



X-431 Infinite

**LAUNCH**

**X-431 Infinite**

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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 2nd Quarterly Report

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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 requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) 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.*

# 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)

### CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the periods of the three months and the six months ended 30 June 2006.

### Financial Overview

	For the six months ended	
	30 June 2006 (RMB '000)	30 June 2005 (RMB '000)
Turnover	159,130	158,891
Costs of Sales	76,982	76,485
Gross Profit	82,148	82,406
Profit for the period	28,160	28,628
Earnings per share	5.1 cents	5.5 cents

The Group's principle developments in the first half of the year under review are set as follows:

#### (1) Automotive diagnostic products

X431 Electronic Eye has been the Group's core and popular product. During the first half of the year, approximately 9,500 units were sold, 5,200 units of which were exported to overseas market. Total sales achieved the expected target.

The engineers of the Group spent more than one year's time in the research of the new generation of X431 Infinite automotive diagnostic equipment, which was launched in the first half of the year successfully. The new product is the first equipment to adopt Bluetooth wireless communication technology, with excellent connectivity and powerful diagnostic software that helped to make auto repairs more artificially intelligent and simple. During the first half of the year, the Group launched trial versions for the new and existing users, which were well-received and obtained very positive feedback from the users .

The Group's sales team will devote additional efforts to promote X431 Infinite in the third quarter. It is expected that more significant contribution to the sales will be reflected in the fourth quarter. The Group will continue to sell the existing products and it is expected that the sales volume of X431 Infinite will exceed that of the existing products next year.

## **(2) Automotive mechanical products**

The demand for lifts of the Group is satisfactory. 6,000 units were sold during the first half of the year, for which about half of the sales were exported to the overseas markets. In the second half of the year, the Group will export several thousands of lifts to the overseas pursuant to a sales contact entered into with a distributor in North America last year. In addition, the Group continued to develop different types and series of lifts, so as to adapt to the needs of different markets. Currently, the Group's lifts factory in Shanghai manufactures over 2,000 units of lifts each month. Its production technologies and efficiency is gradually getting more mature. The factory has become the largest manufacturing base of hydraulic lifts in Asia. The Group has reserved a parcel of land in the existing premise for the phase II of expansion project, and is preparing to construct phase II project once the production capacity of the existing factory is fully utilized. Upon the completion of the phase II project, the total production capacity will be about 50,000 units each year.

The Group endeavours to expand its lifts business in different areas and is actively considering to establish cooperation alliance in different forms with distributors at different areas, in order to provide more hydraulic lifts with high quality at a competitive price to the automotive aftermarket and bring more stable income sources to the Group.

## **(3) Construction of plant**

The Group has begun constructing its headquarters Launch Industrial Park locating at Bangxuegang industrial district (坂雪崗工業區), Longgang, Shenzhen in the first half of the year. Launch Industrial Park is built on an industrial use land of approximately 50,000 square meters, including office buildings, warehouses, production lines and staff quarters. The construction is now proceeding at a very satisfactory pace, and it is planned to relocate to the new premise at the end of this month. Launch Industrial Park will replace current leased workshops, offices and staff quarters. It will help upgrade the productivity of diagnostic and testing products and is expected to contribute significantly to the Group.

## **Prospects**

I would like to take this opportunity to express my appreciation to all our shareholders, the Board, staff and business partners for their support to Launch. Launch expects to further accelerate the pace in the development of new products by utilizing our strength in R&D, technology advancement and practical application of the Group's resources. The Group will also take measures to enhance its management quality and actively develop its market in order to deliver better service and contribution to automotive after-sales market.

**Liu Xin**  
*Chairman*

Shenzhen, the PRC, 14 August 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Financial resources and liquidity**

In January this year, the Company issued and placed 38,000,000 H shares to an institutional investor at a price of HK\$1.70 per H share by way of placing. After deducting all expenses and costs, the proceeds from the placing of shares were approximately RMB60,838,000. With the funds raised in this share placing exercise, the capital base of the Group was expanded and the total issued share capital and share premium of the Company was increased to RMB55,800,000 and RMB226,632,000 respectively. All the proceeds thereof were applied to finance the costs for the construction of the headquarters at Launch Industrial Park in Shenzhen.

The Group adheres to a prudent financial management policy and has a healthy financial position. The Group had cash and bank balances of approximately RMB103,229,000 as at 30 June 2006.

As at 30 June 2006, shareholders' equity of the Group amounted to approximately RMB426,052,000. Current assets amounted to approximately RMB458,403,000. The Group's long-term bank borrowings amounted to approximately RMB80,000,000, which represented current liabilities amounted to approximately RMB202,691,000, which comprised short term bank borrowings amounted to approximately RMB117,960,000, and the remainder mainly consists of account payables and accruals. The Group's net asset value per share amounted to approximately RMB0.764. The Group's gearing ratio, representing the percentage of bank borrowings over gross asset value was 28%.

### **Pledge of assets**

As at 30 June 2006, apart from the pledged bank deposits of approximately RMB7,350,000, the Group had no other pledged assets.

### **Major investment**

During the period, the Group did not make substantial acquisition and disposals of its subsidiaries and associated companies.

### **Contingent liabilities**

The Group did not have any major contingent liabilities as at 30 June 2006.

### **Foreign exchange exposure**

For the period under review, most of the Group's incomes were denominated in RMB whereas all overseas sales were settled in USD, with expenses being paid in RMB. Therefore, the Directors consider that the Group was not under substantial exchange exposure.

### **Employees**

As at 30 June 2006, the Group had approximately 1,200 and 12 employees based in the PRC and overseas respectively. For the six months ended 30 June 2006, the staff cost net of the remunerations of the Directors and supervisors amounted to approximately RMB26,000,000 (2005: approximately RMB22,000,000). The Group's employment and remuneration policies remained the same as stated in the annual report of the Group for the year ended 31 December 2005.

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2006 <i>RMB '000</i>	2005 <i>RMB '000</i>	2006 <i>RMB '000</i>	2005 <i>RMB '000</i>
Turnover	(4)	85,168	88,723	159,130	158,891
Cost of sales		(41,499)	(44,419)	(76,982)	(76,485)
Gross profit		43,669	44,304	82,148	82,406
Other operating income		1,795	1,875	2,233	3,159
Selling expenses		(13,242)	(11,573)	(23,942)	(20,082)
Administrative expenses		(10,063)	(12,699)	(18,390)	(20,230)
Research and development expenses		(3,010)	(2,302)	(5,138)	(4,138)
Other operating expenses		–	(699)	–	(1,061)
Finance costs		(3,944)	(4,190)	(6,951)	(7,650)
Profit before taxation		15,205	14,716	29,960	32,404
Taxation	(5)	(900)	(1,800)	(1,800)	(3,800)
Profit for the period		<u>14,305</u>	<u>12,916</u>	<u>28,160</u>	<u>28,604</u>
Profit attributable to:					
Equity holders of the Company		14,305	12,960	28,160	28,628
Minority interests		–	(44)	–	(24)
		<u>14,305</u>	<u>12,916</u>	<u>28,160</u>	<u>28,604</u>
Dividends	(6)	–	–	–	–
Profit per share – basic	(7)	<u>RMB2.6 cents</u>	<u>RMB2.5 cents</u>	<u>RMB5.1 cents</u>	<u>RMB5.5 cents</u>

## CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		<b>30 June 2006 (Unaudited) RMB'000</b>	<b>31 December 2005 (Audited) RMB'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	(8)	178,163	94,508
Leasehold land and land use rights	(8)	24,604	25,046
Goodwill	(8)	2,636	2,636
Development costs	(8)	43,587	38,918
Long term financial asset		1,350	1,350
		<hr/>	<hr/>
		250,340	162,458
<b>Current assets</b>			
Inventories		100,635	69,269
Trade receivables	(9)	168,283	195,335
Other receivables, deposits and prepayments		78,906	84,680
Amount due from a related company		–	682
Pledged bank deposits		7,350	12,350
Cash at banks and in hand		103,229	89,984
		<hr/>	<hr/>
		458,403	452,300
<b>Current liabilities</b>			
Trade payables	(10)	34,225	70,897
Bills payable		24,521	30,000
Receipts in advance, other payables and accrued charges		19,932	16,916
Income tax payable		6,053	4,258
Current portion of borrowings		117,960	155,167
		<hr/>	<hr/>
		202,691	277,238
<b>Net current assets</b>		<hr/>	<hr/>
		255,712	175,062
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		506,052	337,520
<b>Non-current liabilities</b>			
Borrowings		80,000	–
		<hr/>	<hr/>
<b>Net assets</b>		<hr/>	<hr/>
		426,052	337,520
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital		55,800	52,000
Reserves		350,722	265,990
Proposed final dividend		19,530	19,530
		<hr/>	<hr/>
<b>Total equity</b>		<hr/>	<hr/>
		426,052	337,520

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>Share Capital</b>	<b>Reserve</b>	<b>Proposed final dividend</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	52,000	249,214	18,200	319,414
Profit for the period	–	28,628	–	28,628
2004 final dividend paid	–	–	(18,200)	(18,200)
	<u>52,000</u>	<u>277,842</u>	<u>–</u>	<u>329,842</u>
At 30 June 2005	<u>52,000</u>	<u>277,842</u>	<u>–</u>	<u>329,842</u>
At 1 January 2006	52,000	265,990	19,530	337,520
Issue of H shares	3,800	57,038	–	60,838
Profit for the period	–	28,160	–	28,160
Currency translation difference	–	(466)	–	(466)
	<u>55,800</u>	<u>350,722</u>	<u>19,530</u>	<u>426,052</u>
At 30 June 2006	<u>55,800</u>	<u>350,722</u>	<u>19,530</u>	<u>426,052</u>

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities	9,244	10,024
Cash flows from investing activities	(97,679)	90,582
Cash flows from financing activities	101,680	(126,978)
Net increase (decrease) in bank balances and cash	13,245	(26,372)
Bank balances and cash at 1 January	89,984	195,427
Bank balances and cash at 30 June	<u>103,229</u>	<u>169,055</u>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

### (1) General

The Company was established in Shenzhen, the People's Republic of China (the "PRC") as a joint stock limited company and its overseas listed foreign invested shares ("H Share") are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activities of the Group are provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

### (2) Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June of 2006 and 2005. All significant intra-group transactions and balances have been eliminated on consolidation.

### (3) Accounting policies and adoption of new or revised statements of standard accounting practice

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted in the preparation of the interim results are consistent with those adopted in the preparation of the Group's results for the year ended 31 December 2005.

### (4) Turnover and segment information

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

The Group's operation by geographical analysis as below:

	Turnover		Contribution to profit	
	For the six months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Geographical market:				
PRC (not including Hong Kong)	74,827	76,956	38,221	39,284
Europe	29,497	26,416	15,448	14,280
America	15,830	14,953	8,075	8,003
Others	38,976	40,566	20,404	20,839
	<u>159,130</u>	<u>158,891</u>	82,148	82,406
Unallocated other income			2,233	3,159
Unallocated expenses			(54,421)	(53,161)
Profit before tax			<u>29,960</u>	<u>32,404</u>

(5) **Taxation**

The charge for the year represents provision for the Company's PRC taxation which is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable of 7.5%. The Company's PRC subsidiary did not derive any taxable income for the period. The Company's overseas subsidiary is subject to income tax rates of 42%. The Group and the Company did not have any significant unprovided deferred taxation for the period or at the balance sheet date.

(6) **Dividends**

The Board does not recommend an interim dividend for the six months ended 30 June 2006 (2005: Nil).

(7) **Earnings per share**

The basic and diluted earnings per share is calculated based on the following data:

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the period</b>				
Profit adopted for the calculation of basic earnings per shares	<u>14,305</u>	<u>12,960</u>	<u>28,160</u>	<u>28,628</u>
<b>Number of shares</b>				
Number of weighted average ordinary shares adopted for the calculation of basic earnings per share	<u>558,000,000</u>	<u>520,000,000</u>	<u>556,110,497</u>	<u>520,000,000</u>

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

**(8) Non-current assets**

	<b>Property, plant and equipment</b> <i>RMB'000</i>	<b>Leasehold land and use rights</b> <i>RMB'000</i>	<b>Goodwill</b> <i>RMB'000</i>	<b>Development costs</b> <i>RMB'000</i>
Net book amount at 31 December 2005 and 1 January 2006	94,508	25,046	2,636	38,918
Additions	91,185	–	–	7,068
Depreciation/ annual charges/ amortisation	(7,530)	(442)	–	(2,399)
Net book amount at 30 June 2006	<u>178,163</u>	<u>24,604</u>	<u>2,636</u>	<u>43,587</u>

**(9) Trade receivables**

The Group allows a credit period of one to six months to its trade customers.

Aged analysis are as follows:

	<b>30 June 2006</b> <b>(Unaudited)</b> <i>RMB'000</i>	<b>31 December 2005</b> <b>(Audited)</b> <i>RMB'000</i>
Within 6 months	112,253	89,432
Over 6 months but less than 1 year	56,030	105,903
	<u>168,283</u>	<u>195,335</u>

**(10) Trade payables**

Aged analysis are as follows:

	<b>30 June 2006</b> <b>(Unaudited)</b> <i>RMB'000</i>	<b>31 December 2005</b> <b>(Audited)</b> <i>RMB'000</i>
Within 6 months	34,225	43,044
Over 6 months but less than 1 year	–	27,853
	<u>34,225</u>	<u>70,897</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 30 June 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	Capacity in which shares were 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	Beneficiary owner	132,000,000	40.00%	23.66%
	Interest in a controlled company	138,864,000	42.08% (Note 1)	24.89%
	Interest in a controlled company	10,261,000	3.11% (Note 2)	1.84%
Mr. Liu Jun	Interest in a 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 30 June 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 30 June 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	Capacity in which shares were 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 of corporation controlled by substantial shareholder	138,864,000	42.08% (Note 1)	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*

<b>Name</b>	<b>Capacity in which shares were held</b>	<b>Interests in H shares long position</b>	<b>Approximate percentage of the Company's issued H shares</b>	<b>Approximate percentage of the Company's total issued shares</b>
Jayhawk China Fund (Cayman) Ltd. (「Jayhawk」)	Investment manager	78,011,000	34.22%	13.98%
McCarthy Kent C.	Interest of corporation controlled by substantial shareholder	78,011,000	34.22%	13.98% <i>(Note 1)</i>
Baring Asia II Holdings (20) Limited	Beneficial owner	45,405,000	19.91%	8.14%
Baring Asia Private Equity Fund II L.P.I	Interest of corporation controlled by substantial shareholder	45,405,000	19.91%	8.14% <i>(Note 2)</i>
Genesis Fund Managers, LLP	Investment manager	38,000,000	16.67%	6.81%
Genesis Asset Managers, LLP	Investment manager	38,000,000	16.67%	6.81%
International Finance Corporation	Beneficial owner	38,000,000	16.67%	6.81%
Genesis Smaller Companies SICAV	Investment manager	22,651,000	9.93%	4.06%
Citigroup Inc.	Custodian corporation	15,349,000	6.73%	2.75%
United Technologies Corporation Master Trust	Investment manager	15,349,000	6.73%	2.75%
Carlson Fund Equity Asian Small Cap	Investment manager	12,180,000	5.34%	2.18%

*Notes:*

1. 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 McCarthy Kent C.
2. Baring Asia Private Equity Fund II L.P. 1 is interested in 47.14% of the issued share capital of Baring Asia II 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. 1.

## **DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS**

During the period ended 30 June 2006, the Group did not have transactions 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 year 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.

## **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.

## **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.

## **AUDIT COMMITTEE**

An audit committee was established on 21 March 2002 with written terms of reference in compliance of the Rules 5.28 to 5.33 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.

Three audit committee meetings were held this year to perform the following duties:

- review 2005 annual report, 2006 first quarterly report and this report 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 of all directors and the Company are 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  
14 August 2006

*As at the date of this report, the Board comprises 3 executive Director, 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.*