

LAUNCH

深圳市元征科技股份有限公司
LAUNCH TECH COMPANY LIMITED

(於中華人民共和國註冊成立之股份有限公司)
(a joint stock limited company incorporated
in the People's Republic of China with limited liability)
(Stock Code 股份代號: 8196)



2007 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 2007 was approximately RMB93,021,000; increased by approximately 26% as compared with the corresponding period in 2006.
- Net profit was approximately RMB16,025,000; increased by approximately 16% as compared with the corresponding period in 2006.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2007.

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 2007.

Financial Review

	Three months ended 31 March 2007	Three months ended 31 March 2006
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	93,021	73,962
Net profit	16,025	13,855

The Group's unaudited consolidated turnover for the three months ended 31 March 2007 amounted to approximately RMB93,021,000, representing a growth of approximately 26% over the corresponding period in 2006. Sales to overseas market reached approximately RMB48 million, representing over 52% of the total turnover for the period.

Net profit for the first quarter of 2007 increased by approximately RMB2,170,000 or 16% as compared with the corresponding period of the previous year. Expenses increased as a whole as compared with the previous year, which was attributable to the expansion of the overall operation scale. However, the management has been active in its cost control. Thus, the expenses incurred in the this quarter has been decreased considerably as compared with the fourth quarter of the previous year.

Business Review

Automotive diagnostic products

The sales of X431 Electronic Eye is stable. During the first quarter, over 4,000 units were sold; revenue from the relevant online software upgrade was also remarkable. The Group will devote its efforts to provide excellent diagnosis products to attract more users to use the Group's products. Engineers have been developing various diagnosis software for different automotive models for users. With the improvement in the hardware and the profound software development, it is believed that X431 series will bring about a better return for the Group.

Automotive mechanical products

Launch has a very high demand for brand product quality. In the first three quarters of 2006, lifts have been affected by issues like production line adjustment and quality adjustment, thus not able to reach the expected sales. To satisfy market needs, Launch acquired customer advice from all over the world, so as to improve products to satisfy user needs. In 2006, engineers and management put a lot of effort on improving product quality and improving production workflows. Adjustment was completed by the end of 2006, with satisfactory results, as well as to the customers. Sales in the first quarter of 2007 has exceeded 3,000 units of lifts.

Other products

Besides principal automobile inspection products and lifters, Launch will launch other products with extremely high potential in 2007. The product design, industrial design or quality of tyre changer (拆胎機), wheel balancer (輪胎平衡機) and 4-wheel aligner(四輪定位儀) also reached the world class level. Following the expansion of Shenzhen production facility of the Group in 2006, 2007 is the best time for the full scale production of these three high-potential products. It is believed that all along with the effective distribution network of Launch, the Group can obtain favourable returns from these products.

Prospects

Looking ahead, Launch will devote all of its efforts to enhance its research and development, strengthen its management, expand its channels, establish its brand and create better return for the shareholders and investors.

Liu Xin
Chairman

Shenzhen, the PRC, 30 April 2007

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		31 March	
		2007	2006
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(2)	93,021	73,962
Cost of sales		<u>(46,935)</u>	<u>(35,483)</u>
Gross profit		46,086	38,479
Other revenue		711	438
Selling expenses		(14,125)	(10,700)
Administrative expenses		(8,147)	(8,327)
Research and development expenses		(3,800)	(2,128)
Finance costs		<u>(4,700)</u>	<u>(3,007)</u>
Profit before taxation		16,025	14,755
Taxation	(3)	<u>–</u>	<u>(900)</u>
Profit for the period attributable to equity holders of the Company		<u><u>16,025</u></u>	<u><u>13,855</u></u>
Dividends	(4)	<u><u>–</u></u>	<u><u>–</u></u>
Earnings per share – basic	(5)	<u><u>RMB0.029</u></u>	<u><u>RMB0.025</u></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 2007 and the corresponding period in 2006.

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% (2006: 15%); the Company’s PRC subsidiaries are subject to income tax at the rates of 15% to 33% and 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 local tax bureau, the Company is eligible and entitled to 50% tax relief for the 3 additional financial years from 2005 to 2007.

上海元征機械設備有限責任公司 (“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.

深圳市元征軟件開發有限公司 a subsidiary of the Company established in the PRC, as a software company recognised by local tax bureau, is entitled to the tax holiday of “two-year exemption and three-year 50% reduction” from the first profitable year of operation.

(4) Dividends

The Directors do not recommend an interim dividend for the three months ended 31 March 2007.

(5) Earnings per share

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

	Three months ended	
	31 March	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period		
Profit adopted for the calculation of basic earnings per share	<u>16,025</u>	<u>13,855</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>554,200,000</u>

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

(6) Reserves

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	363,359	285,520
Issue of H Shares	–	53,238
Net Profit for the period	<u>16,025</u>	<u>13,855</u>
As at 31 March	<u>379,384</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 2007, 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	(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 2007, 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 2007, 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 controlled company	138,864,000	42.08% (Note)	24.89%

Note: 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	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
McCarthy Kent C.	Interest of corporation controlled by substantial shareholder	123,201,000	54.04%	22.08% <i>(Note)</i>
Jayhawk China Fund (Cayman) Ltd. (「JCF」)	Investment manager	90,756,000	39.81%	16.26%
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%
Jayhawk Private Equity Fund, L.P. (「JPEF」)	Investment manager	29,822,000	13.08%	5.34%
Genesis Smaller Companies SICAV	Investment manager	22,651,000	9.93%	4.06%
United Technologies Corporation Master Trust	Investment manager	15,349,000	6.73%	2.75%
Baring Asia Private Equity Fund II L.P.1	Interest of corporation controlled by substantial shareholder	12,275,000	5.38%	2.20%
Carlson Fund Equity Asian Small Cap	Investment manager	12,180,000	5.34%	2.18%

Note: McCarthy Kent C is interested in 100% of the issued share capital of JCF and JPEF. Therefore, by virtue of Part XV of the SFO, the H Shares in which JCF and JPEF are shown as being interested are included in and duplicate with interest in the H Shares held by McCarthy Kent C.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the period ended 31 March 2007, 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 2006 annual report and the first quarterly report 2007 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.

By order of the Board
Launch Tech Company Limited
Liu Xin
Chairman

Shenzhen, the PRC
30 April 2007

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.