317.97
4 to 5 years	3,361,406.38	2,299,984.73
	279,094,337.04	202,079,387.42

	Ending balance			Beginning balance		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Not past due	172,787,103.42	8,639,355.17	164,147,748.25	110,621,040.88	5,531,052.04	105,089,988.84
Past due	176,803,191.18	61,856,602.39	114,946,588.79	149,757,040.26	52,767,641.68	96,989,398.58
Total	349,590,294.60	70,495,957.56	279,094,337.04	260,378,081.14	58,298,693.72	202,079,387.42

5. INVENTORIES

Book Value and Carrying Amount	At the year end	At the beginning of the year
Raw materials	21,219,149.76	18,544,876.33
Work in progress	6,044,824.42	8,873,550.42
Finished goods	121,914,685.90	127,930,495.50
Total	149,178,660.08	155,348,922.25

6. BILLS PAYABLE AND ACCOUNTS PAYABLE

	At the year end	At the beginning of the year
Bills payable	50,000,000.00	–
Accounts payable	112,375,254.30	117,680,699.31
	162,375,254.30	117,680,699.31

Accounts payable Aging	At the year end	At the beginning of the year
Within 1 year	108,368,613.05	112,413,371.43
1 to 2 years	1,935,885.28	3,346,116.78
2 to 3 years	909,953.49	978,869.61
Over 3 years	1,160,802.48	942,341.49
Total	112,375,254.30	117,680,699.31

7. UNDISTRIBUTED PROFITS

	Current year	Previous year
As at the beginning of the period	114,980,997.00	141,981,816.61
Add: net profit attributable to shareholders of the parent company in the current year	58,907,063.16	60,076,887.68
Transfer to surplus reserves	10,951,596.93	11,985,707.29
Payment of ordinary Dividend	93,865,000.00	75,092,000.00
As at the end of the period	69,071,463.23	114,980,997.00

8. INCOME TAX EXPENSE

	Current year	Previous year
Income tax for the current period	4,983,344.87	3,185,284.62
Adjustment of deferred tax	-1,218,777.64	-190,460.99
Total	3,764,567.23	2,994,823.63

Applicable tax rate for current year and previous year

The Company	15%
Launch Software	15%
Shanghai Launch	25%
Launch Europe GmbH	19%
Golo IOV	15%
Xi'an Launch	25%
PAD	15%
PJS	25%
Launch International	16.5%
Nanjing Launch	25%
SLH	25%

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 (-loss) for holder of ordinary share of the parent company	58,907,063.16	60,076,887.68
Average weighted number of outstanding ordinary share of the parent company	374,419,500	344,675,202
Basic earnings per share (RMB/share)	0.1573	0.1743

(2) Diluted earnings per share

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

10. DIVIDEND

A final dividend of RMB0.1 each share (tax inclusive) and bonus issue of 2 for each 10 shares has been recommended by the Board (2017: nil).

Special and interim dividend amounted to 93,865,000 was paid in 2018 (2017: 75,092,000)

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	EURO25,564.59
西安元征軟件科技有限責任公司 (“Xi’an Launch”)	100%	Software	RMB100,000,000
深圳市鵬奧達科技有限公司 (“PAD”)	88%	Software	RMB1,000,000
深圳還是威健康科技有限公司 (“HSW”)	100%	Equipment	RMB10,000,000
(“golo IOV”) (前稱深圳市轆轤車聯數據有限公司) (“golo Internet”)	100%	Equipment	RMB10,000,000
深圳市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	HKD50,000
南京元征智能科技有限公司 (“Nanjing Launch”)	100%	Technology development	RMB50,000,000
深圳市順利行汽車共享技術有限公司 (“SLH”)	100%	R&D	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 2018, the Company pledged properties and buildings and land use rights with original value approximately amounted to 303,000,000 (2017: 172,000,000) for certain bank borrowings.

14. CAPITAL COMMITMENTS

As at 31 December 2018, the Company there is no material unsettled capital commitments.

15. LEASE COMMITMENTS

As at 31 December 2018, commitments for the Group in the future which brought by non-cancellable lease contracts are as follows:

	Current year	Unit: '000 Previous Year
Within 1 year	4,842	2,309
2 to 5 years	7,576	601
	12,418	2,910

16. POST-BALANCE SHEET EVENTS

According to the resolution regarding the profit appropriation for the year ended 2018 passed in the board meeting, the Company proposed to distribute a final dividend of cash dividend of RMB0.1 (including tax inclusive) and bonus issue of 2 shares to every 10 shares. The profit appropriation is subject to consideration in the 2018 annual general meeting. Except for this matter, there are no other material matters that should be disclosed under the Post-balance sheet events.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Review

In 2018, Big Data, artificial intelligence, the Internet of Things and 5G have been closely linked with our lives. In the turbulent era of information, embracing the sharing economy, creating a shared platform, and win-win cooperation are our common aspirations. As a Internet of Vehicle Big Data (based on VIN) service provider, the Group used our automotive diagnostic technology as the core of our Internet of Vehicle business. Via real-time remote diagnosis technology as a link, through outputting core service capabilities for the owners, vehicle maintenance companies, vehicle maintenance technicians, Third-party applications and other users to provide a wealth of services to achieve efficient, safe and comfortable vehicle management and user experience. Focus on the future, the Group is speeding up the progress of landing work of promotion for Blockchain and maintenance ecology.

In 2018, the Group adhering to the “becoming the global Internet of Vehicle core enterprise” as the direction of development orientation, determining specific strategies to achieve the development objective of becoming the global Internet of Vehicle Big Data (based on VIN) service provider, the Group firmly promoted core projects and have achieved good progress: the Internet-based automotive diagnostic equipment continued to maintain high growth, the projects of B2B2C cooperation model of the Internet of Vehicle business were launched one after another, the vehicle maintenance technicians operating platform received much attention in the industry, and that layout plan related to intelligent automotive using advanced technology was initially set.

In 2018, the Group relied on its core strengths, actively deployed the industry, expanded the automotive aftermarket service ecosystem, and achieved excellent results. The Group’s high market share of Internet-based diagnostic equipment market was used as an excellent entry point for post service terminal stores. It was highly recognized by the industry, and the value of entry point flow was significant. Cross-industry linkages have formed. Successful integration in the automotive aftermarket SAAS software, auto parts system database, auto parts supply chain, etc., laid the foundation for enriching the Group’s revenue.

II. Operation Management

In the year of 2018, despite being affected by the market environment, the Group quickly adjusted its strategy in a timely manner. Based on the core strategy of collection of Big Data, we launched more comprehensive varieties of products to fulfill different market demands to stimulate the sales. We focused high-margin operations, stabilization of cash flow, cost reduction, and constantly optimization of internal management and adjustment on business structure, and so remarkable results is noted. The major marketing efforts are: 1) to improve the market share by strengthening marketing of Internet-based automotive diagnostic equipment and accumulation of diagnostic reports; 2) to develop cooperative relationships with B-type customers of major industries, aiding them provide quality services to Internet of Vehicle end-users; 3) to focus on the promotion of high value-added diagnostic products, and meanwhile control the level of resources allocated to low-margin business; and 4) to increase the localization research and development of overseas products, enhance the localized user experience of products, and promote product sales.

In 2018, compared with previous year, the quantity of Internet-based automotive diagnostic equipment sold is about 160,000 units, substantially the same as that of last year; affected by rising raw material costs, average gross margin decreased to about 40%; overseas operating income of 400 million, showing an increase of about 14%; domestic operating income of 600 million, substantially the same as that of last year; total operating income of 1,000 million, showing an increase of 7%; reflecting the succeed in realization of the series of steady growth strategies implemented.

In view of the Finance management, in order to maintain its leading position, in 2018 the Group has been continuously and actively injecting resources to innovate new products, R&D and human resources areas. The launch of on-ground promotion service has also led to an increase in sales expenses. With the active market strategies, a growth of revenue and high gross margin were contributed by the diagnostic products. Together with prudent fiscal policy by management, financial costs were well-controlled. As a result, during this reporting period operating project were achieved with stabilization in cash flow as well.

Major Financial Data for the profit growth

In 2018, the turnover increased by about 7%, and the gross profit margin was slightly reduced to about 40%. In order to further improve the promotion of products, the selling expenses increased. In order to introduce faster and higher quality products, the research and development expenses also increased significantly. Benefiting from exchange gains and government subsidy for VAT refunds, the profit after tax for the year was maintained at about 60,000,000, a slight decrease of 1,000,000 compared with last year.

	<i>RMB million</i>
Increase in Selling and administrative expenses	(20)
Increase in R&D expenses	(34)
Increase in Exchange gain	22
Other income – Government subsidies and miscellaneous	27
Others	4
	<hr/>
Change in profit after tax	(1)
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Principal Sources and Usage of Fund

	<i>RMB million</i>
Inflow from Operations	76
Acquisition of fixed assets and investment in R&D	(79)
Investment	(15)
Repurchase of shares	(80)
Special dividend paid	(94)
Interest paid	(14)
Exchange difference	(10)
Others	(3)
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Decrease in cash	(219)
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Total net cash outflow for the year was of 219,000,000 and the year ended balances of cash and cash equivalents was 319,000,000.

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 1,969,000,000; and total liabilities amounted to 574,000,000. Total assets amounted to 1,543,000,000. As at the end of the year, the Company's gearing ratio calculated by total liabilities divided by interests attributable to shareholders was 0.59 (2017: 0.49). Resulting from the stable borrowings and share repurchase, the gearing ratio reveals a slight raise but reach our satisfactory gearing ratio level.

Major clients and suppliers

During the Reporting Period, total revenue from the top five customers of the Company was approximately 224,000,000 (2017: 188,000,000), accounting for approximately 21% (2017: 19%) of total revenue for the year. The largest customer accounted for approximately 7% (2017: 87%) of the total revenue for the year.

During the Reporting Period, total purchases from top five suppliers of the Company amounted to 225,000,000 (2017: 250,000,000), accounting for approximately 45% (2017: 45%) of the total purchases for the year. The largest supplier accounted for approximately 19% (2017: 24%) of the total purchases 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 customers or the five largest suppliers

III. FUTURE PROSPECTS

The Group will focus on the development of application and services on BigData of Vehicle, and endeavor to create the automobile repair and maintenance and car life ecology based on the golo car cloud platform. In O2O, insurance, used cars, fleet management and other fields the Group will continue to actively carry out exploration and cooperation of Big Data applications, and to achieve the realization of Big Data operations. By strengthening and optimizing internal control, and meanwhile by ceaselessly deepening "Innovation, Quality, Efficiency, Professional, Competitive", our enterprise's culture and stimulating the creativity of our staff, enhances our overall competitive advantage, and of course create better results to our shareholder.

IV. NOTES TO OTHER MATERIAL EVENTS

1. Scope of consolidation

During the reporting period, other than the newly setup of SLH, a subsidiary, there was no change in respect of the scope of consolidation.

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

The 2018 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. Details of implementation of the Code on Corporate Governance Practices will be set out on the Corporate Governance Report in 2018 Annual Report.

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 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 2018.

5. Share capital

(1) During the reporting period, there is a change in the share capital as follow:

Beginning	375,460,000
Share repurchase.	(12,486,000)
Share repurchase pending for domestic cancellation procedures	12,486,000
Ending	375,460,000

At 21 June 2018, A resolution about to consider and approve the authorisation to the directors of the Company to proceed the repurchase of H shares have been passed in the AGM, H shareholders meeting and domestic shareholders meeting; The total face value of the H share repurchase will not exceed 10% of the issued H share capital at the approval date of such resolution. Up to 31 December 2018, the Company has repurchased 12,486,000 issued H share costed a total of 80,356,846.06.

(2) During the reporting period, other than mentioned above, 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.

V. PROFIT DISTRIBUTION

The Board recommended the distribution of profits to all shareholders of the Company by way of cash dividend of RMB0.1 (tax inclusive) per share and on the basis of two (2) for every ten (10) existing shares. The proposal is subject to consideration at the 2018 annual general meeting.

Information regarding the record date and register close date for the entitlement to the final dividend and attendance of the annual general meeting will be announced in due course.

VI. 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 dispatched 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 2019

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

* *for identification only*