



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 3rd Quarterly Report

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

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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HIGHLIGHTS:

- Turnover for the nine months ended 30 September 2006 was approximately RMB250,980,000; increased by approximately 5.2% compared with corresponding period in 2005.
- Net profit for the nine months ended 30 September 2006 reached approximately RMB40,871,000; and basic earnings per share was approximately RMB7.4 cents.
- The Directors do not recommend an interim dividend for the nine months ended 30 September 2006.

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 nine months ended 30 September 2005.

Financial Overview

	For the nine months ended	
	30 September 2006	30 September 2005
	(RMB '000)	(RMB '000)
Turnover	250,980	238,471
Gross Profit	129,658	119,106
Net Profit	40,871	40,468
Earnings per share	7.4 cents	7.8 cents

The Group's unaudited consolidated turnover for the three months and nine months ended 30 September 2006 amounted to approximately RMB91,850,000 and RMB250,980,000 respectively, representing a growth of approximately 15.4% and 5.2% over the corresponding periods in 2005 respectively. During this period, the average gross profit margin of the Group maintained at approximately 52%.

During this period, the selling expenses of the Group rose slightly mainly due to the Group's solidification of its market network. At the same time, with effective control over cost, the administrative expenses remained stable. The Group's unaudited net profits attributable to shareholders for the three months and nine months ended 30 September 2006 amounted to approximately RMB12,711,000 and RMB40,871,000 respectively. Unaudited profits attributable to shareholders grew by approximately 7.4% and 0.9% over the corresponding periods in 2005 respectively. In 2006, selling

expenses gradually grew and the Group expects to incur a write off expenses in the fourth quarter in relation to the old leasehold improvement locating at the old leased office, warehouses and workshops. The amount is now under review and expected not exceed RMB2,000,000.

In the fourth quarter, there is still slight increase in expenses and the Group will closely monitor the cost, reduce unnecessary spending, so as to achieve a better profitability.

Business Review

The Group's principle developments in the past three quarters 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 three quarters of the year, approximately 15,000 units were sold, half 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 .

Promotion of X431 Infinite commenced in the third quarter, and 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. Approximately 9,000 units were sold during the first three quarters, for which about half of the sales were exported to the overseas markets. 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 can manufacture 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) Launch Industrial Park

The construction of Launch Industrial Park locating at Banxuegang industrial district (坂雪崗工業區), Longgang, Shenzhen was completed and it started operation in September. 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. Launch Industrial Park replaced old 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 aftermarket.

Liu Xin
Chairman

Shenzhen, the PRC, 14 November 2006

UNAUDITED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Three months ended 30 September		Nine months ended 30 September	
		2006 <i>RMB '000</i>	2005 <i>RMB '000</i>	2006 <i>RMB '000</i>	2005 <i>RMB '000</i>
Turnover	(3)	91,850	79,580	250,980	238,471
Cost of sales		(44,340)	(42,880)	(121,322)	(119,365)
Gross profit		47,510	36,700	129,658	119,106
Other operating income		1,098	1,071	3,331	4,230
Selling expenses		(16,275)	(10,590)	(40,217)	(30,672)
Administrative expenses		(11,184)	(10,065)	(29,574)	(30,295)
Research and development expenses		(2,898)	(2,101)	(8,036)	(6,239)
Other operating expenses		–	–	–	(1,061)
Finance costs		(4,640)	(1,179)	(11,591)	(8,829)
Profit before taxation		13,611	13,836	43,571	46,240
Taxation	(4)	(900)	(1,951)	(2,700)	(5,751)
Profit for the period		<u>12,711</u>	<u>11,885</u>	<u>40,871</u>	<u>40,489</u>
Attributable to:					
Equity holders of the Company		12,711	11,840	40,871	40,468
Minority Interest		–	45	–	21
		<u>12,711</u>	<u>11,885</u>	<u>40,871</u>	<u>40,489</u>
Dividends	(5)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share – basic	(6)	<u>RMB0.023</u>	<u>RMB0.023</u>	<u>RMB0.074</u>	<u>RMB0.078</u>

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended 30 September 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 consolidated financial statement incorporate the financial statement of the Company and its subsidiaries for the nine months ended 30 September of 2006 and 2005.

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

(3) Turnover

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

(4) Taxation

The charge for the period 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.

(5) Dividends

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

(6) Earnings per share

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period				
Profit adopted for the calculation of basic earnings per shares	<u>12,711</u>	<u>11,840</u>	<u>40,871</u>	<u>40,468</u>
Number of shares				
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>556,747,253</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.

(7) 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
Appropriations	-	1,441	1,441	-	(2,882)	-	-
2004 final dividend paid	-	-	-	-	-	(18,200)	(18,200)
Net profit for the period	-	-	-	-	40,468	-	40,468
At 30 September 2005	<u>169,594</u>	<u>11,559</u>	<u>11,559</u>	<u>150</u>	<u>96,820</u>	<u>-</u>	<u>289,682</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
Appropriations	-	4,042	4,042	-	(8,084)	-	-
2005 final dividend paid	-	-	-	-	-	(19,530)	(19,530)
Net profit for the period	-	-	-	-	40,871	-	40,871
At 30 September 2006	<u>222,832</u>	<u>15,601</u>	<u>15,601</u>	<u>(662)</u>	<u>106,727</u>	<u>-</u>	<u>360,099</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 September 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% <i>(Note 1)</i>	24.89%
	Interest in a controlled company	10,261,000	3.11% <i>(Note 2)</i>	1.84%
Mr. Liu Jun	Interest in a controlled company	138,864,000	42.08% <i>(Note 3)</i>	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 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 30 September 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 September 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 of the Company

(i) Domestic shares

Name	Nature and 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% <i>(Note 1)</i>	24.89%

Notes:

- (1) The statutory 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	Capacity in which shares were 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
Jayhawk China Fund (Cayman) Ltd. (「Jayhawk」)	Investment manager	79,886,000	35.04%	14.32%
McCarthy Kent C.	Interest of corporation controlled by substantial shareholder	79,886,000	35.04%	14.32% <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>
International Finance Corporation	Beneficial owner	38,000,000	16.67%	6.81%
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%
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 September 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 with 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 three independent non-executive Directors, Mr. Zhang Xiao Yu, Professor Hu Zi Zheng, and Mr. Yim Hing Wah.

Four audit committee meetings were held during the year to perform the following duties:

- review 2005 annual report, 2006 first quarterly report, second 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 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
14 November 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 Zhang and Mr. Yim Hing Wah.