



X-431 Infinite

LAUNCH

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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: 8196)

2006 1st Quarterly Report

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This report, for which the directors (the “Directors”) of Launch Tech Company Limited (the “Company” or “Launch”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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HIGHLIGHTS:

- Turnover for the three months ended 31 March 2006 was approximately RMB73,962,000; increased by approximately 5.4% as compared with the corresponding period in 2005.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2006.

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the period of the three months ended 31 March 2006.

Financial Review

	Three months ended 31 March 2006	Three months ended 31 March 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	73,962	70,168
Costs of sales	35,483	32,066
Gross profit	38,479	38,102
Net profit	13,855	15,668

The Group's unaudited consolidated turnover for the three months ended 31 March 2006 amounted to approximately RMB73,962,000, representing a growth of approximately 5.4% over the corresponding period in 2005. Sales to overseas market reached approximately RMB38 million, representing over 50% of the total turnover for the period.

Net profit for the first quarter of 2006 fell slightly of approximately RMB1,813,000 or 11.6% as compared with the corresponding period of the previous year. Selling expenses increased as a whole, which was attributable to the actively proceeding of establishment of direct sales channel by domestic branches offices. At this stage, maximum effectiveness was not yet reached but it paved the way for the launch of new products.

Business Review

Automotive diagnostic products

X431 Electronic Eye has been the Group's core and popular product. During the first quarter, approximately 4,000 units were sold, 2,300 units of which were exported to overseas market. X431 Infinite, the development of a new generation of automotive diagnosis computer, was completed successfully and expected to launch in the second quarter. The new product did not only expand the existing superb functions of X431, but also first applied Bluetooth wireless communication technology in automotive diagnosis equipment. The design of the hardware is stylish with colour screen and high capacity batteries. It is believed that it will be welcomed by the users.

Automotive mechanical products

Demand of the Group's lifts was persistently strong, especially in the overseas markets. During the first quarter, a total of 2,500 sets were sold, around half of which were exported to overseas markets.

The Group's lifts, being designed for good quality and competitive pricing, are highly preferred by overseas customers. As the productivity of the Group's lifts plant in Shanghai has become more stable, the Group's cooperation with a well-established North American lifts distributor since last October generated a stable revenue source for its lift business, but also represented an affirmation for various aspects of the Group's lifts such as quality, production capability and safety standards. In view of the above development, it is believed that the Group's lift business in this year will also grow rapidly in other regions. The Group will also consider the possibility of forming alliances of different forms with distributors in other regions so as to acquire more stable revenue sources for the Group.

Launch Industrial Park

In line with the business development of the Group, the Group commenced construction of Launch Industrial Park (the "Industrial Park") in Shenzhen as its headquarters at the end of the previous year. The Industrial Park is located at an industrial use land of 50,000 square meters, locating at Banxuegang industrial district (坂雪崗工業區), Longgang, Shenzhen, purchased in 2004. The project includes office buildings, warehouses, production lines and staff quarters. Construction of the Industrial Park is expected to complete in this year and will replace current leased workshops, offices and staff quarters gradually in the third quarter. It will not only upgrade the productivity of diagnostic and testing products but also centralize the operation units such as research and development, production, administration and logistics within the headquarters to enhance the management efficiency. It is expected that the Industrial Park will contribute significantly to the business development of the Group.

Prospects

Looking ahead, the Group's management is set with clear objectives. Apart from enhancing management efforts and efficiency, it will further reinforce our existing distribution network externally, strengthening our sales teams and also actively improving the competitiveness of the Group's products in overseas markets. It aims to gradually penetrate different markets through entering into alliances with large distributors abroad, and so earns more recognition for Launch's brand and further improves our sales.

Liu Xin
Chairman

Shenzhen, the PRC, 15 May 2006

UNAUDITED CONSOLIDATED INCOME STATEMENT

	NOTES	Three months ended 31 March	
		2006 RMB'000	2005 RMB'000
Turnover	(2)	73,962	70,168
Cost of sales		(35,483)	(32,066)
Gross profit		38,479	38,102
Other revenue		438	1,284
Selling expenses		(10,700)	(8,509)
Administrative expenses		(8,327)	(7,531)
Research and development expenses		(2,128)	(1,836)
Other operating expenses		–	(362)
Finance costs		(3,007)	(3,460)
Profit before taxation		14,755	17,688
Taxation	(3)	(900)	(2,000)
Profit for the period		<u>13,855</u>	<u>15,688</u>
Attributable to			
Equity holders of the Company		13,855	15,668
Minority interests		–	20
		<u>13,855</u>	<u>15,688</u>
Dividends	(4)	–	–
Earnings per share – basic	(5)	<u>RMB0.025</u>	<u>RMB0.030</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(1) Basis of consolidation

The consolidated financial statement incorporates the financial statements of the Company and its subsidiaries made up to 31 March 2006 and the corresponding period in 2005.

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

(2) Turnover

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

(3) Taxation

PRC enterprise income tax ("EIT") has been provided based on the estimated taxable income for PRC taxation purposes at the rates of taxation prevailing in the provinces in which the group companies operate. The Company is subject to income tax at the rate of 15%, the Company's PRC subsidiary is subject to income tax at the rate of 33%. The Company's overseas subsidiary is subject to income tax at the rate of 42%.

Pursuant to the relevant laws and regulations in the PRC, the Company has been designated as a new and high technology enterprise. The Company was exempted from PRC enterprise income tax for the financial years 2000 and 2001 and was eligible for and entitled to 50% tax relief for the financial years 2002 to 2004. Upon obtaining the approval from PRC local tax bureau, the Company is eligible and entitled to 50% relief for the 3 additional financial years from 2005 to 2007.

Launch Shanghai, a subsidiary of the Company established in the PRC, is entitled to the tax holiday of "two-year exemption and three-year 50% reduction" from the first profitable year of operation. No provision for EIT has been made for Launch Shanghai as it did not derive any taxable income for the period.

(4) Dividends

The Directors do not recommend an interim dividend for the three months ended 31 March 2006.

(5) Earnings per share

The calculation of basic earnings per share is based on the consolidated net profit for the period of approximately RMB13,855,000 (2005: RMB15,668,000) and on the weighted average number of 554,200,000 shares in issue during the period (2005: 520,000,000 shares).

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

(6) Reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2005	169,594	10,118	10,118	150	59,234	18,200	267,414
Net profit for the period	–	–	–	–	15,668	–	15,668
At 31 March 2005	<u>169,594</u>	<u>10,118</u>	<u>10,118</u>	<u>150</u>	<u>74,902</u>	<u>18,200</u>	<u>283,082</u>
At 1 January 2006	169,594	11,559	11,559	(662)	73,940	19,530	285,520
Issue of H Shares	53,238	–	–	–	–	–	53,238
Net profit for the period	–	–	–	–	13,855	–	13,855
At 31 March 2006	<u>222,832</u>	<u>11,559</u>	<u>11,559</u>	<u>(662)</u>	<u>87,795</u>	<u>19,530</u>	<u>352,613</u>

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

(a) Interests and short positions of Directors, chief executives and supervisors of the Company in the share capital of the Company and its associated corporations

As at 31 March 2006, the Directors, chief executives and supervisors of the Company have the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or

which have been required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares

Domestic shares

Name of Director	Nature and Types of shares Held	Number of domestic shares	Approximate percentage of the Company's issued domestic shares	Approximate percentage of the Company's total issued shares
Mr. Liu Xin	(1) Beneficiary Owner	132,000,000	40.00%	23.66%
	(2) Interest in controlled company	138,864,000	42.08% (Note 1)	24.89%
	(3) Interest in controlled company	10,261,000	3.11% (Note 2)	1.84%
Mr. Liu Jun	Interest in controlled company	138,864,000	42.08% (Note 3)	24.89%
Professor Wang Xue Zhi	Beneficiary Owner	9,636,000	2.92%	1.73%

Notes:

- (1) Mr. Liu Xin holds 60.00% interest in 深圳市浪曲科技開發有限公司 (“Shenzhen Langqu”) which holds approximately 42.08% interest in the issued domestic shares of the Company. The corporate interest of Mr. Liu Xin in the Company duplicates with that held by Mr. Liu Jun in the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen Langqu, Mr. Liu Xin is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued domestic shares of the Company apart from his personal interest of 40.00% interest in the issued domestic shares of the Company.
- (2) Mr. Liu Xin holds 40.00% interest in 深圳市得時域投資有限公司 (“Shenzhen De Shi Yu”) which holds 3.11% interest in the issued domestic shares of the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen De Shi Yu, Mr. Liu Xin is deemed, under the Part XV of the SFO, to be interested in 3.11% interest in the issued domestic shares of the Company apart from his personal interest of 40.00% interest in the issued domestic shares of the Company.
- (3) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 42.08% interest in the issued domestic shares of the Company. The corporate interest of Mr. Liu Jun in the Company duplicates with that held by Mr. Liu Xin in the Company. By virtue of Mr. Liu Jun's holding more than one-third interest in Shenzhen Langqu which holds approximately 42.08% interest in the issued domestic shares of the Company, Mr. Liu Jun is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued domestic shares of the Company.

Save as disclosed above, as at the 31 March 2006, none of the Directors, chief executives or supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as known to the Directors, as at 31 March 2006, the following (not being a Director or supervisor of the Company) have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions of 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares and underlying shares in the Company

(i) Domestic shares

Name	Nature and types of shares held	Number of domestic shares	Approximate percentage of the Company's issued domestic shares	Approximate percentage of the Company's total issued shares
Shenzhen Langqu	Interest in controlled company	138,864,000	42.08% <i>(Note 1)</i>	24.89%

Notes:

- (1) The legal and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

(ii) *H Shares*

Name	Nature and types of shares held	Interests in H shares long position	Approximate percentage of the Company's issued H shares	Approximate percentage of the Company's total issued shares
Baring Asia II Holdings (20) Limited	Interest in controlled company	45,800,000	20.09%	8.21%
Baring Asia Private Equity Fund II L.P.I	Interest in controlled company	45,800,000	20.09%	8.21% <i>(Note 1)</i>
Jayhawk China Fund (Cayman) Ltd. (「Jayhawk」)	Interest in controlled company	39,646,000	17.39%	7.11%
McCarthy Kent C.	Beneficiary owner	39,646,000	17.39%	7.11% <i>(Note 2)</i>
Genesis Asset Managers, LLP	Interest in controlled company	38,000,000	16.67%	6.81%
International Finance Corporation	Interest in controlled company	38,000,000	16.67%	6.81%
APAC Capital Advisors Ltd sub a/c APAC Greater China Fund (Cayman) Ltd	Interest in controlled company	25,300,000	11.10%	4.53%
Genesis Smaller Companies SICAV	Interest in controlled company	22,651,000	9.93%	4.06%
Citigroup Inc.	Interest in controlled company	15,349,000	6.73%	2.75%
United Technologies Corporation Master Trust	Interest in controlled company	15,349,000	6.73%	2.75%
Carlson Fund Equity Asian Small Cap	Interest in controlled company	12,180,000	5.34%	2.18%

Notes:

1. Baring Asia Private Equity Fund II L.P. I is interested in 47.14% of the issued share capital of Baring Asia Holdings (20) Limited. Therefore, by virtue of Part XV of the SFO, the H Shares in which Baring Asia II Holdings (20) Limited is shown as being interested are included in and duplicate with interest in the H Shares held by Baring Asia Private Equity Fund II L.P. I.
2. McCarthy Kent C is interested in 100% of the issued share capital of Jayhawk. Therefore, by virtue of Part XV of the SFO, the H Shares in which Jayhawk is shown as being interested are included in and duplicate with interest in the H Shares held by McCarthyKent C.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 31 March 2006, the Group did not have transaction with connected parties as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

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

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

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

BOARD PRACTICES AND PROCEDURES

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.33 of the GEM Listing Rules during the period.

An audit committee was established on 21 March 2002 with written terms of reference in compliance of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises the three independent non-executive directors, Mr. Zhang Xiao Yu, Professor Hu Zi Zheng, and Mr. Yim Hing Wah.

Two audit committee meetings were held in this period to perform the following duties:

- review 2005 annual report and the first quarterly report 2006 of the Company;
- review and supervise the internal control system of the Group.

SECURITIES TRANSACTIONS BY DIRECTORS

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

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

On behalf of the Board
Launch Tech Company Limited
Liu Xin
Chairman

Shenzhen, the PRC
15 May 2006

As at the date of this report, the Board comprises 3 executive Directors, namely Mr. Liu Xin, Mr. Liu Jun and Professor Wang Xue Zhi; 1 non-executive Director, namely Ms. Liu Yong; and 3 independent non-executive Directors, namely Mr. Zhang Xiao Yu, Professor Hu Zi Zheng and Mr. Yim Hing Wah.