

LAUNCH



2008 1st Quarterly Report

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)

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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 2008 was approximately RMB100,760,000; increased by approximately 8% as compared with the corresponding period in 2007.
- Net profit was approximately RMB16,610,000; increased by approximately 4% as compared with the corresponding period in 2007.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2008.

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 2008.

Financial Review

	Difference	For the three months ended	
		31 March 2008 <i>RMB'000</i>	31 March 2007 <i>RMB'000</i>
Turnover	+8%	100,760	93,021
Net profit	+4%	16,610	16,025

Business Review

Under the period of review, the Group's turnover increased by 8%, compared with corresponding period of last year, and reached approximately RMB10 million. According to our experience, Chinese New Year holiday normally adversely affects the revenue in first quarter in each year, especially the domestic sales. In the first quarter, as the Group focused more on the export sales, the result was satisfactory.

During the first quarter, the Group sold around 5,000 units of X431 Electronic Eye, our key diagnostic product, over 50% to overseas markets. Our engineers managed to pace the car manufacturers technology and speed up our software development process, we targeted to offer our customers very quick launch of new products and software to fit their demands.

For another key product, automotive lifts, our Shanghai factory is nowadays very mature to produce high quality automotive lift to fulfill different standard of different markets. During the first quarter, around 3,000 units were sold, and half of them were exported.

With tight control over the inventory level and procurement, the Group's gross profit margin maintained around 54%, and this result is satisfactory. Selling expenses and Administrative expenses is expected to increase about 10% in this year, as the inflation in the PRC is significant.

The associate in Shanghai has opened 9 new repair chain stores in Shanghai area in the first quarters, reached 31 stores at 31 March 2008, and 8 more new stores are coming soon in second quarter, and therefore the revenue for the associate is still unstable. The associate company is now establishing the repair chain store network in the Shanghai area, and later on will expand to other provinces. We are looking forward to seeing a more stable performance of this very high potential associate in the coming quarters.

In this year, a major subsidiary's income tax free period expired, and this year it enjoyed only 50% exemption. During the first quarter of this year, around RMB1.6 million of income tax was provided.

The profit after tax reached approximately RMB 17 million; a 4 % increase was noted. The variance between the sales increase % and the profit increase % was mainly due to the income tax impact.

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, 13 May 2008

UNAUDITED CONSOLIDATED INCOME STATEMENT

	NOTES	For the three months ended	
		31 March	
		2008	2007
		RMB'000	RMB'000
Revenue	(2)	100,760	93,021
Cost of sales		(46,321)	(46,935)
Gross profit		54,439	46,086
Other income		1,038	711
Selling expenses		(15,941)	(14,125)
Administrative expenses		(9,121)	(8,147)
Research and development expenses		(3,937)	(3,800)
Finance costs		(6,210)	(4,700)
Share of results of an associate		(2,015)	–
Profit before income tax		18,253	16,025
Income tax expense	(3)	(1,643)	–
Profit for the period attributable to the Company's equity holders		<u>16,610</u>	<u>16,025</u>
Dividends	(4)	<u>–</u>	<u>–</u>
Numbers of weighted average ordinary Shares		<u>603,600,000</u>	<u>558,000,000</u>
Basic earnings per share		<u>RMB0.028</u>	<u>RMB0.029</u>

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

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 2008 and the corresponding period in 2007.

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

(2) Revenue

Revenue, which is also the Group's turnover, represents the net amount received and receivable (net of any business tax) for goods and software system sold and services rendered arising from the principal activities of the Group, net of value-added tax and/or business tax.

(3) Income tax

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 18% (2007: 15%); the Company's PRC subsidiaries are subject to income tax at the rates of 18% (2007: 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. No tax exemption for year 2008.

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. This year is the first "three-year 50% reduction" year.

(4) Dividends

The Directors do not recommend an interim dividend for the three months ended 31 March 2008.

(5) Reserves

	2008	2007
	<i>RMB '000</i>	<i>RMB '000</i>
At 1 January	433,018	343,829
Net Profit for the period	16,610	16,025
	<hr/>	<hr/>
As at 31 March	449,628	359,854
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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 2008, 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 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	138,636,000	42.01%	22.97%
	(2) Interest in controlled company	138,864,000	42.08% <i>(Note 1)</i>	23.00%
	(3) Interest in controlled company	10,261,000	3.11% <i>(Note 2)</i>	1.70%
Mr. Liu Jun	Interest in controlled company	138,864,000	42.08% <i>(Note 3)</i>	23.00%

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 42.01% 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 42.01% 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 2008, 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 2008, 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% <i>(Note)</i>	23.00%

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	122,146,000	44.64% <i>(Note)</i>	20.24%
Jayhawk China Fund (Cayman) Ltd. ("JCF")	Investment manager	83,886,000	30.66%	13.90%
Templeton Asset Management Ltd.	Investment manager	45,600,000	16.67%	7.55%
International Finance Corporation	Beneficial owner	38,000,000	13.89%	6.30%
Genesis Fund Managers, LLP	Investment manager	38,000,000	13.89%	6.30%
Jayhawk Private Equity Fund, L.P. ("JPEF")	Investment manager	31,955,497	11.68%	5.29%
Genesis Smaller Companies SICAV	Investment manager	22,651,000	8.28%	3.75%
United Technologies Corporation Master Trust	Investment manager	15,349,000	5.61%	2.54%
Carlson Fund Equity Asian Small Cap	Investment manager	12,180,000	4.45%	2.02%

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 2008, 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 2007 annual report and the first quarterly report 2008 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
13 May 2008

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.