

LAUNCH



2010 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 nine months ended 30 September 2010. The Group's principle developments in the first nine months of the year under review are set as follows:

Business Review

Under the recovered economic environment, the Group recorded a profit after tax of approximately RMB93,000,000, representing an increase of 211% as compared to last year. Average earnings per share were RMB15.5 cents, representing an increase of RMB10.5 cents as compared with last year.

During the period under review, the Group's turnover increased by 49% to approximately RMB475,000,000 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 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 in the PRC whilst its marketing channels all demonstrated high spirits. Sales in the overseas market were recovering gradually as the activities for overseas distributors held in Shanghai in July were well received.

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. The X431 series automotive diagnostic device, the core product of the Group, made significant contribution to the market sales. The 4-wheel aligner also achieved breakthroughs in the PRC market. Our 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 36,000 units of X431 Electronic Eye, with 22,000 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. During the first three quarters, our Shanghai Factory sold 29,000 units of automotive lift, of which 16,000 units were for the domestic market. While exports is resuming gradually, sales in the PRC market will maintain its pace of growth.

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 November 2010

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover	(3)	163,230	124,212	475,496	319,242
Cost of sales		(90,144)	(69,982)	(257,594)	(162,354)
Gross profit		73,086	54,230	217,902	156,888
Other income		27,876	5,734	40,050	10,045
Selling expenses		(24,131)	(15,558)	(61,894)	(47,792)
Administrative expenses		(20,896)	(14,355)	(59,400)	(47,042)
Research and development expenses		(5,605)	(6,402)	(18,797)	(17,281)
Finance costs		(3,575)	(5,356)	(12,738)	(17,142)
Share of result of an associate		(414)	(1,080)	(3,000)	(2,830)
Profit before taxation		46,341	17,213	102,123	34,846
Income tax	(4)	(2,624)	(1,916)	(8,770)	(4,843)
Profit for the period, attributable to the Company's equity holders		43,717	15,297	93,353	30,003
Dividends	(5)	–	–	–	–
Number of weighted average ordinary shares		603,600,000	603,600,000	603,600,000	603,600,000
Basic earnings per share		RMB7.2 cents	RMB2.5 cents	RMB15.5 cents	RMB5.0 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 2010

(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 2010 and 2009. 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 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 2010 (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.

(5) Dividends

The Board does not recommend an interim dividend for the nine months ended 30 September 2010 (2009: Nil).

(6) Reserves

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	507,985	506,106
Profit for the period	93,353	30,003
Dividend paid	(18,108)	—
	<hr/>	<hr/>
At 30 September	<u>583,230</u>	<u>536,109</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 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 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% (Note 1)	23.00%
	Interest in a controlled company	10,261,000	3.11% (Note 2)	1.70%
Mr. Liu Jun	Interest in a controlled company	138,864,000	42.08% (Note 3)	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 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 30 September 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 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
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%
SPX Corporation	Beneficial owner	24,635,000	9.00%	4.08%
Genesis Smaller Companies SICAV	Investment manager	22,651,000	8.28%	3.75%
McCarthy Kent C.	Interest of corporation controlled by substantial shareholder	18,657,000	6.82%	3.09% <i>(Note)</i>
Jayhawk Private Equity Fund, L. P. ("JPEF")	Investment manager	16,131,325	5.90%	2.67% <i>(Note)</i>
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 2010, 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. Jiang Chao, Mr. Liu Yuan and Dr. Zou Shulin.

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

- review 2009 annual report, 2010 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
12 November 2010

As at the date of this report, the Board comprises 3 executive Directors, namely Mr. Liu Xin, Mr. Liu Jun and Professor Ms. Liu Ping; 2 non-executive Directors, namely Ms. Liu Yong and Ms. Liu Xiaohua; and 3 independent non-executive Directors, namely Mr. Jiang Chao, Mr. Liu Yuan and Dr. Zou Shulin.