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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)

2020 INTERIM RESULT ANNOUNCEMENT

The board of directors (the “Board”) of Launch Tech Company Limited (the “Company”) hereby announces the unaudited consolidated result of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (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 2020 | 31 December 2019 (Audited) |
|-------------------------------|--------------|---------------------|-------------------------------|
| Current assets: | | | |
| Bank balances and cash | | | |
| Trading financial assets | | 372,247 | 479,435 |
| Bills receivable | | – | 20 |
| Accounts receivable | 4 | 189,330 | 191,886 |
| Accounts receivable financing | | 17,241 | 33,626 |
| Prepayments | | 69,467 | 61,690 |
| Other receivables | | 50,610 | 29,027 |
| Inventories | 5 | 176,147 | 167,851 |
| Other current assets | | 14,671 | 21,475 |
| Total current assets | | 889,713 | 985,020 |

CONSOLIDATED BALANCE SHEET (continued)

| | <i>Notes</i> | 30 June 2020 | 31 December 2019 (Audited) |
|---|--------------|---------------------|-------------------------------|
| Non-current assets: | | | |
| Investment in other equity instruments | | 7,947 | 7,947 |
| Investment properties | | 66,240 | 68,727 |
| Fixed assets | | 225,403 | 230,878 |
| Construction in progress | | 155,051 | 154,815 |
| Right-in-use assets | | 7,766 | 7,766 |
| Intangible assets | | 132,557 | 167,392 |
| Goodwill | | 1,139 | 1,139 |
| Deferred income tax assets | | 5,997 | 5,997 |
| Other non-current assets | | 19,000 | 5,000 |
| Total non-current assets | | 621,100 | 649,661 |
| Total assets | | 1,510,813 | 1,634,681 |
| Current liabilities: | | | |
| Short-term borrowings | | 416,481 | 485,397 |
| Bills payable | | 136,177 | 108,000 |
| Accounts payable | 6 | 125,480 | 140,532 |
| Contracts liabilities | | 19,457 | 66,965 |
| Wage payables | | 2,291 | 2,453 |
| Tax payables | | 6,125 | 5,389 |
| Other payables | | 30,428 | 21,206 |
| Non-current liabilities due within one year | | 2,802 | 2,802 |
| Other current liabilities | | 5,113 | 7,588 |
| Total current liabilities | | 744,354 | 840,331 |
| Non-current liabilities: | | | |
| Lease liabilities | | 5,280 | 5,280 |
| Deferred income | | 14,268 | 16,254 |
| Deferred income tax liabilities | | 295 | 295 |
| Total non-current liabilities | | 19,843 | 21,828 |
| Total liabilities | | 764,197 | 862,160 |
| Shareholders' equity: | | | |
| Share capital | | 432,217 | 432,217 |
| Capital reserve | | 409,993 | 409,993 |
| Less: Treasury share | | - | - |
| Other comprehensive income | | -6,772 | -6,847 |
| Surplus reserve | | 41,037 | 41,037 |
| Undistributed profit | 7 | -129,857 | -103,878 |
| Total owners' equity attributable to parent company | | 746,616 | 772,521 |
| Minority shareholders' equity | | - | - |
| Total shareholders' equity | | 746,616 | 772,521 |
| Total liabilities and shareholders' equity | | 1,510,813 | 1,634,681 |

CONSOLIDATED INCOME STATEMENT

| | | For the six months ended 30 June | |
|--|--------------|----------------------------------|---------|
| | <i>Notes</i> | 2020 | 2019 |
| Operating income | <i>3</i> | 390,758 | 424,066 |
| Less: Operating costs | | 218,207 | 232,151 |
| Tax and surcharge | | 3,777 | 3,985 |
| Selling expenses | | 49,089 | 52,474 |
| Administrative expenses | | 37,261 | 36,429 |
| R&D expenses | | 102,291 | 64,604 |
| Finance costs | | 6,922 | 9,999 |
| Impairment loss on assets and credit | | 10,067 | 49 |
| Gain in investment | | – | – |
| Other revenue | | 11,896 | 16,177 |
| Operating profit | | -24,960 | 40,552 |
| Add: Non-operating income | | 467 | 645 |
| Less: Non-operating expenses | | 280 | 1,427 |
| Total profit | | -24,773 | 39,770 |
| Less: Income tax expenses | <i>8</i> | 1,206 | 1,006 |
| Net profit | | -25,979 | 38,764 |
| Net profit attributable to owners of parent company | | -25,979 | 38,764 |
| Profit or loss attributable to minority shareholders | | – | – |
| Earnings per share: | | | |
| Basic earnings per share (RMB) | <i>9</i> | -0.060 | 0.108 |

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 2020 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 2019 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 to the six months ended 30 June 2020.

(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.

| | For the six months ended 30 June | |
|-------------------------------------|---|---------------|
| | Current year | Previous year |
| Revenue from main operations | 373,364 | 403,484 |
| Revenue from other operations: rent | 17,394 | 20,582 |
| | 390,758 | 424,066 |

4. ACCOUNTS RECEIVABLE

Accounts receivable

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 period end | At the beginning of the year |
|-------------------------------|--------------------------|---------------------------------|
| Accounts receivables | 260,218 | 252,689 |
| Less: provision for bad debts | 70,888 | 60,803 |
| Net amount | 189,330 | 191,886 |

Aging

| | | |
|---------------|----------------|---------|
| Within 1 year | 95,339 | 106,953 |
| Over 1 year | 93,991 | 84,933 |
| | 189,330 | 191,886 |

5. INVENTORIES

| | At the period end | At the beginning of the year |
|------------------|--------------------------|---------------------------------|
| Raw materials | 18,702 | 16,025 |
| Work in progress | 3,756 | 4,080 |
| Finished goods | 153,689 | 147,746 |
| | <u>176,147</u> | <u>167,851</u> |

6. ACCOUNTS PAYABLE

| Aging | At the period end | At the beginning of the year |
|---------------|--------------------------|---------------------------------|
| Within 1 year | 120,154 | 137,095 |
| Over 1 year | 5,326 | 3,437 |
| | <u>125,480</u> | <u>140,532</u> |

7. Undistributed profits

Current year

| | Amount |
|--|------------------------|
| As at the beginning of the period | -103,878 |
| Add: net profit attributable to owners of parent company in the current period | <u>-25,979</u> |
| As at the end of the period | <u>-129,857</u> |

8. INCOME TAX EXPENSE

| | Applicable tax rate |
|----------------------|--------------------------------|
| The Company | 15% |
| Launch Software | 15% |
| Shanghai Launch | 25% |
| Launch Europe Gmbh | 19% |
| Golo Internet | 15% |
| Xi'an Launch | 25% |
| PJS | 12.5% |
| Launch International | 16.5% |
| Nanjing Launch | 25% |
| SLH | 25% |
| Nanjing Golo | 25% |
| Shenzhen Mingrui | 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 | -25,979,000 | 38,764,000 |
| Average weighted number of outstanding ordinary shares of the parent company | 432,216,600 | 360,180,500 |
| Basic earnings per share (RMB/share) | -0.060 | 0.108 |
| After adjustment (RMB/share) | -0.060 | 0.108 |

(2) Diluted earnings per share

As there was no ordinary share with dilutive potential for the year 2020 and 2019, thus no diluted earnings per share is presented.

10. DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: 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”) | 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 |
| 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 |
| 深圳市順利行汽車共享技術有限公司(“SLH”) | 100% | R&D | RMB1,000,000 |
| Nanjing Golo Big Data Technology Company Limited (“NJG”) | 100% | Software | RMB10,000,000 |
| Shenzhen Mingrui Data Technology Co., Ltd.(“Shenzhen Mingrui”) | 70% | Data | RMB14,285,714 |

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 2020, the Company pledged land, properties and buildings with original value approximately amounting to 416,000,000 for certain bank borrowings.

14. CAPITAL AND OPERATING COMMITMENT

As at 30 June 2020, the Company did not have any significant capital and lease 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

In the first half of 2020, the global spread of COVID-19 pandemic, the ongoing trade disputes and the escalation of geopolitical tensions have posed severe challenges to the global economic development.

Under the pandemic, household consumption, automobile sales, corporate investment, and commodity exports in countries around the world have been reduced to a large extent, creating a negative impact to the industry in which the Company operates. In the domestic market, according to the statistics from China Association of Automobile Manufacturers, overall vehicle sales in China in the first half of 2020 were 10.257 million units, representing a decrease of 16.9% from the same period of last year. Of which, sales of passenger vehicles and new energy vehicles fell by as much as 22.4% and 37.4%. However, facilitated by the smooth implementation of the Group's intelligent online marketing training system in response to the pandemic and the continued popularity of the new generation of Pad V and Pro5, sales in the domestic market in the first half of 2020 recorded an increase of 3.1% from the same period last year to RMB 220 million. In overseas markets, due to the lockdown and suspension of operation at the beginning of the year, sales orders could not be delivered in time. After the resumption of work, various countries have adopted various levels of restrictive prevention and control measures when the COVID-19 pandemic spread across the globe, which caused diminishing demand for orders. As a result, the Group's export sales revenue in the first half of 2020 decreased by 19.2% from the same period last year to RMB 150 million. Overall, in the first half of 2020, the Group's sales revenue decreased by 7.9% from the same period last year to RMB 390 million; due to the decline in the proportion of overseas business revenue with higher margin, the gross profit margin dropped slightly by 1.1 percentage points to 44.2%. Expenses during the period increased by 23% compared to the same period last year, mainly due to the substantial increase in R&D expenses as the Company is in the transformation phase in terms of product structure, business model and competition strategy. Therefore, the Group recorded a net profit attributable to owners of the parent company of RMB -25.98 million in the first half of 2020, compared with a net profit attributable to owners of the parent company of RMB 38.76 million in the same period last year.

As the COVID-19 pandemic eased in China, the overall operating efficiency of the Group began to recover in an orderly manner in the second quarter and various businesses gradually improved, enabling a healthy recovery of its growth trend recovered healthily.

- (i) Car diagnostic equipment business: The new generation of high-end Pad V has excellent diagnostic capabilities with focus on high-end applications such as intelligent diagnosis, online programming, and remote diagnosis, supporting extended functions such as oscilloscopes, sensors, multimeters, battery detection, and endoscopes and for the first time integrated Smartlink's super remote diagnosis function, which has been widely recognized by customers; the TSGUN portable tire pressure detection handheld terminal, being the first of its kind in the world, integrates the activation, reading, learning and programming functions of the TPMS sensor, and directly connects to the X431 via Bluetooth/Wifi, which effectively expanded related functions of TPMS of comprehensive diagnostic equipment.

- (ii) Diagnostic software business: The intelligence pricing and software granulation mode were successfully promoted and applied as the software mall was officially launched, supporting a year-on-year increase of 35% in the Group's diagnostic software business revenue in the first half of the year.
- (iii) Big data business: A total of approximately 85 million vehicle diagnostic reports were collected this year, representing a year-on-year increase of 16%. As of 30 June 2020, a total of 555 million maintenance diagnostic reports were accumulated, representing an increase of 18% over the end of the previous year.
- (iv) Patent progress of core technologies: as of 30 June 2020, the Group has received 458 patents granted by the State, including 304 invention patents; 2,215 out of 2,428 patents under current applications are invention patents; 177 certified software copyrights obtained and 338 PCT patents has been applied.

OUTLOOK AND FUTURE STRATEGIES

The outbreak of COVID-19 in early 2020 has brought a major negative impact to the global political and economic situation. Despite China's outstanding success in epidemic prevention and control as well as the recovering economic growth in the second quarter, it is still not optimistic that the epidemic will be brought under control soon in most other regions of the world, and therefore, there are still challenges and uncertainties in economic growth in the future. Looking forward, under the complex and volatile external environment, the Group will continue to pay close attention to the market and industry dynamics, convert stress into motivation, seek opportunities in the midst of challenges, overcome all kinds of challenges, aggressively explore innovative business models and focus on business transformation.

- (i) By centering on the core strategy of "Two entrances, one platform", the automotive diagnosis and Internet of Vehicles will be used as the entrances to establish an open and unified automobile Big Data platform. With the application of new technologies such as big data, artificial intelligence, blockchain and 5G, the Company will explore innovative business models, cooperate with partners in creating an automobile service ecology and developing automotive data business;
- (ii) Continuous investment in research and development to improve core competitiveness.
 - Adhere to the innovative-driven development, invest in research and development continuously and conduct functional upgrade in accordance with the industry policies and market demands in a timely manner and enhance the comprehensive competitiveness of products to maintain the core products' leading position in the market.
 - Achieve Five-zations, namely "internetization, intellectualization, ecologization, platformization and blockchainization", by research and development of devices;

(iii) Actively expand new business sector to create new growth points

- with a series of measures including the establishment and improvement of software store functions and applications, optimized software sales and upgrade, diagnostic software income will be comprehensively improved.
- the comprehensively integration of diagnostic products and remote diagnostics platform creates an integrated super diagnostic high-end solution and innovate the user experience.
- by accelerating the penetration in comprehensive functional industry customers such as government authorities, vehicle operating organization, automobile training and education institutions, second-hand car trading platform and insurance companies, constantly trying the realization of data and empowering the industry customers, the Company will promote the continued growth of revenue in industry diagnostics business.

(iv) Promote global business coverage to further increase the proportion of overseas market revenue and market share of the Group.

(v) Strengthen supply chain management and construction to improve product quality and increase customer stickiness.

(vi) Continue to enhance human resources, strengthen talent training and sustainable development to comprehensively increase the per capita output.

FINANCIAL ANALYSIS

Analysis of financial status during the Reporting Period is as follows:

Profit position

Analysis of profit changes in the first half of the year compared with the same period last year is as follows (in RMB million):

| | |
|---|-------------|
| Decrease in gross profit due to the decrease in sales | -19 |
| Increase in credit impairment | -10 |
| Increase in R&D expenses | -38 |
| Others | 2 |
| | <hr/> |
| | -65 |
| | <hr/> <hr/> |

In the first half of 2020, the Group's sales revenue decreased by 7.9% from the same period last year, mainly due to the decline in the proportion of overseas business revenue. Expenses during the period increased by 23% compared with the same period last year, mainly due to the substantial increase in R&D expenses as the Company is in the transformation phase in terms of product structure, business model and competitive strategy. Affected by the pandemic, companies have difficulties in business operations and increased credit risk, which has led to increased provision for the current period.

| Other income and expenses (RMB million) | Current year | Previous year |
|--|---------------------|---------------|
| Rental income | 17 | 20 |
| Interest income | 0.7 | 0.3 |
| Interest expense | 8 | 10 |
| Depreciation | 12 | 12 |

Position of assets, liabilities and equity interests

Total assets value amounted to RMB1,511,000,000 during the Reporting Period, representing a decrease of 8% from the beginning of the year, which was mainly due to the decrease in cash. Total liabilities amounted to RMB764,000,000, decreased by 11% as compared with the beginning of the year, mainly due to decrease in short-term borrowings. Total equity interest attributable to shareholders amounted to RMB747,000,000. As at the end of the period, the Company's gearing ratio (total liabilities/interest attributable to shareholder) was 1.02 (At the beginning of the period: 1.12).

Principal Sources of Fund and Its Use

During the Period, cash has decreased by approximately RMB107,000,000.

Cash flows from operating activities

The Company's cash inflow from operating activities during the Reporting Period was mainly derived from revenue of goods selling. Cash outflow was mainly related to production and operating activities. The Company's net cash inflow from operating activities for the Reporting Period amounted to RMB33,000,000.

Cash flows from investment activities

Cash inflow from investment activities during the Reporting Period was insignificant. Net cash outflow to investment activities amounted to RMB70,000,000, 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 RMB70,000,000. Most of the outflow was caused by repaying bank loans and interest.

NOTES TO OTHER MATERIAL EVENTS

1. Scope of consolidation

During the Reporting Period, there was no other material change in respect of the consolidation except for the newly added subsidiary Shenzhen Mingrui.

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

The 2020 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 2020.

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. Major clients and suppliers

Total revenue from the top five customers of the Company was approximately RMB91,000,000, accounting for approximately 24% of total revenue for the year. The largest customer accounted for approximately 7% of the total revenue for the year.

Total purchases from top five suppliers of the Company amounted to RMB73,000,000, accounting for approximately 38% of the total purchases for the year. The largest supplier accounted for approximately 16% 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

7. Share capital

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares or had any share options granted under the share option scheme.

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
28 August 2020

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

* For identification purpose only