

LAUNCH



2009 3rd 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 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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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 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 9% to approximately RMB320,000,000 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 three quarters of the year, the Group sold a total of approximately 22,000 units of X431 Electronic Eye, with 15,000 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 13,000 units were sold, of which 10,000 units were for the domestic market. While exports is expected to resume gradually in the fourth quarter 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, 13 November 2009

UNAUDITED CONSOLIDATED INCOME STATEMENT

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|--|-------|------------------------------------|-----------------|-----------------------------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
| Turnover | (3) | 124,212 | 110,540 | 319,242 | 350,816 |
| Cost of sales | | (69,982) | (62,050) | (162,354) | (183,687) |
| Gross profit | | 54,230 | 48,490 | 156,888 | 167,129 |
| Other operating income | | 5,734 | 2,054 | 10,045 | 6,875 |
| Selling expenses | | (15,558) | (12,064) | (47,792) | (43,169) |
| Administrative expenses | | (14,355) | (11,689) | (47,042) | (32,985) |
| Research and development expenses | | (6,402) | (4,988) | (17,281) | (14,902) |
| Finance costs | | (5,356) | (6,210) | (17,142) | (20,466) |
| Share of result of an associate | | (1,080) | (1,264) | (2,830) | (5,548) |
| Profit before taxation | | 17,213 | 14,329 | 34,846 | 56,934 |
| Income tax | (4) | (1,916) | (1,500) | (4,843) | (5,562) |
| Profit for the period, attributable to the Company's equity holders | | 15,297 | 12,829 | 30,003 | 51,372 |
| Dividends | (5) | – | – | – | – |
| Number of weighted average ordinary shares | | 603,600,000 | 603,600,000 | 603,600,000 | 603,600,000 |
| Basic earnings per share | | RMB2.5 cents | RMB2.1 cents | RMB5.0 cents | RMB8.5 cents |

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

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended 30 September 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 consolidated financial statement incorporate the financial statement of the Company and its subsidiaries for the nine months ended 30 September of 2009 and 2008. 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) 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.

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.

(5) Dividends

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

(6) Reserves

| | 2009 <i>RMB'000</i> | 2008 <i>RMB'000</i> |
|-----------------------|------------------------|------------------------|
| At 1 January | 506,106 | 463,198 |
| Profit for the period | 30,003 | 51,372 |
| Dividend paid | – | (30,180) |
| | <hr/> | <hr/> |
| At 30 September | <u>536,109</u> | <u>484,390</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 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 | Beneficial 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 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 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 30 September 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 September 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 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)</i> | 23.00% |

Note: 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 |
|--|---|--|--|--|
| McCarthy Kent C. | Interest of corporation controlled by substantial shareholder | 55,990,000 | 20.46% | 9.28% <i>(Note)</i> |
| Jayhawk Private Equity Fund, L. P. ("JPEF") | Investment manager | 52,461,041 | 19.17% | 8.69% <i>(Note)</i> |
| 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% |
| 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 JPEF. Therefore, by virtue of Part XV of the SFO, the H Shares in which 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 30 September 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 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.

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.

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

- review 2008 annual report, 2009 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
13 November 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 Zhang.