

# LAUNCH



## 2009 2nd 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:8136)

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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 2009.

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

#### **Business Review**

During the period under review, the Group's turnover decreased by 19% to approximately RMB195,000,000 as compared with the corresponding period of last year. In light of the current market environment, the performance was very satisfactory. Under the impact of various state policies for stimulation and expansion of domestic demand and driven by the sales volume of automobiles in the PRC, the systematic and focused management of the PRC market offered opportunities for the Group in competing with others, allowing sales of core products of the Group to maintain substantial growth. The Group successfully held the annual meeting for distributors and the 14th annual meeting in the PRC whilst its marketing channels all demonstrated high spirits. Affected by the macro-economic factors, slowdown in sales in the overseas market was inevitable. It is hoped that the consumer confidence in the overseas market will resume gradually in the second half of the year.

The Group has successfully accelerated the research and development and promotion of all products. A number of new products were launched or to be launched shortly. New products in the X431 series automotive diagnostic device, the core product of the Group, made significant contribution to the market sales for the first half of the year. The 4-wheel aligner also achieved breakthroughs in the PRC market. The Group has also pushed forward the research and development and sales of automotive electronic products and has initiated preliminary cooperation with several automobile manufacturers. One research and development department will devote actively on new product development so as to bring more growth opportunities for the Group.

During the first half of the year, the Group sold a total of approximately 13,000 units of X431 Electronic Eye, with 9,000 sold in the PRC market. As the product has been fully developed, efficient and effective production control was achieved and improvement in raw material procurement, the increase in sales volume of X431 Electronic Eye has brought the Group with a comparatively stable profit margin.

For another key product, automotive lifts, our Shanghai Factory is now very mature in producing high quality automotive lift to cater for different demands of different markets. During the first two quarter, more than 8,000 units were sold, of which 6,000 units were for the domestic market. While exports will only resume gradually in the second half of the year after the global financial crisis, sales in the PRC market will maintain its pace of growth.

To cope with financial crisis and the keen competition, the management took active steps in reviewing the cost and price structures and in expanding domestic and overseas sales. Scale of production was also enhanced to continuously reduce cost so as to maintain competitive product prices and profit margin. The Group has always been striving to tap new resources and control expenses. The management will search for any viable means to save sales and administrative expenses so as to maintain our profit margins at a satisfactory level.

### **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, 12 August 2009

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

### **Financial resources and liquidity**

The Group adheres to a prudent financial management policy and has a healthy financial position. The Group had cash and bank balances of approximately RMB270,000,000 as at 30 June 2009.

As at 30 June 2009, shareholders' equity of the Group amounted to approximately RMB521,000,000. Current assets amounted to approximately RMB823,000,000. The Group's long-term bank borrowings amounted to approximately RMB40,000,000, and current liabilities amounted to approximately RMB571,000,000, which comprised short term bank borrowings amounted to approximately RMB411,000,000, and the remainder mainly consists of account payables and accruals. The Group's net asset value per share amounted to approximately RMB0.86. The Group's gearing ratio, representing the percentage of bank borrowings over gross asset value was 40%.

### **Pledge of assets**

As at 30 June 2009, apart from the pledged land, property and plant of approximately RMB53,000,000 and bank deposits of approximately RMB77,000,000, the Group had no other major 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 2009.

### **Capital commitments and future plans for material investments**

The Group did not have material capital commitment and future plans for material investment or capital assets as at 30 June 2009.

### **Foreign exchange exposure**

For the period under review, most of the Group's transactions was denominated in RMB whereas all overseas sales were transacted in USD, and expenses were paid in RMB. As the exchange rate between RMB and USD has not experienced significant adjustments since 2009, the Directors consider that the Group was not under substantial foreign exchange risk exposure.

### **Employees**

As at 30 June 2009, the Group had approximately 1,000 and 12 employees based in the PRC and overseas respectively. For the six months ended 30 June 2009, the total staff cost net of the remunerations of the Directors and supervisors amounted to approximately RMB30,000,000 (2008: approximately RMB30,000,000). 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 2008.

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	(4)	117,510	139,516	195,030	240,276
Cost of sales		(59,814)	(75,316)	(92,372)	(121,637)
Gross profit		57,696	64,200	102,658	118,639
Other income		4,061	3,783	4,311	4,821
Selling expenses		(16,778)	(15,164)	(32,234)	(31,105)
Administrative expenses		(17,674)	(12,175)	(32,687)	(21,296)
Research and development expenses		(6,321)	(5,977)	(10,879)	(9,914)
Finance costs		(6,786)	(8,046)	(11,786)	(14,256)
Share of result of an associate		(475)	(2,269)	(1,750)	(4,284)
Profit before taxation		13,723	24,352	17,633	42,605
Income tax	(5)	(2,597)	(2,419)	(2,927)	(4,062)
Profit for the period, attributable to the Company's equity holders		<u>11,126</u>	<u>21,933</u>	<u>14,706</u>	<u>38,543</u>
Dividends	(6)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Number of weighted average ordinary shares		<u>603,600,000</u>	<u>603,600,000</u>	<u>603,600,000</u>	<u>603,600,000</u>
Basic earnings per share		<u>RMB1.8 cents</u>	<u>RMB3.6 cents</u>	<u>RMB2.4 cents</u>	<u>RMB6.4 cents</u>

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

## CONSOLIDATED BALANCE SHEET

As at 30 June 2009

		<b>30 June 2009</b>	31 December 2008
	<i>Notes</i>	<b>(Unaudited) RMB'000</b>	(Audited) RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	(7)	<b>224,130</b>	233,467
Leasehold land and land use rights	(7)	<b>21,664</b>	21,927
Goodwill	(7)	<b>3,658</b>	3,658
Development costs	(7)	<b>47,651</b>	47,008
Interests in an associate		<b>10,769</b>	9,759
Club membership	(7)	<b>1,177</b>	1,177
		<b>309,049</b>	316,996
<b>Current assets</b>			
Inventories		<b>87,551</b>	76,650
Trade receivables	(8)	<b>234,417</b>	239,734
Bills receivable		<b>3,781</b>	1,433
Other receivables, deposits and prepayments		<b>148,313</b>	164,616
Amount due from an associate		<b>2,231</b>	3,159
Pledged bank deposits		<b>76,900</b>	21,000
Cash and cash equivalents		<b>269,508</b>	97,583
		<b>822,701</b>	603,175
<b>Current liabilities</b>			
Trade payables	(9)	<b>68,354</b>	60,763
Bills payable		<b>78,300</b>	21,000
Other payables and accrued charges		<b>13,174</b>	12,662
Income tax payable		<b>110</b>	12
Current portion of borrowings		<b>411,000</b>	278,865
		<b>570,938</b>	373,302
<b>Net current assets</b>		<b>251,763</b>	229,873
<b>Total assets less current liabilities</b>		<b>560,812</b>	546,869
<b>Non-current liabilities</b>			
Borrowings		<b>40,000</b>	40,763
<b>Net assets</b>		<b>520,812</b>	506,106
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital		<b>60,360</b>	60,360
Reserves		<b>460,452</b>	433,674
Proposed final dividend		–	12,072
<b>Total equity</b>		<b>520,812</b>	506,106

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At 1 January	<b>506,106</b>	523,558
Profit for the period	<b>14,706</b>	38,543
Currency translation difference	–	(1,103)
Payment of final dividend	–	(30,180)
	<hr/>	<hr/>
At 30 June	<b><u>520,812</u></b>	<b><u>530,818</u></b>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cash flows from operating activities	<b>51,106</b>	22,130
Cash flows from investing activities	<b>(10,553)</b>	(23,378)
Cash flows from financing activities	<b>131,372</b>	(30,264)
	<hr/>	<hr/>
Net increase in bank balances and cash	<b>171,925</b>	(31,512)
Bank balances and cash at 1 January	<b>97,583</b>	175,203
	<hr/>	<hr/>
Bank balances and cash at 30 June	<b><u>269,508</u></b>	<b><u>143,691</u></b>



## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2009*

### **(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 2009 and 2008. 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 2008.

### **(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:

	<b>For the six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Turnover, by geographical market:		
PRC (not including Hong Kong)	<b>113,209</b>	104,469
Europe	<b>31,080</b>	52,544
America	<b>32,712</b>	38,151
Others	<b>18,029</b>	45,112
	<b>195,030</b>	240,276
Unallocated other income	<b>4,311</b>	4,821
Unallocated costs and expenses	<b>(184,635)</b>	(202,492)
Profit before tax	<b>14,706</b>	42,605

**(5) 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's overseas subsidiary is subject to income tax at the rate of 42%.

The Company is subject to income tax at the rate of 20% (2008: 18%). No provision for EIT has been made for the Company as it did not derive any taxable income for the period.

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 subject to income tax at the rate of 25%. It 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 subject to income tax at the rate of 20% (2008: 18%). It 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 second "three-year 50% reduction" year.

**(6) Dividends**

The Board does not recommend an interim dividend for the six months ended 30 June 2009 (2008: Nil).

(7) **Non-current assets**

	Property, plant and equipment <i>RMB'000</i>	Leasehold land and land use rights <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Development costs <i>RMB'000</i>	Club membership <i>RMB'000</i>
Net book amounts at 31 December 2008 and 1 January 2009	233,467	21,927	3,658	47,008	1,177
Additions	3,550	–	–	5,643	–
Depreciation/annual charges/amortisation	(12,887)	(263)	–	(5,000)	–
	<u>224,130</u>	<u>21,664</u>	<u>3,658</u>	<u>47,651</u>	<u>1,177</u>

(8) **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 2009 (Unaudited) <i>RMB'000</i></b>	31 December 2008 (Audited) <i>RMB'000</i>
Within 6 months	<b>142,518</b>	108,068
Over 6 months but less than 1 year	<b>68,841</b>	84,096
Over 1 year but less than 2 years	<b>23,058</b>	46,570
	<u><b>234,417</b></u>	<u>238,734</u>

(9) **Trade payables**

Aged analysis are as follows:

	<b>30 June 2009 (Unaudited) <i>RMB'000</i></b>	31 December 2008 (Audited) <i>RMB'000</i>
Within 6 months	<b>58,169</b>	41,547
Over 6 months but less than 1 year	<b>10,185</b>	7,920
Over 1 year but less than 2 years	–	11,296
	<u><b>68,354</b></u>	<u>60,763</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 2009, 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	138,636,000	42.01%	22.97%
	Interest in a controlled company	138,864,000	42.08% <i>(Note 1)</i>	23.00%
	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>	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 approximately 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 30 June 2009, 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 2009, 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)	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
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%
McCarthy Kent C.	Interest of corporation controlled by substantial shareholder	23,306,255	8.52%	3.86% <i>(Note)</i>
Genesis Smaller Companies SICAV	Investment manager	22,651,000	8.28%	3.75%
Jayhawk Private Equity Fund, L. P. ("JPEF")	Investment manager	21,616,643	7.90%	3.58%
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 JPEF. Therefore, by virtue of Part XV of the SFO, the H Shares in which JPEF is shown as being interested is 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 30 June 2009, 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.

Following Mr. Yim's passing away on 14 July of this year, the Company has only two independent non-executive directors and two members in its audit committee, and there is no independent non-executive director with relevant professional qualification of accounting or financial management expertise, such number do not meet the minimum requirement prescribed in Rule 5.05(1) and 5.28 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Company is endeavouring to identify suitable candidate to fill the vacancies of independent non-executive director and audit committee member of the Company so as to comply with the minimum number requirement for independent non-executive directors and audit committee members under Rule 5.05(1) and 5.28 of the GEM Listing Rules as soon as possible. A further announcement will be published upon compliance with the requirements under Rule 5.05(1) and 5.28 of the GEM Listing Rules.

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

- review 2008 annual report, 2009 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  
12 August 2009

*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 2 independent non-executive Directors, namely Mr. Zhang Xiao Yu and Professor Hu Zi Zheng .*