

LAUNCH



2010 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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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 2010.

Financial Review

	Difference	For the three months ended	
		31 March 2010	31 March 2009
		RMB'000	RMB'000
Turnover	+83%	142,015	77,520
Profit after tax	+518%	22,138	3,580

Turnover for the first quarter of the year decreased by 83% as compared with the corresponding period of last year, mainly due to the decrease in overseas orders as a result of the influence of an unstable global economy and weakened consumer sentiment after the financial tsunami. Production cost declined relatively which benefited the automotive lift product business. Gross profit margin was driven up to 47%, representing an increase of 3% as compared with last year.

Under the difficult economic environment, the Group recorded a profit after tax of RMB22,000,000, representing an increase of 518% as compared to last year. Based on an aggregate of 603,600,000 shares, average earnings per share were RMB0.037, representing an increase of RMB0.031 as compared with last year.

Business Review

The first quarter is used to be a low season for sales in the industry. The Group, however, recorded a satisfactory sales result in the first quarter of the year, with a significant increase in turnover of approximately 83% as compared with the previous year. 12,000 diagnostic products were sold, 70,000 automotive lift products were sold, and the sales of other products such as 4-wheel aligner also recorded an increases. The increase in sales in the first quarter of the year laid a solid foundation for the Group in achieving its sales objective for the year. The increase in sales was mainly attributable to the further improvement of the domestic economic environment, together with the obvious pick-up in the domestic market, extending the growth trend of 2009. Besides, the international market started to recover with improved sales as compared with last year. The cost control efforts gained effect in the first quarter. The IPD product integrated development system enhanced the competitiveness of our products, while the outstanding performance in 2009 strengthened and helped our X43, X631 and automotive lift products maintain a leading position within the domestic and international markets.

The Group carried various marketing activities in the PRC and continuously improved its relationship with distributors in several sales channels through the Beijing exhibition held in March. As for the management of the internal sales channels in our subsidiaries, we optimized further our strategy, which also gave rise to improved performance in the domestic market.

For the international market, the Group implemented a number of strategies for transforming the management and speeding up innovation. More trainings were provided to technicians. Since the international market environment improved notably, the sales in Europe and US markets started to rebound.

The Group participated in the 53th Spring Auto Maintenance Fair which was held in Beijing in March 2010. Numerous new products were showcased at the exhibition, including X431 3G, X431 NCP, Value 200 and the new model of X631. We got a lot of positive feedback, especially for X431 3G.

The Group started to operate with lean production method from the end of 2009. The effect was immediately shown in the first quarter of the year with lower production cost and benefited the automotive lift products business.

Prospects

In the foreseeable future, the Group plans to launch customized products for the international market and various products for different domestic sectors. With the launch of new products, the Group expects that sale this year will record new highs; and the sales of automotive lift products will also make a breakthrough due to the continuous cost reductions in automotive lift products.

Given the outstanding sales performance in the first quarter, the recovering domestic market environment and our continuous input in R&D, it is expected that the sales result will improve in a larger magnitude compared to last year.

The Group will aggressively implement various management and business strategies, make the best of the good start and opportunities to achieve our objectives with the efforts of all our staff. Also, our management will stick to their posts, actively manage the cash reserve, maintain a normal cash flow for operation, generate more income sources and reduce expenditure, further control the management and sales cost, streamline the internal operation of IPD system and develop new products in order to facilitate product sales and the healthy operation of the Group.

Liu Xin
Chairman

Shenzhen, the PRC, 14 May 2010

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	For the three months ended	
		31 March	
		2010	2009
		RMB'000	RMB'000
Revenue	(2)	142,015	77,520
Cost of sales		(75,174)	(32,558)
		<hr/>	<hr/>
Gross profit		66,841	44,962
Other income		766	250
Selling expenses		(14,526)	(15,456)
Administrative expenses		(17,177)	(15,013)
Research and development expenses		(5,908)	(4,558)
Finance costs		(4,058)	(5,000)
Share of results of an associate		(2,000)	(1,275)
		<hr/>	<hr/>
Profit before income tax		23,938	3,910
Income tax expense	(3)	(1,800)	(330)
		<hr/>	<hr/>
Profit for the period and total comprehensive income attributable to owners of the Company		<u>22,138</u>	<u>3,580</u>
Dividends	(4)	<u>–</u>	<u>–</u>
Numbers of weighted average ordinary Shares		<u>603,600,000</u>	<u>603,600,000</u>
Basic earnings per share		<u>RMB0.037</u>	<u>RMB0.006</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 2010 and the corresponding period in 2009.

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 expense

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 operates. 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 EIT for the financial years in 2000 and 2001 and was eligible for and entitled to 50% tax relief for the financial years from 2002 to 2004. Upon obtaining the approval from local tax bureau, the Company was eligible and entitled to 50% tax relief for the 3 additional financial years from 2005 to 2007. The current year income tax rate of the Company is 22% (2009: 20%) as it expired the beneficial period of eight years.

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.

Pursuant to the new PRC Corporate Income Tax Law which was effective from 1 January 2008, a unified income tax rate has been applied to the Company and 深圳市元征軟件開發有限公司 ("Launch Software") in 2008. In respect of tax rate that applies to the Company and Launch Software, these enterprises which enjoy a preferential tax rate of 15% in the past are subject to a tax rate of 18% in 2008 and the tax rate will be transitioned to 25% over five years. 2008 is the first year for Launch Shanghai to entitle to the tax exemption.

Launch Software, 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 22% in 2009 (2009: 20%). It is entitled to the tax holiday of "two-year exemption and three-year 50% reduction" from the first profitable year of operation.

Launch Shanghai and Launch Software which originally enjoyed the preference of regular tax holidays will continue to enjoy original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

(4) Dividends

The Directors do not recommend an interim dividend for the three months ended 31 March 2010.

(5) Reserves

	2010 RMB '000	2009 RMB '000
At 1 January	489,877	433,674
Net Profit for the period	22,138	3,580
As at 31 March	<u>512,015</u>	<u>437,254</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 2010, 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% (Note 1)	23.01%
	(3) Interest in controlled company	10,261,000	3.11% (Note 2)	1.70%
Mr. Liu Jun	Interest in controlled company	138,864,000	42.08% (Note 3)	23.01%

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 2010, 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 2010, 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)	23.01%

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	62,730,000	22.93% <i>(Note)</i>	10.39%
Jayhawk Private Equity Fund, L.P. ("JPEF")	Investment manager	59,414,231	21.72%	9.84%
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 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 31 March 2010, 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 to 5.45 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.

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. Jiang Chao, Mr. Liu Yuan, and Dr. Zhou Shulin.

Two audit committee meetings were held in this period to perform the following duties:

- review 2009 annual report and the first quarterly report 2010 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
14 May 2010

As at the date of this report, the Board comprises 3 executive Directors, namely Mr. Liu Xin, Mr. Liu Jun and Ms. Liu Ping; 1 non-executive Director, namely Ms. Liu Yong; and 3 independent non-executive Directors, namely Mr. Jiang Chao, Mr. Liu Yuan and Dr. Zhou Shulin.