golo

Most advanced intelligent vehicle hardware

2014 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 : 2488)

Annual Report

Contents

Corporate Profile

Launch Tech Company Limited (the "Company"), which was established in 1992, was listed in the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "HKEX") (stock code: 8196) in 2002 and was transferred to the Main Board of the HKEX (stock code: 2488) in 2011. The Company is one of China's earliest high and new technology enterprises that started in the research, development and production of automotive diagnosis, testing, maintenance and tire equipment. For years, with the technical and branch advantages in automotive diagnosis, the Company has been in the leading position in the industry of automotive diagnosis equipment. In 2013, the Company adjusted its development strategies and determined to be transformed into a global core enterprise of Internet of Vehicles, and has currently become the leader of Internet of Vehicles industry.

The Company always insists on the principle of technical innovation and independent research and development, and currently owns the most powerful research and development team with the largest size around the world. Besides the research centers established in Shanghai and Shenzhen, the Company has also set up research and development teams in the U.S., Germany, Japan, Korea and Latin America. After years of accumulation, the Company has had hundreds of patent technologies and obtained hundreds of honors issued by governmental authorities and authoritative industry journals in China, the U.S., Germany and Australia, etc.

In terms of traditional businesses, the Company proposed the concept of "automotive aftermarket" in China as early as 1994, and developed product lines such as automotive diagnosis, inspection and maintenance and lifts on the basis of advanced automotive diagnosis and inspection technologies, developing special equipment for automotive maintenance and repair industry. Among others, the "Electronic Eye" has become a synonym for automotive diagnosis computer with "X431" representing the highest level in the diagnostic technologies of the industry.

In terms of Internet of Vehicles businesses, based on the accumulation of technologies for more than twenty years, the Company has developed Internet of Vehicles chipsets with proprietary intellectual property rights, launched a series of Internet of Vehicles products with the first global remote automotive diagnosis function and become the first enterprise in the world with real Internet of Vehicles technologies. Launch golo eco-chain is leading the development of the Internet of Vehicles industry.

In the PRC market, the Company has 8 branches and several tens of offices, and has developed hundreds of dealers and nearly a hundred of authorized training centers. In overseas, the Company has a subsidiary in Germany and has more than two hundred dealers throughout Europe, America, Australia and Asia.

Innovation lies in changes. Based on the corporate culture of "innovation, quality, efficiency, professionalism and competitiveness" and the people-oriented and constantly-innovating spirit, the Company is marching forward along the road of high technologies.

I. Direction of Enterprise and Analysis of Operation

Over the years, the Group has been in a leading position in the automotive diagnostic equipment industry. With the onset of the mobile internet era, the Group strives to become the core enterprise of the Internet of Vehicles in the world. After planning and arranging for two years, the Group has successfully launched golo Car Cloud Platform (golo車雲平台), a global platform of automobile repair and maintenance and life style of car with the support of a series of Internet of Vehicles smart hardware. Users of the platform include a huge number of car owners, automotive technicians and automotive maintenance companies. The Group has also introduced to users the applications and services provided by its corporate partners such as China Unicom, China Mobile, Baidu maps and Ping An Insurance who have joined the efforts to constitute the golo Internet of Vehicles network and implemented the strategic plan of O2O business model, thus basically completed the development layout of Internet of Vehicles. Credit its amazing product experience and innovative business model, the Group has established a leading position in the Internet of Vehicles industry.

Management Discussion and Analysis of Results of Operation

2014 was a year of development and deployment of Internet of Vehicles business for the Group. Internet of Vehicles experienced continuous technological innovation and upgrade of its products. The Group implemented its strategic transformation as scheduled, rapidly adjusted operating strategies, increased investment in Internet of Vehicles business and gave up some short-term business benefits, reflected as follow:

1) Developed the internet business mindset so as to promote users' participation;

2) Expanded the research and development team of Internet of Vehicles and increased the research and development investment;

3) Expanded the internet marketing team, optimized the business model and implemented O2O strategic plan;

4) Continued to maintain its leading position in the automotive diagnostic equipment industry and reduced product gross profit in order to dominate the market rapidly;

5) Strengthened its research and development and marketing capabilities, valued more on quality than turnover and controlled low value-added business.

Based on the above operating strategies, ultimate users such as car owners, automotive maintenance technicians, automotive maintenance enterprises and the third party application service providers have become the key development targets of the Group's Internet of Vehicles business. In 2014, in order to launch a user-oriented smart hardware and application service of Internet of Vehicles and promote users' participation, the Group provided a large number of trail products of golo series smart hardware and application service of Internet of Vehicles for its golo fans and potential ultimate users, some of the hardware products were sold at cost. While implementing the offline plan of the O2O strategy, the Group reduced the gross profit margin of the diagnostic products and actively promoted the car cloud diagnostic equipment. Also, the Group provided equipment upgrade service, which was a replacement of the traditional diagnostic equipment with car cloud diagnostic product with remote diagnostic functions, to the original users at a favorable price. Moreover, the Group had distributed some 100 thousands sets of the golo Technicians Box to automotive maintenance technicians across the country for free. Through these efforts, the market coverage of car cloud diagnostic products experienced a rapid growth while the offline service providers of Internet of Vehicles Business spread over the country. Currently, as there are over 10 thousands automotive maintenance enterprises and over 100 thousands automotive maintenance technicians provide offline efficient service to the Group's Internet of Vehicles users at any time, the Group has the largest network in the Internet of Vehicles maintenance industry, further widening its lead on its competitors.

Under the above marketing strategies, average gross profit margin of the Group's automotive diagnostic equipment decreased slightly while turnover and market share of the equipment have achieved a substantial increase, the advantage of the Internet of Vehicles was significant. However, the traditional business profit could not meet the financial needs of Internet of Vehicles business, as a result, the huge investment in Internet of Vehicles business caused a significant loss in the operation of the Group this year. Nevertheless, the Group is highly confident of its future development. In view of the development and by-stage completion of the Internet of Vehicles in 2014 and a proven edge of the brand name, the Group is well positioned to be a pioneer of the Internet of Vehicles industry.

II. Analysis of Internet of Vehicles Business

1. Internet of Vehicles Business

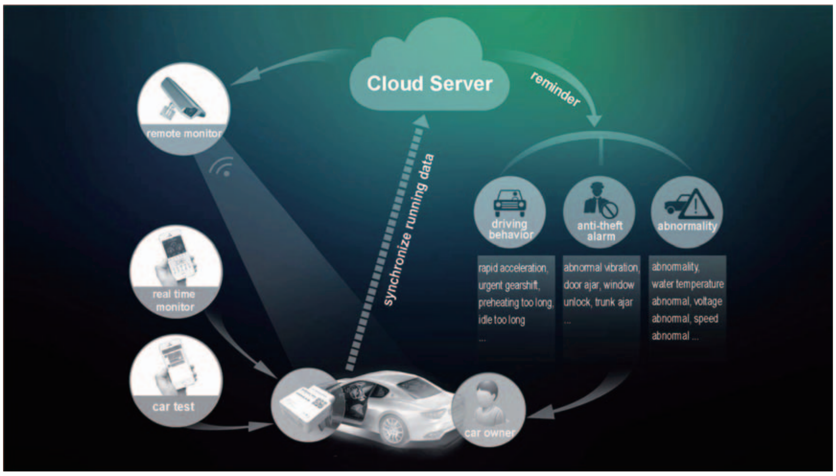
As the widespread popularisation and rapid development of internet technologies have vigorously promoted the upgrade of various industries, Internet of Vehicles, a sub-industry of the internet industry, has a prosperous development. Internet of Vehicles utilized the internet and vehicle related technologies to obtain the relevant vehicle information and leverage on those information. Internet of Vehicles technologies lead to a revolution in automotive industry. The automotive industry giants in America, Europe and Asia are preparing to apply the Internet of Vehicles technologies to the new generation of automotive products. After few years of planning, the internet leading companies in the PRC are desperately seeking for the entry point. As one of the earliest enterprises to start developing the Internet of Vehicles technology, the Group is reputable for its strong automotive diagnostic technologies.

As one of the key deployment industries in the "Twelfth Five-Year" plan of the PRC government, Ministry of Industry and Information Technology has made every effort to push forward the development of Internet of Vehicles from a number of aspects, from planning to formulating technology criteria. This year, the PRC government has put forward a new economic campaign namely "Internet+(互聯網+)" with the aim of fully leveraging the effect of optimization and integration by Internet in the allocation of production resources, and application of innovative internet technologies into various aspects in economy and society for enhancing the creativity and productivity of the real economy, and forming a new economic development with facilities and instruments of even higher content of Internet. Internet of Vehicles, with numerous potential business opportunities, is now warmly received by many investment institutions.

According to the GSMA and the report published by SBD, a market research company, 50% of the vehicles in the world require Internet of Vehicles service and it is expected that the market size will reach to RMB150 billion in 2015. In the following three to five years, it is anticipated that the market size will up to RMB300 billion. According to the industry forecast, 90% of the vehicles worldwide will be equipped with Internet of Vehicles technology by 2020.

1.1 Our Plan

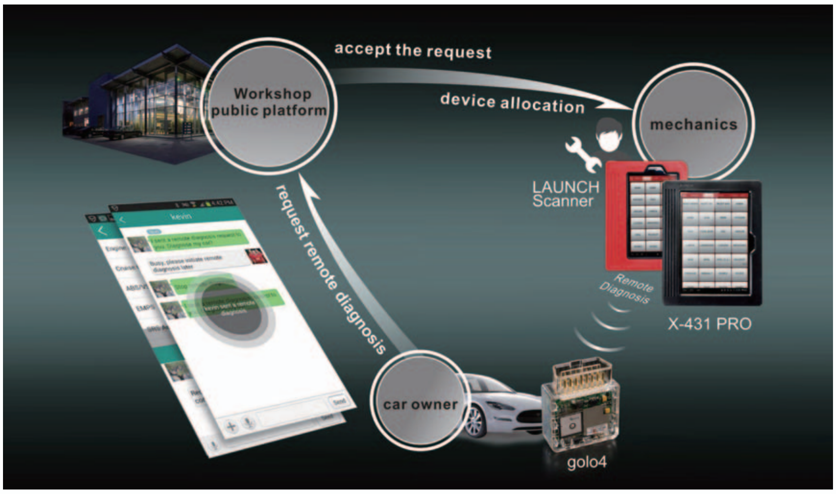
The Group plans to set up an auto networking business, with the golo car cloud platform as the center and underneath, there are a living platform for car owners, a working platform for repair technicians, an open platform for repair and maintenance enterprises and a third-party service platform, so as to form a global platform for the living and maintenance of vehicles. The objective is to provide users, including auto-owners, repair and maintenance enterprises, technicians, and other third-party applications, with a wealth of services while realizing vehicle management and excellent user experience in an efficient, safe and comfortable manner.



1.2 Our Services

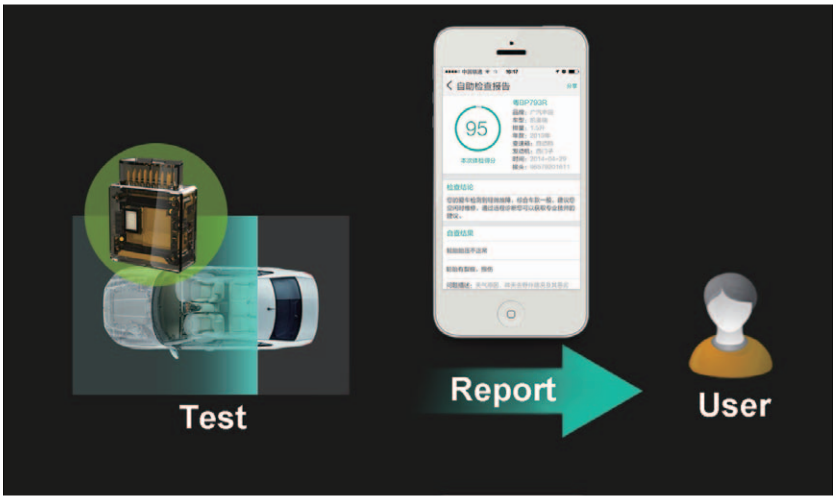
(1) Remote Diagnostics

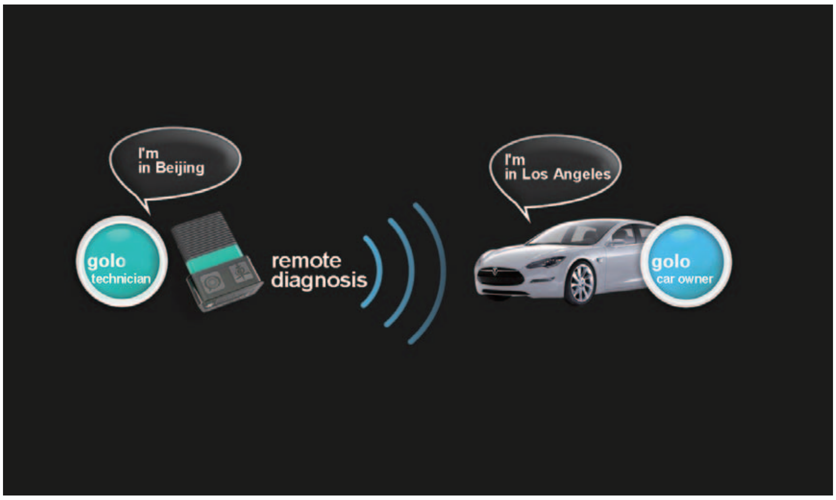
The Group has established a large-scale off-line service network. The Group's off-line service providers, including the auto diagnostic specialists teams, car maintenance enterprises and repair technicians, all provide auto-owners with technical advisory and remote diagnostic services via the golo related devices and/or products.



1.2 Our Services (Continued)

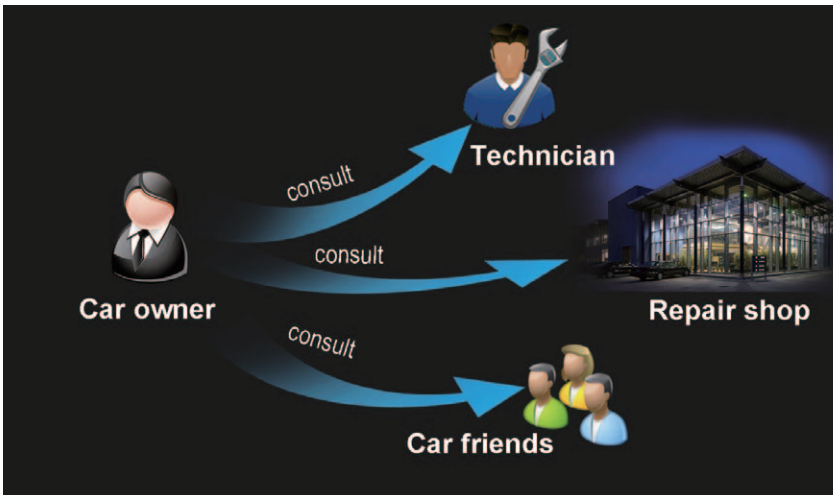
(1) Remote Diagnostics (Continued)





1.2 Our Services (Continued)

(1) Remote Diagnostics (Continued)



Management Discussion and Analysis of Results of Operation

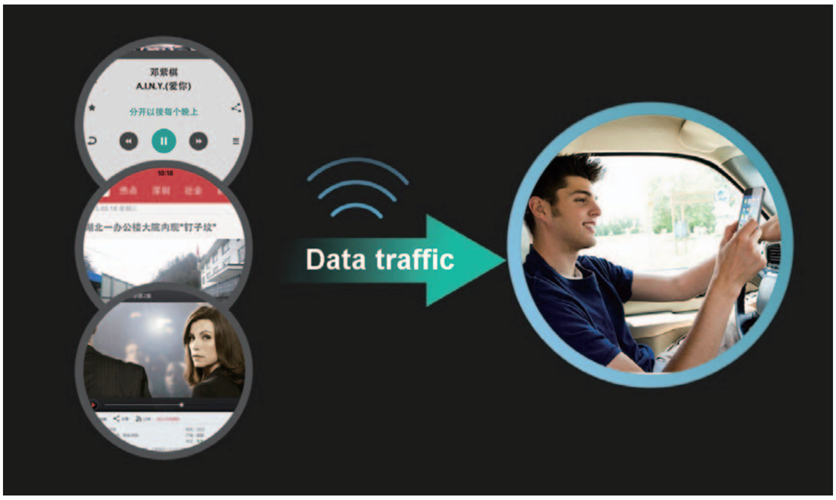
1.2 Our Services (Continued)

(2) Eventful Living

The Group's golo "car group" service APP is the first of its kind specially designed for car lovers and institutional fleet. The service APP enables the build-up of social activities vertically, has been warmly received by car users. Meanwhile, the Group has unprecedentedly introduced to the market its most advanced "VOG" on-board voice service. Users can customize and enjoy their life by sharing of information, music, entertainment, communications, etc. through voice control.

1.2 Our Services (Continued)

(2) Eventful Living (Continued)



1.2 Our Services (Continued)

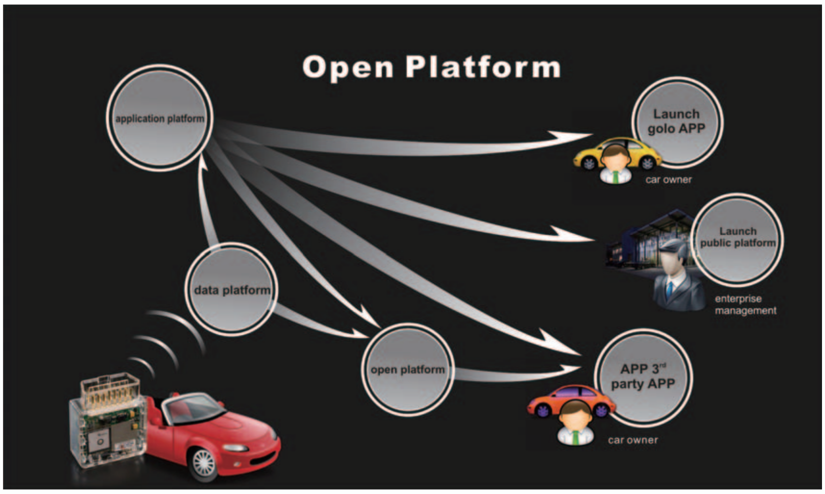
(3) Driving Record and Safety Tips

The series of golo intelligent hardware, car cloud diagnostic equipment and devices provide users with the real-time driving data and diagnostic report, as well as safety tips and alert services. All such data and reports would be stored and unified-managed at the car cloud platform of the Group.

1.2 Our Services (Continued)

(4) Big Data Analytics

By using the series of golo intelligent hardware, golo car cloud platform runs an overall management of data for end-users, data collected such as location information, driving track, driving habits, vehicle's maintenance record, general operating data of the vehicle and life footprint. All these data can be further used for Big Data Analytics in a broader aspect.



2. Technical Research and Development

Based on the accumulation of automotive diagnostic technologies over some 20 years, the Group gained insight into the industry's needs and development trend, and started inputting a large quantity of human resources and capital to develop Internet of Vehicles several years ago. In 2014, the Group substantially increased the recruitment of Internet research and development talents for the purposes of application planning, platform development and extraction of large amount of information, etc. The upgrade and innovation of Internet of Vehicles was accelerated and good results were achieved in the development and application of products and technologies.

As at the end of 2014, there were over 600 members in the research and development team of Internet of Vehicles and diagnostic technology, representing an increase of more than 100 members on a year-over-year basis. Except for the Internet of Vehicles research centre established at the headquarters, the Group also set up small-sized research and development teams in overseas in order to accelerate the localized application and development of Internet of Vehicles technology. For the reporting period, the input in Internet of Vehicles technology and product development amount to RMB 80,000,000.

The research and development work of the Group strictly abides by the CMMI system, adopts the advanced agile and IPD development flow at the same time, and emphasizes on structural management models including the development process, separation of the professionalism, technologies and product development. Meanwhile, in order to improve the research and development efficiency and arouse the innovative spirit of technicians, the Group implemented an incentive mechanism that includes 9 five-level incentive schemes with staff's contribution and efficiency as the core criteria and also 5 caring benefit measures for employees. Overall, the research and development team is remained stable and very experienced, has maintained a high morale and a rather stronge sense of belonging to the enterprise.

In 2014, the Group was granted a total of 45 patents in relation to Internet of Vehicles technologies, 10 software copyrights, 12 trademarks and 7 honours. The patented chip which was firstly developed by the Group based on the OBD technology was further improved, and has become the core part of the golo smart hardware products. They have kept changing the modes of traditional auto repair and maintenance business and the life style of vehicle owners. Repair technicians can provide a remote diagnostic and repair service for car owners anytime and such service has become the benchmark of the ecosystem of the Internet of Vehicles.

In 2014, technological projects which the Group successfully developed and researched included: rcu/u project, golo4s project, DPU431-A chip, golo 5 APP software, golo 6 smart hardware and software, golo 7 research project, ADAS project and V2X project, etc.

3. Product Development

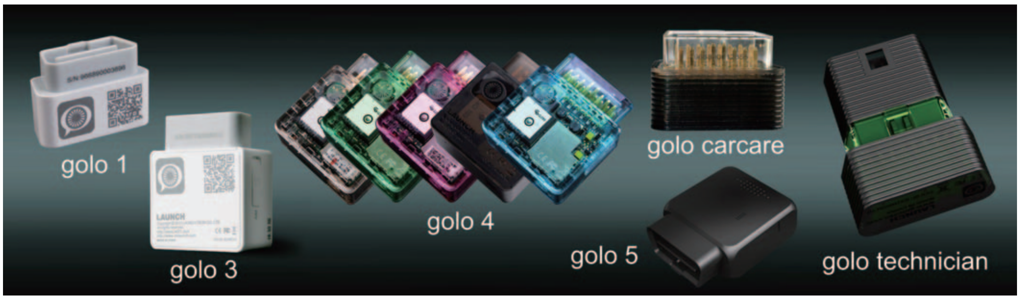
In 2014, the Group successfully developed the golo series smart hardware for Internet of Vehicles. The product is currently the most advanced Internet of Vehicles APP and the smallest portable professional automobile repair tool on the market.

The functions of the golo smart hardware mainly include: 1) obtaining the instant information of vehicles, 2) real-time remote diagnosis for the vehicles, 3) on-call vehicle examination, 4) vehicle alarming, 5) driving record management, 6) instant communication, 7) advice and assistance and 8) management of car-groups.

By application of the golo smart hardware through smartphones with Apple iOS and Android systems, car owners are able to carry out the vehicle inspection, remote diagnosis, driving track management, safety management, advisory and assistance as well as instant communication by visual, voice or text, and also able to form car groups with friends or colleagues. Automobile repair technicians can provide diagnostic and repair services for car owners anytime and anywhere with their golo technician boxes. The powerful golo smart hardware helps to build a comprehensive car safety and life platform for car owners.

In 2014, the Group successfully launched the following products: golo 2, golo 3, golo 4, golo mobilediag APP, golo easydiag APP and the domestic version of golo technician APP. In addition, 430 versions of the golo series software were launched.

3.1 Intelligent Vehicle Network Hardware



3.2 Car Cloud Diagnostic Devices

4. Domestic Market

In 2014, China produced and sold automobile of over 23,000,000 units with vehicle ownership of more than 150,000,000 and over 260,000,000 drivers. In response to this vast market and in order to develop the Internet of Vehicles business rapidly, the Group conducted a lot of work on market organisation, marketing and exploration of the client base.

The work on market organisation mainly included: 1) the full implementation of ideas of internet enterprise management; 2) the optimization of the internet online distribution platform; 3) the expansion of network marketing team and golo car repair workstation experts group; 4) the planning of the offline third-party service outlets.

The main work on marketing was mainly: 1) conducting Internet of Vehicles product publicity targeting end users such as car owners and automotive repairing technicians; 2) organizing 5 new product conferences and nearly 100 conferences for the promotion of the golo technician boxes; 3) conducting promotion activities for car cloud diagnostic equipment and encourage automotive maintenance and repair enterprises to upgrade their equipment; 4) developing O2O offline services provided by third parties including automobile maintenance plant, repair technicians; 5) conducting business co-operation with third parties such as China Unicom, China Mobile, Baidu, CAR Inc. and Ping An Insurance.

In the third quarter of 2014, the Group began to launch its Internet of Vehicles smart hardware in the market. At the end of the reporting period, we had established client accounts of nearly 100,000 car owners and over 100,000 of automotive repair technicians respectively, tens of thousands of automobile maintenance plants and nearly 10,000 auto care stores throughout China. By introducing a group of the third party APP service providers and partners in the industry, the ecosystem of Internet of Vehicles was constructed completion of the first phase of the offline service outlets, laying a foundation for the rapid development in future.

5. Overseas Market

In 2014, the world's produced and sold volume of automobile accounted for 86,000,000 units with vehicle ownership of more than 1,200,000,000. Facing this vast market, the Group had also conducted a lot of work on market organization and marketing.

The work on market organization was mainly: 1) expanding the network marketing team; 2) the set up of an Internet online distribution platform; and 3) expanding the size of the after-sales service team.

The work on marketing was mainly: 1) strengthening product promotion with the focus on Internet of Vehicles; 2) beginning the planning of offline service outlets of the Internet of Vehicles business; 3) organizing over 30 overseas road shows and product promotion conferences; 4) conducting promotion activities for car cloud diagnostic equipment and encourage automotive maintenance and repair enterprises to upgrade their equipment.

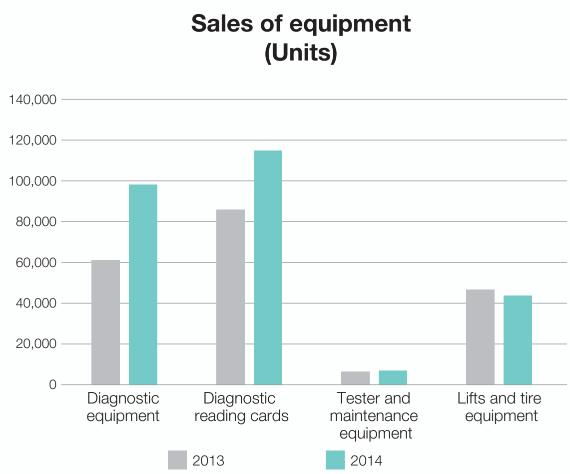
The main work on the expansion of client base was: 1) establishing connection with communication operators in major countries; 2) establishing connection with major insurance companies; 3) establishing connection with large automotive organizations.

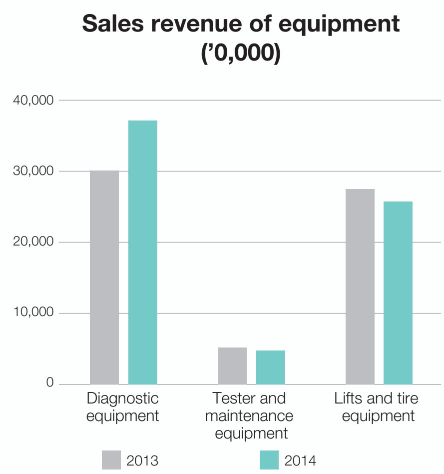
III. Analysis of Traditional Business

1. Traditional Business

Compared with the previous year, the Group's 2014 sales of automotive diagnostic devices which has high profit margin accounted for 98,000 units, representing an increase of 37,000 units, or 60%; sales of personal diagnostic reading cards was 115,000 units, representing an increase of 29,000 units, or 34%; sales of tester and maintenance products decreased by 11%, sales of the low profit margin lifts and tire equipment was 44,000 units, decreased by 6%.

Sales revenue for the year was approximately RMB720 million, representing an increase of 8%. Sales revenue of automotive diagnostic devices increased by RMB70 million, or 23%, to RMB370 million, accounting for 51% of the total revenue; sales revenue of tester and maintenance products was RMB48 million, accounting for 6% of the total revenue, decreased by 8%; sales revenue of lifts and other mechanical and electrical equipment was RMB260 million, accounting for 35% of the total revenue, decreased by 6%; revenue from software upgrade was approximately RMB20 million, representing an increase of 10%, due to the upgrade and update of products were conducted during the free upgrade phase, increase in revenue from software upgrade service was not significant. In general, sales of products of the Group with high profit margin rose substantially, while sales of products with low profit margin fell significantly, this was in line with the business strategies of the Group.





2. Technical Development

As at the end of 2014, there were 280 members in the R & D team of the traditional business. The traditional diagnosis and inspection technologies are the basis for the development of the Internet of Vehicles business. In 2014, the Group hired a group of high-end personnel to adjust the R & D direction of the traditional business, increased the investment in the R & D of technologies and high value-added products, controlled the R & D expenditure on businesses with low profit margin, total investment in the R & D of traditional business was RMB30 million.

As at the end of 2014, the Group was granted an aggregate of 154 patents in relation to vehicle diagnosis technologies, 57 software copyrights, 42 trademarks and received 54 honors at home and abroad.

3. Product Development

The projects that the Group had successfully developed included X-431 PADII development project, vehicle remote diagnosis customer tailor-made development project, CRP-HD development project, CRP229 development project, Maximus 2.0 project, Maxgo project, MaxMe project and X-712S four-wheel positioning development project. Besides, 1,580 software versions were successfully developed during the year.

Some of the above projects were under the category of vehicle cloud diagnosis equipment, given their powerful functions, remote diagnoise is possible through the Internet thus facilitating the improvement of the quality and efficiency of offline services of the Internet of Vehicles business, and they are also the core products for speeding up the development of the Internet of Vehicles business.

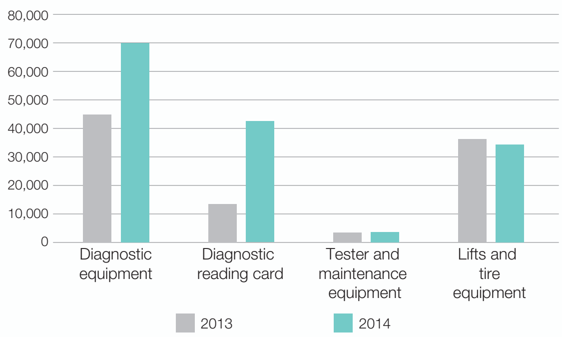
4. Domestic Market

In 2014, the Group continued to maintain its leadership position in the industry. Compared with last year, sales of automotive diagnostic devices with high profit margin accounted for 70,000 units, representing an increase of 25,000 units, or 56%; accounting for 71% of the sales of that product type; sales of personal diagnostic reading card was 43,000 units, representing an increase of 29,000 units, or 218%; accounting for 37% of the sales of that product type; sales of tester and maintenance products was 3,500 units, representing an increase of 29,000 units, or 3%; sales of lifts and other equipment with low profit margin was 34,000 units, decreased by 4%, accounting for 78% of the sales of that product type; there was a decrease in the sales of tire equipment.

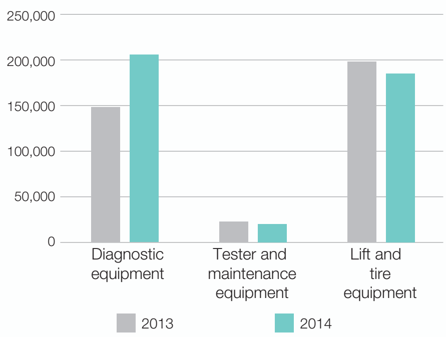
In 2014, sales revenue in the domestic market was approximately RMB430 million, representing an increase of 11%, accounting for 59% of the total revenue. Sales revenue of automotive diagnostic devices was approximately RMB200 million, increased by 23%, accounting for 48% of the total revenue; sales revenue of lifts and other equipment was approximately RMB190 million, decreased by 7%, accounting for 43% of the total revenue; sales revenue of tester and maintenance products was approximately RMB20 million, representing a decrease of 19%.

In 2014, the Group held dozens of promotion tours in various major cities in China, with targets covering over 400 distributors and teachers and students of over 50 vocational schools.

Domestic Sales of equipment (Units)



Domestic sales revenue of equipment ('0,000)



5. Overseas Market

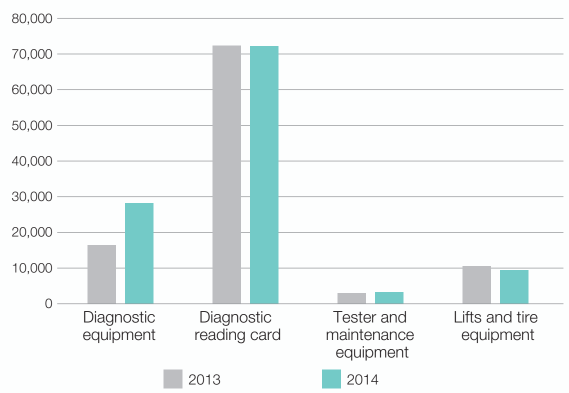
In 2014, due to the economic recovery in the US, there were improvement in the American, Asia Pacific, the Middle East and African markets, the overseas sales of the Group made record high results, there was remarkable growth in the sales of diagnosis products with high profit margin, products with low profit margin shown a downward trend, basically these were in line with the expected objectives. An analysis of the results indicates that the competitiveness of the automotive diagnostic devices of the Group was apparently improved in the overseas markets.

In 2014, sales of automotive diagnostic devices with high profit margin in the overseas market exceeded 28,000 units, representing an increase of 72%; sales of personal diagnostic reading cards was 72,000 units, basically little changed; sales of tester and maintenance products was 3,200 units, representing an increase of 13%; sales of lifts and other equipment with low profit margin was 9,300 units, representing a decrease of 10%.

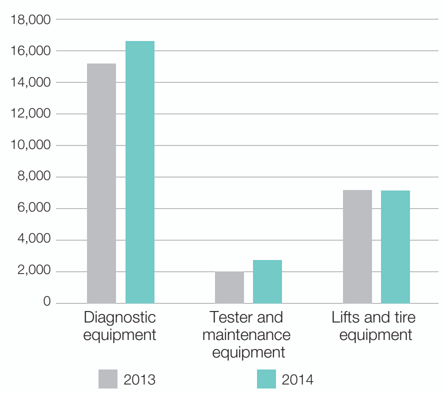
In 2014, sales revenue from overseas market was approximately RMB280 million, due to the trade-in marketing activities of some diagnosis equipment, increased by 4%, accounting for 41% of the total revenue. Sales revenue of automotive diagnostic devices was approximately RMB170 million, representing an increase of 12%, accounting for 59% of the overseas revenue; sales revenue of lifts and other equipment was approximately RMB71 million, basically little changed, accounting for 25% of the overseas revenue; sales revenue of tester and maintenance products was approximately RMB27 million, representing an increase of 36%.

In 2014, the Group attended over 30 international famous trade fairs held in Europe, America, Asia and Australia, and had organized dozens of professional training sessions through the overseas offices. Through these activities, the Group promoted its new products and development planning of the Internet of Vehicles business, properly prepared for the work related to the implementation of the O2O services model in the overseas market in the future.

Overseas sales of equipment (Units)



Overseas sales revenue of equipment ('0,000)



IV. Operation Management

1. Marketing

In 2014, the main tasks of the Group in marketing were: 1) focus on user experience to strengthen the marketing and promotion of the Internet of Vehicles business, concentrate on developing the user groups of car owners, repair technicians and car repair companies; 2) develop the O2O offline third party service providers to provide good services to end users; 3) concentrate on the promotion of high value added car diagnosis products, control the investment in businesses with low profit margin.

To sum up, by adjusting the business strategies, the development trend of the Internet of Vehicles business in China is satisfactory, the brand advantages are apparent, the domestic and foreign clients were confident with the development prospect of the Internet of Vehicles business of the Group. Also, the traditional business was continued to grow, businesses with low value added were under control, the Group's market share raised obviously, with its leading position remain solid.

2. Organisation of Production

In 2014, the main tasks of the Group in the production aspect were: 1) focus on proper quality control; 2) retain the manufacturing of key parts, implement advanced production model; 3) weaken production by basically implement outsourcing of low value added production tasks, let the supply chain management centre of the Group to be responsible for their management.

3. Quality Management

The Group centres on quality, employ management techniques in a comprehensive manner, sets up a quality management system for the entire processes from design, production to services. Based on the PDCA continuous improvement mentality, set up quality improvement teams to analyze, inspect and improve the quality on an on-going basis.

4. Finance

In 2014, since the intelligent hardware of Internet of Vehicles of the Group was officially introduced in the market in the first quarter, and subsequently in the third quarter over 100,000 sets of diagnosis tools golo Technicians Box were given to repair technicians free of charge. In addition, a large number of trial products in relation to the Internet of Vehicles were given to users free of charge, the Internet of Vehicles business has yet brought any remarkable contribution to the revenue. The revenue of the reporting period basically came from the traditional business with a year-on-year increase of 8%.

Although there was a significant growth in turnover of products with high profit margin, certain equipment was under the old for new trade-in arrangement, thus average gross profit dropped. Judging from the composition of the main revenue, traditional diagnostic products accounted for 51% with an average gross profit of 47% which was the main source of profit for the Group.

To analyze the composition of the sales revenue by market, market share of the Chinese market was 59%, while market share of the overseas market was 41%. Given the Group has been cooperated with the foreign distributors for quite some time, it is unlikely to change the settlement period in a short period of time, thus the amount of account receivable was higher; although the long term creditability of overseas distributors was good, the Group still made provision for bad debts accordingly based on the principle of prudence, and at the same time, strengthened the management of debt collection.

As the Group has been vigorously expanding its Internet of Vehicles business, in 2014, huge amounts have been invested in the areas of R & D, human resources and marketing, there was a significant increase in interest costs of the bank borrowings, and profit from the traditional business was insufficient to support the capital requirement of the Internet of Vehicles business, there was a substantial loss in the operation during the reporting period.

4.1 Table of movement analysis for the related items in income statement

Unit: million RMB

Items	Current period	Corresponding period of previous year	Changes %
Operating income	731	678	8
Operation cost	483	447	8
Selling expenses	96	76	21
Administrative expenses	128	113	13
Finance costs	49	38	29

4.2 Major clients and suppliers

(1) Sales to major clients

During the Reporting Period, total sales revenue from the top five clients of the Company was approximately RMB155,000,000 (2013: RMB135,000,000), accounting for approximately 21% (2013: 20%) of total sales revenue for the year. The largest client accounted for approximately 8% (2013: 9%) of the total sales revenue for the year.

(2) Major suppliers

During the Reporting Period, total purchasing amount from the top five suppliers of the Company amounted to RMB135,000,000 (2013: RMB127,000,000), accounting for approximately 31% (2013: 32%) of the total purchasing amount for the year. The largest supplier accounted for approximately 8% (2013: 11%) of the total purchasing amount for the year.

None of the directors, their respective associates, or any shareholders (which, to the knowledge of the directors, own more than 5% of the share capital of listed issuer) had any interest in the above disclosed clients or suppliers.

4.3 Expenses

Unit: million RMB

Items	Current period	Corresponding period of previous year	Changes %
Selling expenses	96	76	21
Administrative expenses	128	113	13
Finance costs	49	38	29

Description:

The selling expenses for the year were approximately 13% of the operating revenue for the year (2013: 11%). The increase in such ratio is due to the vigorous promotion of the Internet of Vehicles-related business by the Group during the year. Administrative expenses shared 18% of the operating revenue for the year, representing a slight increase of 1% compared to last year. Starting increasing from the second half of 2013, finance costs increased by 29% in 2014 compared to 2013. The management will gradually control the increase of these expenses through adjusting its loan portfolio.

4.4 R&D expenditure

R&D expenditure

Unit: million RMB

R&D expenditure for current period	32
Capitalized R&D expenditure for current period	73
Total R&D expenditure	105
Percentage of total R&D expenditure over operation income (2013: 10%)	14%

Description:

The Group actively invested in research and development projects during the year and expenditure increased by 48% compared with last year. Research and development expenditure to total operating income ratio increased to the level of 14%, which was in line with the annual budget of the Company.

4.5 Analysis of assets and liabilities

Unit: million RMB

Items	At the end of current period	Percentage of the amount at the end of current period over total assets	At the end of previous period	Percentage of the amount at the end of previous period over total assets	Changes in amount from the end of previous period to current period
		%		%	%
Bank balances and cash	343	23	312	23	10
Receivables	263	18	250	18	5
Inventories	92	6	111	8	-17
Fixed assets	308	21	343	25	-10
Construction in progress	111	7	88	6	26
Intangible assets	172	12	110	8	56
Short-term loan	435	29	528	39	-18
Total assets	1,482		1,370		

5. Analysis of Financial Status and Business Performance During the Reporting Period

5.1 Operating results

In 2014, total profit of the Company decreased by RMB54,000,000 as compared with the same period last year.

(1) Operating income and operating costs were both 8% higher than the same period of last year. Gross profit margin remained at 34%. Gross profit increased by RMB17,000,000.

(2) During the period, provision for asset impairment of accounts receivables and other receivables amounted to RMB25,000,000 in total and the impairment of research and development costs was approximately RMB14,000,000.

(3) Despite the increase of operating income for the period, value-added tax refund from the government decreased by RMB2,000,000, due to the change in sales mix, while other government subsidies related to technological development increased by RMB3,000,000.

5.2 Analysis of assets, liabilities and equity interest

Total assets value amounted to RMB1,482,000,000 at the end of the reporting period, increased by 18% as compared to that at the beginning of the year, of which inventory decreased by 17%, fixed assets and construction in progress decreased by 3%. Total liabilities amounted to RMB903,000,000, increased by 21% as compared to that at the beginning of the year, mainly due to the increase in short term loans and bill receivables. Total equity interest attributable to shareholders amounted to RMB579,000,000, decreased by 7% as compared to that at the beginning of the year, mainly due to a turn from gain to loss for the year.

6. Principal Sources and Uses of Funds

6.1 Cash flows from operating activities

The Company's cash inflows mainly derive from revenue of goods selling. Cash outflows are mainly used for activities in relation to production and operation. The Company's cash inflow from operating activities for the reporting period amounted to RMB853,000,000, while cash outflow amounted to RMB722,000,000. Net cash flow during the reporting period from operating activities amounted to RMB131,000,000, in which net of the increase of deposits (not included in cash and cash equivalents) by RMB124,000,000, the net cash outflow from actual operating activities amounted to RMB255,000,000.

6.2 Cash flows from investment activities

Cash inflow from investment activities during the reporting period amounted to RMB6,000,000 and cash outflow to investment activities amounted to 96,000,000, which was mainly used for capital expense on construction of plant and research building. The above expenditures were principally financed by the Company's internal resources and partly by bank loans. Net cash outflow from investment activities for the reporting period amounted to RMB90,000,000.

6.3 Cash flows from fund-raising activities

Cash inflow from fund-raising activities during the reporting period amounted to RMB689,000,000, which was mainly derived from bank loans. Cash outflow from fund-raising activities during the reporting period amounted to RMB824,000,000 was mainly for repayment of bank loans and interest. Net cash outflow from fund-raising activities for the reporting period amounted to RMB136,000,000.

Net cash flow from operating activities in 2014 increased by 15% on YOY basis, mainly due to a much larger amount of cash received from sales of goods and provision of services. Net cash flow generated from investment decreased by 43% mainly attributable to the cash paid for the Shenzhen research building relatively decreased. Net cash flow generated from fund-raising activities decreased by 315% over last year, mainly due to the increase in repayment of debt as compared to last year.

Total net cash flow turned to a negative of RMB95,000,000 and the deposits (not included in cash and cash equivalents) of RMB124,000,000, net cash inflow amounted to RMB29,000,000. This year saw a turn from gain to loss and reduction in the level of short term loans, cash level remained reasonably stable.

7. Capital Structure

The Company's capital structure comprised shareholders' interest and liabilities during the reporting period. Shareholders' interests amounted to RMB579,000,000; and total liabilities amounted to RMB903,000,000. Total assets amounted to RMB1,482,000,000. At the end of the year, the Company's gearing ratio was 164% (2013: 183%).

Capital structure by liquidity (RMB)

Total current liabilities	881,000,000 (2013: 727,000,000)	Accounting for 59% of total assets (2013: 53%)
Total shareholders' interest	579,000,000 (2013: 623,000,000)	Accounting for 39% of total assets (2013: 45%)

8. Administrative Management

In 2014, the Group optimized several internal management measures with the focus on human resources, its main tasks were: 1) regularly evaluate the position and level of staff and link up and adjust their remuneration based on the results of the performance appraisal, to ensure the fairness of the remuneration system; 2) increased the degree of incentive and punishment of staff under a "Nine Item Five Level" scheme; 3) enriched the contents of the "Five Care for Staff" program; 4) recruited a large number of outstanding internet operational staff and technicians; 5) strengthened the professional training of the staff. Through the above tasks, the Group adequately motivated the work passion and sense of responsibilities of the staff, particularly the R & D, marketing and sales staff.

In 2014, the Group continued to optimize the work flow of the CRM、IO、OA systems, further improved the R & D system of IPD. In addition, it continued to improve, optimize and refine the marketing and sales process, cost control, work efficiency and building of corporate culture etc.

V. Future Prospects

On the development planning aspects, the Group will focus on developing the application techniques and services of the Internet of Vehicles, using user experience as the core, introduce cooperation partners in the industry in the field of applications, strive for building a global car repair, maintenance and automobile life platform with golo vehicle cloud platform as its centre, use the O2O business model to provide highly efficient and quality services to car owners, technicians, maintenance companies and third party applications providers, and realize the operation of the big data of people, cars and companies.

On the marketing aspect, the Group will 1) increase users' participation; 2) optimize the internet sales team; 3) carry out online, offline marketing activities at several levels, e.g. exhibitions, annual meetings, promotion tours, technique competition, advertisement in the media etc to continue to enhance the brand awareness; 4) continue to improve services; 5) Strengthen the management of account receivable.

On the R & D aspect, the Group will 1) continue to hire R & D personnel, optimize the team structure; 2) continue to innovate, speed up the R & D of new products, use the differential advantages of techniques and services to gain the market.

On the production aspect, the Group will 1) reduce production & manufacturing; 2) guarantee the quality of products, reduce the production costs; 3) effectively control inventory level etc.

On the financial aspect, the Group will 1) maintain good cash flow; 2) strengthen the management of account receivable; 3) optimize cooperation proposals with financial institutions, control finance costs; 4) loosen the human resources costs, R & D expenditure and selling expenses etc in an appropriate way.

The Group will continue to strengthen and improve internal management, continue to deepen the corporate culture of "innovation, quality, efficiency, professionalism and competition", motivate the innovative potential of staff, enhance the overall competitive advantages, and bring better benefits to shareholders.

DIRECTORS

Executive Directors

Mr. Liu Xin, also known as **Louis Liu**, aged 46, executive director and chairman of the Company. Mr. Liu is the founder of the Company and has over 10 years of experience in corporate management, business development, product development and marketing in the computer and automotive diagnostic and testing industries. He is currently the vice chairman of China Automotive Maintenance and Repair Trade Association. He is a graduate of Chengdu Technology University (currently known as Sichuan University) with a bachelor's degree in applied physics. Mr. Liu is mainly responsible for the strategic planning, overall management, establishment of strategic alliances and development of overseas marketing and sales channel. He is concurrently the director of Launch Europe GmbH, Shanghai Launch, Launch Software and Shenzhen Langqu. He is also the legal representative of Shanghai Launch and Shenzhen Langqu. Mr. Liu Xin is the brother of Mr. Liu Jun and Ms. Liu Yong.

Mr. Liu Jun, also known as **Charles Liu**, aged 44, executive director and chief executive officer of the Company. Mr. Liu is the co-founder of the Company and is the brother of Mr. Liu Xin and Ms. Liu Yong. Mr. Liu has over 10 years of experience in corporate management, business development and product development in the automotive diagnostic and testing industry. He is a graduate of Tsinghua University with a bachelor's degree in radio electronics engineering. Mr. Liu had served as the head of the Company's R&D department and led the development of the first generation of Electronic Eye in November 1994, and was honoured as one of the Shenzhen Ten Outstanding Young Technology Experts in 1998. He is currently responsible for the daily operations of the Company, and also supervision of the Company's R&D and finance. He is concurrently the director of Shanghai Launch, Launch Software and Shenzhen Langqu.

Ms. Huang Zhaohuan, aged 50, head of the Company's domestic marketing centre. Ms. Huang is a graduate of Nanchong Teaching University with a bachelor's degree in mathematics. She is currently responsible for the development and management of the Company's domestic sales network, marketing activities and relationships with major clients. She joined the Company in 1996.

Mr. Jiang Shiwen, aged 42, chief information officer of the Company. Mr. Jiang graduated from Dalian University of Technology and Shanghai Jiao Tong University with a master's degree in mathematics and an MBA degree. Prior to joining the Company in 2002, he had respectively worked for several major private and foreign enterprises as an development engineer, in charge of the R&D work relating to large scale management system, e-commerce system and embedded system. Mr. Jiang oversees the construction, implementation and maintenance of the entire IT system of the Company. He has led the Company with success in the planning, design and online operation of a number of large IT networks including ERP, CRM and OA systems. He is concurrently the director of Launch Software.

DIRECTORS (Continued)

Non-executive Director

Ms. Liu Yong, aged 51, non-executive director of the Company since June 1997, and is the sister of Mr. Liu Xin and Mr. Liu Jun. Ms. Liu studied at Dalian Foreign Language Institute, and had served as the general manager of Sunshine Travel Agency and the sales department and public relations department of Guilin Holidays Inn and Guilin Rong Hu Hotel, respectively. Ms. Liu has extensive experience in corporate management, sales and marketing and public relations management. She is concurrently a director of Shenzhen De Shi Yu.

Independent Non-executive Directors

Mr. Liu Yuan, aged 40, director of Kaiqiao (Beijing) Investment Management Company Limited (凱橋(北京)投資管理有限公司). He had served as the head of the Shenzhen Branch and vice president of a governed branch of the Bank of China. Mr. Liu graduated from the Economic Law Department of Zhongnan University of Economics and Law (中南財經政法大學) with degree of Bachelor of Law.

Dr. Zou Shulin, aged 52, guest professor of the Business and Administration Department of Zhongnan University of Economics and Law (中南財經政法大學). He had served as associate professor and professor of Zhongnan University of Economics and Law and a branch president of China Everbright Bank, Shenzhen Branch. Dr. Zou is a graduate of Zhongnan University of Economics and Law.

Ms. Zhang Yan, aged 32, PRC certified public accountant. Ms. Zhang graduated from the Accounting Department of School of Business of Zhengzhou University. She served as auditor of Beijing Zhongzhou Guanghua Accounting Firm (北京中洲光華會計師事務所) Henan branch from July 2005 to January 2007; audit project manager of Ascenda Huazheng Zhongzhou (Beijing) CPA Limited (天健華證中洲(北京)會計師事務所) Henan branch from January 2007 to July 2008; audit project manager of (Beijing) Ascenda Certified Public Accountants Limited (天健光華(北京)會計師事務所) Henan branch from July 2008 to December 2009; audit project manager of Ascenda Zhengxin (Beijing) CPA Limited (天健正信會計師事務所) Henan branch from December 2009 to October 2012. Since October 2012, she has been the chief financial officer of Henan Maincare Biotech Co., Ltd* (河南美凱生物科技有限公司). Ms. Zhang joined the Group and was appointed as independent non-executive director and member of the audit committee in June 2014.

MEMBERS OF SUPERVISORY COMMITTEE

Supervisory committee in the PRC has similar functions as audit committee, which mainly reviews the financial results of the Company and the decisions made by the Board. Supervisors can represent the interest of shareholders or employees, and independent supervisors are recruited from outside and not related to any of the directors, supervisors, promoters and employees of the Company. Mr. Zhang Jiangbo is appointed as a supervisor through the recommendation of the Company's employees. Mr. Sun Zhongwen and Mr. Du Xuan are appointed as independent supervisors.

Mr. Sun Zhongwen, aged 69, graduate from Changsha Railway University (now named as Central South University) with a bachelor's degree. Since 1968, he had been an engineer, chief engineer and director of the engineering deportment of the Liuzhou Railway Administration of the Ministry of Railways, and vice president of the Liuzhou Railway Administration and standing committee member of the Communist Party. In 1997, he was appointed as the deputy mayor of the Guilin Municipal Government in Guangxi, secretary of the work committee and director of the management committee of the Guilin National Hi-Tech Zone, then served as the deputy director of the NPC Standing Committee. Mr. Sun retired in 2006.

Mr. Du Xuan, aged 51, graduated from of the Computer Department of University of Electronic Science and Technology of China with a bachelor's degree in senior engineering. He has been the chairman of Shenzhen Kingdom Technology Co., Ltd. (深圳市金證科技股份有限公司) since 1998, director of Shenzhen Farad Electric Co., Ltd. vice chairman of Shenzhen Computer Software Association（深圳市計算機軟件協會）and vice chairman of Shenzhen Young Entrepreneurs Association（深圳市青年企業家協會）since 2001.

Mr. Zhang Jiangbo, aged 37, graduated from Wuhan Technical University of Surveying and Mapping with an associate degree and is currently pursuing a master degree in business administration (MBA) in Lanzhou University. Since joining the Company in 2000, Mr. Zhang had been the head of the IT department, system operation manager and chief product director of the Company. Mr. Zhang is currently responsible for the development, management, key client support and marketing of the Internet of Vehicle business of the Company. Mr. Zhang was newly appointed as a supervisor at the staff representatives general meeting of the Company held on 30 April 2014.

SENIOR MANAGEMENT

Mr. Guo Feng, aged 40, deputy general manager of the Company. Mr. Guo graduated from Xian Electronic Technology University majoring in Communication Engineering. He had been responsible for the R&D and implementation of automatic control system of large building projects. He joined the Company in 1999 and had served as general manager at different departments including the R&D engineering and operations, and successfully led the R&D and improvement of a series of products including engine analyzer with comprehensive functions.

Mr. Zhang Wei, aged 43, chief technology officer of the Company. Mr. Zhang graduated from Tsinghua University and Chinese Academy of sciences with an MS degree. Prior to joining in the Company in 2008, he had worked as a high school teacher, chief representative in China of a foreign-invested enterprise, deputy general manager and chief technology officer of a major private enterprise, in charge of research and development projects. Mr. Zhang is now responsible for formulating the strategies and implementing research for the next generation products. He is a key executor of the Company's technology strategies.

Mr. Huang Guobin, aged 45, secretary of the Board of the Company. Mr Huang graduated from the Guangzhou Institute of Foreign Languages and Zhongnan University of Finance and Economics with a bachelor's degree in foreign trade and postgraduate qualification in investment. He had served for Shenzhen Neptunus Group as a marketing manager for business in the southern China, department head of the settlement department in the international division of China Investment Bank, credit management manager of China Everbright Bank Shenzhen branch and manager of the approval department in the head office of China Everbright Bank. Mr. Huang is familiar with the regulations in domestic and overseas capital markets, and has extensive experience in project investment and risk management. Mr. Huang Guobin has been serving as secretary of the Board and head of human resources department since joining the Company in January 2011.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Liu Chunming, aged 39, financial controller and company secretary of the Company. Mr. Liu is a qualified accountant and obtained a bachelor's degree (Honours) in accountancy from the City University of Hong Kong in 1997. He is a fellow member of the Association of Chartered Certified Accountants, and prior to joining the Company in 2002, he had worked in an international audit firm for few years.

COMPLIANCE OFFICER

Mr. Liu Jun, executive director, compliance officer and authorised representative of the Company. Mr. Liu advises on and assisting the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding efficiently to all inquiries directed to the Company by the Stock Exchange.

CORPORATE GOVERNANCE PRACTICE

The Group commits to maintaining and ensuring a high level of corporate governance standards and continuously reviews and improves our corporate governance and internal controls practices. Set out below are the principles of corporate governance as adopted by the Company during the reporting year.

DISTINCTIVE ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is responsible for leading the Board of Directors in establishing and monitoring the implementation of strategies and plans to create values for shareholders.

The Chief Executive Officer is responsible for managing the operation of the Group's businesses, proposing strategies to the Board and the effective implementation of the strategies and policies adopted by the Board.

THE BOARD

As of 31 December 2014, there were eight members on the Board, including the Chairman, three Executive Directors, two Non-Executive Directors ("NEDs") and three Independent Non-Executive Directors ("INEDs").

Save for Ms. Liu Yong is the sister of Mr. Liu Xin and Mr. Liu Jun, there is no financial business, family or other material relationship among the members of the Board.

The INEDs are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the INEDs brings his own relevant expertise to the Board and its deliberations.

None of the INEDs has any business or financial interests with the Group nor has any relationship with other directors and confirmed their independences to the Group pursuant to Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

The Board met regularly during the year and on ad hoc basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance shareholders' value. Daily operational decisions are delegated to the Executive Directors. The Board met a total of 7 times during the year. The NED and INEDs may take independent professional advice at the Company's expense in carrying out their functions.

The Company appointed each of the NEDs during the Annual General Meeting or by the Board for new appointment during the year. The term of each of these appointments shall be expired up to the forthcoming Annual General Meeting and can offer for re-election in the Annual General Meeting.

THE BOARD (Continued)

Responsibilities of the Board

The Board reviews the performance of the operating divisions with reference to their respective agreed budgets and business objectives on a regular basis and also exercises a number of reserved powers which include:

– convening shareholders' meetings and reporting on their work at such meetings;

– implementing resolutions passed at shareholders' meetings;

– formulating the Company's business plans and investment proposals;

– preparing the Company's annual financial budget and final accounts;

– formulating proposals for profit distribution and for setting off of accumulated losses of the Company;

– formulating proposals for increase or reduction in registered capital and the issuance of debt securities of the Company;

– formulating proposals for merger, demerger, or dissolution of the Company;

– formulating the internal management structure of the Company;

– appointing or dismissing the chief executive officer of the Company and appointing or dismissing the deputy general manager, financial controller and other senior management at the recommendation of the chief executive officer and determination of matters relating to their remuneration;

– formulating the basic management system of the Company;

– formulating proposals for amendments to the articles of association; and

– carrying out other powers conferred by shareholders' meetings.

According to Code A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company is negotiating with the relevant insurance agents about the liability insurance for the Directors and will arrange such insurance cover in due course.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for all Directors in the form of seminar and provision of training materials on corporate governance, regulatory development and other relevant topics.

DELEGATION BY THE BOARD

The management, consisting of Executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

BOARD COMMITTEES

The Board has established three committees and has delegated various responsibilities to the committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference which are available to shareholders on the Company's website. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The Audit Committee was established by the Company, with written terms of reference in compliance with the requirements as set out in Appendix 14 of the Listing Rules. The principal duties of the committee are the review and supervision of the Company's reporting process and internal control. The members of the Audit Committee are as follows:

Name	Position in the Audit Committee	Position in the Board
Ms. Zhang Yan	Chairman	Independent Non-executive Director
Mr. Liu Yuan	member	Independent Non-executive Director
Dr. Zou Shulin	member	Independent Non-executive Director

The Audit Committee is required to assist the Board to fulfill its responsibilities related to external financial reporting, associated announcements and system of internal control. During the year, the Audit Committee reviewed the interim and annual reports. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues that the Audit Committee considered necessary.

The Audit Committee is also responsible for the development, implementation and monitoring of the Groups' policy on external audit. The Audit Committee recommended the appointment and reappointment of the external auditors.

REMUNERATION COMMITTEE

The primary duties of the Remuneration Committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management. The Remuneration Committee comprises one Executive Director, namely, Mr. Liu Jun and two independent non-executive Directors, namely Dr. Zou Shulin and Mr. Liu Yuan. Mr. Liu Yuan has been appointed as the chairman of the Remuneration Committee. No meeting was held by the Remuneration Committee during the year ended 31 December 2014.

NOMINATION COMMITTEE

The principal duties of the Nomination Committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. The Nomination Committee comprises one Executive Director, namely, Mr. Liu Xin and two Independent Non-executive Directors, namely Dr. Zou Shulin and Mr. Liu Yuan. Dr. Zou Shulin has been appointed as the chairman of the Nomination Committee. No meeting was held by the Nomination Committee during the year ended 31 December 2014.

MEETINGS ATTENDANCE

	Board	**Audit Committee**
Number of Meetings	4	3
Executive Directors		
Mr. Liu Xin	4	N/A
Mr. Liu Jun	4	N/A
Mr. Jiang Shiwen	4	N/A
Ms. Huang Zhaohuan	4	N/A
Non-executive Director		
Ms. Liu Yong	3	N/A
Independent Non-executive Directors		
Mr. Liu Yuan	2	3
Dr. Zou Shulin	3	3
Mr. Pan Zhongmin	1	1
Ms. Zhang Yan	3	3

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board, supported by the finance department, is responsible for the preparation of the financial statements of the Company and the Group. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. Management would provide such explanation and information to the Board as will enable the Board to make an informal assessment of the financial and other information put before the Board for approval.

As at 31 December 2014, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going-concern basis.

The working scope and reporting responsibilities of Da Hua Certified Public Accountants, the Company's external auditor, are set out on the "Audit Report" in this annual report.

External auditor's remuneration

For the year ended 31 December 2014, the remunerations paid or payable to the external auditor in respect of its audit services and nonaudit services are approximately RMB500,000 and RMB0, respectively.

Internal control

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

The internal control are reviewed and assessed on an on-going basis by the Executive Directors, and will be further reviewed and assessed at least once each year by the Board.

COMPANY SECRETARY AND SHAREHOLDERS' RIGHTS

Company Secretary

All Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters. Any Director, who wishes to do so in the furtherance of his or her duties, may seek independent professional advice through the chairman at the Company's expense. The availability of professional advice extends to the Audit, Remuneration and other Committees.

Minutes of Board meetings are taken by the company secretary or the secretary to the Board and, together with any supporting Board papers, are available to all Board members. Board meetings are structured to encourage open and frank discussions to ensure the Non-executive Directors provide effective enquiries to each Executive Director. When necessary, the Independent Non-executive Directors meet privately to discuss matters which are relevant to their specific responsibility.

COMPANY SECRETARY AND SHAREHOLDERS' RIGHTS (Continued)

Shareholders' rights

Shareholders seeking to convene an extraordinary general meeting of shareholders or a class meeting of shareholders shall proceed in accordance with the following procedure:

(1) Two or more shareholders holding more than one-tenth (including 10%) of the voting shares at the meeting proposed to be held may, by signing one written request or several counterparts of same stating the subject matter of the meeting, require the Board of Directors to convene an extraordinary general meeting of shareholders or a class meeting of shareholders. Upon receipt of the foregoing written request(s), the Board of Directors shall proceed to do so as soon as possible accordingly. The foregoing number of voting shares referred to shall be calculated as at the date of the delivery of the written request(s);

(2) If the Board of Directors fails to issue a notice of convening such a meeting within thirty days from the date of the receipt of the foregoing written request(s), the shareholders who have made the request may themselves convene such a meeting in a procedure as far as possible same as that of such meetings to be convened by the Board of Directors, within four months from the date of receipt of such request(s) by the Board.

Where the Company convenes the general meeting of shareholders, the written notice shall be given, forty-five days in advance, to inform all shareholders whose names appear in the share register of the matters proposed to be considered at the meeting and the date and venue of the meeting. Any shareholder intending to attend the general meeting of shareholders shall serve the Company, twenty days before the date of the meeting, with the written reply stating his intention to attend the meeting.

Notice of general meeting of shareholders shall not be given more than 60 days before the date of the meeting. When calculating the period of giving the notice, it shall not include the date of the meeting and the date of sending the notice.

In respect of the annual general meeting convened by the Company, the shareholders holding more than five percent (including 5%) of the total voting shares of the Company are entitled to propose to the Company any new resolutions in writing, provided such resolution shall be submitted to the Company at least seven days before convening the annual general meeting. The Company shall include, in the agenda of such meeting, those proposed matters which are within the terms of reference of the general meeting.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

Enquiries to the Board

Enquiries may be put to the Board through the Company's Principal Place of Business in Shenzhen and Hong Kong or through email, address please refer to "Corporate Information" section.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The management believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to requirements of relevant laws and regulations in order to ensure all shareholders equal access to information. In addition, the Company has taken measures to ensure effective shareholders' communication and transparency, including:

- maintained contacts with shareholders and investors through various channels such as meetings, telephone and emails;
- regularly update the Company's news and developments through the investor relations section of the Company's website;
- arranged on-site visits to the Group's projects for investors and research analysts.

Through the above measures, the Company endeavours to communicate with the investment community and provide them with the latest development of the Group and the automotive after market.

Information disclosure

The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public to make rational and informed decisions.

Constitutional documents

During the Relevant Period, there are certain changes in the Company's constitutional documents and the latest version has been uploaded to the Company's and HKEx's website.

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 Appendix 10 of the 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 year.

DIRECTORS' AND INDEPENDENT AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external independent auditor to the shareholders are set out in the Audit Report.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is engaged in the provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries. The principal activities of its subsidiaries are set out in the notes to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year are set out in the consolidated statement of comprehensive income and consolidated statement of changes in equity respectively and the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in notes to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Liu Xin *Chairman*
Mr. Liu Jun *Chief Executive Officer*
Mr. Jiang Shiwen *(re-appointed on 16 June 2014)*
Ms. Huang Zhao Huan *(re-appointed on 16 June 2014)*

Non-executive director:
Ms. Liu Yong

DIRECTORS AND SUPERVISORS (Continued)

Independent Non-executive Directors:
Mr. Liu Yuan
Dr. Zou Shulin
Mr. Pan Zhongmin *(resigned on 16 June 2014)*
Ms. Zhang Yan *(appointed on 16 June 2014)*

Supervisors:
Mr. Wang Xilin *(resigned on 30 April 2014)*
Mr. Sun Zhongwen
Mr. Du Xuan
Mr. Zhang Jiangbo *(appointed on 30 April 2014)*

All Directors and Supervisors have entered into service contracts with the Company, for a term of three years.

In accordance with the provisions of the Company's Articles of Association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the Company's Articles of Association and the PRC Company Law, the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election.

None of the Directors or Supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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 December 2014, 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 they are 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 the Model Code For Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

(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 (Continued)**

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	66,000,000	40.00%	21.87%
	Interest in a controlled company	69,432,000	42.08% (Note 1)	23.01%
	Interest in a controlled company	5,130,500	3.11% (Note 2)	1.70%
Mr. Liu Jun	Interest in a controlled company	69,432,000	42.08% (Note 3)	23.01%
Ms. Liu Yong	Interest in a controlled company	5,130,500	3.11% (Note 4)	1.70%

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

(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 (Continued)

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 40.00% 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 40.00% 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.

(4) Ms. Liu Yong holds 60.00% interest in Shenzhen De Shi Yu which holds approximately 3.11% interest in the issued domestic shares of the Company. The corporate interest of Ms. Liu Yong in the Company duplicates with that held by Ms. Liu Xin in the Company. By virtue of Ms. Liu Yong's holding more than one-third interest in Shenzhen De Shi Yu, Ms. Liu Yong is deemed, under the Part XV of the SFO, to be interested in 3.11% interest in the issued domestic shares of the Company.

Save as disclosed above, as at 31 December 2014, 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.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

(b) Persons and substantial shareholders who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as known to the Directors, as at 31 December 2014, 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 5% 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	69,432,000	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.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

(b) Persons and substantial shareholders who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO (Continued)

(ii) H Shares

Nil

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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 year ended 31 December 2014.

MAJOR CLIENTS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest clients was approximately 21% (2013: 20%) of the Group's total turnover and the Group's largest client accounted for approximately 8% (2013: 9%) of the Group's turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 31% (2013: 32%) of the Group's total purchases and the Group's largest supplier accounted for approximately 8% (2013: 11%) of the Group's total purchases.

None of the Directors, or Supervisors, their associates or any shareholder of the Company (which to the knowledge of the Directors and Supervisors own more than 5% of the Company's issued share capital) had any interest in any of the five largest clients or suppliers of the Group.

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 year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules during the Relevant Period.

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 Appendix 10 of the 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 year.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined in the Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

INDEPENDENT AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditor, Da Hua Certified Public Accountants.

The accounts for the years 2013 and 2012 of the Group were audited by Da Hua Certified Public Accountants, and the accounts for the year 2011 were audited by BDO Limited.

CLOSURE OF REGISTER

The Registrar of members will be closed from 16 May 2015 to 15 June 2015, both dates inclusive for the annual general meeting of the Company to be held on 15 June 2015. All transfer accompanies by the relevant share certificates must be lodged with the Company's H Share registrar no later than 4:30 p.m. on 15 May 2015.

By order of the Board
Launch Tech Company Limited
Liu Xin
Chairman

Shenzhen, the PRC
31 March 2015

Audit Report

To all shareholders of Launch Tech Company Limited:

We have audited the accompanying financial statements of Launch Tech Company Limited (hereinafter referred to as “Launch Tech”), which comprise the consolidated balance sheet and balance sheet of the Company as at 31 December 2014, the consolidated income statement and income statement of the Company, the consolidated cash flow statement and cash flow statement of the Company and the consolidated statement of changes in owner’s equity and statement of changes in owner’s equity of the Company for the year 2014 and notes to these financial statements.

1. MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Launch Tech is reasonsible for the preparation and the fair presentation of these financial statements. These responsibilities include (1) preparing financial statements in accordance with Accounting Standards for Business Enterprises that are fairly presented; (2) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error.

2. AUDITORS’ RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal controls relevant to the entity’s preparation of financial statements and the fair presentation in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the consolidated and Company financial position of Launch Tech as at 31 December 2014 and of their financial performance and their cash flows for the year then ended.

Da Hua Certified Public Accountants (Special General Partnership)
Chinese Certified Public Accountant:

Beijing, China
Chinese Certified Public Accountant:

31 March 2015

Consolidated Balance Sheet

2014 *(Expressed in Renminbi)*

Items	Note VI	31 December 2014	31 December 2013
Current assets:			
Bank balances and cash	1	343,796,861.36	315,244,998.39
Bills receivables	2	23,908,007.71	20,764,740.93
Trade receivables	3	263,046,370.93	249,351,089.54
Prepayments	4	63,011,467.16	83,504,974.35
Other receivables	5	29,375,506.71	28,249,222.63
Inventories	6	92,241,372.70	110,538,015.17
Other current assets	7	54,196,947.70	3,955,512.66
Total current assets		869,576,534.27	811,608,553.67
Non-current assets:			
Fixed assets	8	307,605,358.61	342,590,092.43
Construction in progress	9	110,769,474.44	88,067,597.83
Intangible assets	10	172,113,179.72	110,239,142.01
Development expenditure	11	21,074,996.18	16,339,770.14
Goodwill	12	1,139,412.80	1,139,412.80
Deferred income tax assets	13	5,738.97	3,921.61
Total non-current assets		612,708,160.72	558,379,936.82
Total assets		1,482,284,694.99	1,369,988,490.49
Current liabilities:			
Short-term borrowings	14	612,089,931.12	528,442,468.00
Bills payables	15	103,420,000.00	–
Trade payables	16	96,154,689.30	137,202,704.28
Receipts in advance	17	53,064,711.56	56,957,621.86
Wage payables	18	2,930,953.03	2,967,594.15
Tax payables	19	5,255,927.90	-8,012,740.87
Other payables	20	8,275,296.71	8,764,373.01
Non-current liabilities due within one year	21	139,792.50	631,417.50
Total current liabilities		881,331,301.85	726,953,437.93
Non-current liabilities:			
Long-term borrowings	22	2,095,867.32	157,854.38
Other non-current liabilities	23	20,000,000.00	20,000,000.00
Total non-current liabilities		22,095,867.32	20,157,854.38
Total liabilities		903,427,169.17	747,111,292.31

2014 (Expressed in Renminbi)

Items	Note VI	31 December 2014	31 December 2013
Shareholders' equity:			
Share capital	24	301,800,000.00	60,360,000.00
Capital reserve	25	41,748,427.20	283,188,427.20
Surplus reserve	26	18,099,377.81	18,099,377.81
Undistributed profit	27	214,468,933.63	261,412,303.61
Exchange difference arising on translation of foreign currency statements	28	2,523,274.66	323,440.16
Total owners' equity attributable to parent company		578,640,013.30	622,736,668.46
Minority shareholders' equity		217,512.52	140,529.72
Total shareholders' equity		578,857,525.82	622,877,198.18
Total liabilities and shareholders' equity		1,482,284,694.99	1,369,988,490.49

Balance Sheet

2014 *(Expressed in Renminbi)*

Assets	Note XV	Ending balance	Beginning balance
Current assets:			
Bank balances and cash		332,864,040.90	262,877,900.84
Bills receivables		23,908,007.71	20,764,740.93
Trade receivables	1	233,337,072.84	228,553,233.25
Prepayments		94,262,173.24	48,262,072.09
Other receivables	2	48,653,625.08	118,014,456.27
Inventories		63,806,539.70	61,137,728.81
Other current assets		54,194,498.25	3,767,685.79
Total current assets		851,025,957.72	743,377,817.98
Non-current assets:			
Long-term equity investments	3	169,413,562.08	169,413,562.18
Fixed assets		178,960,352.54	207,284,752.72
Construction in progress		110,335,970.63	87,405,700.39
Intangible assets		52,215,364.67	32,339,296.72
Development expenditure		7,060,371.18	12,525,365.53
Total non-current assets		517,985,621.20	508,968,677.54
Total assets		1,369,011,578.92	1,252,346,495.52

The attached notes are an integral part of these financial statements.

2014 (Expressed in Renminbi)

Liabilities and shareholders' equity	Note XV	Ending balance	Beginning balance
Current liabilities:			
Short-term borrowings		612,089,931.12	528,442,468.00
Bills payables		103,420,000.00	–
Trade payables		326,613,016.01	314,041,971.83
Receipts in advance		47,279,849.54	50,911,606.23
Employee benefits payables		683,577.44	832,427.14
Tax payables		2,870,696.70	-7,637,628.48
Other payables		19,959,365.46	21,984,458.93
Total current liabilities		1,082,916,436.27	908,575,303.65
Non-current liabilities:			
Other non-current Liabilities		20,000,000.00	20,000,000.00
Total liabilities		1,102,916,436.27	928,575,303.65
Shareholders' equity:			
Share capital		301,800,000.00	60,360,000.00
Capital reserve		41,850,620.14	283,290,620.14
Surplus reserve		18,099,377.81	18,099,377.81
Undistributed profits		-95,654,855.30	-37,978,806.08
Total equity attributable to ordinary shareholders		266,095,142.65	323,771,191.87
Total shareholders' equity		266,095,142.65	323,771,191.87
Total liabilities and shareholders' equity		1,369,011,578.92	1,252,346,495.52

The attached notes are an integral part of these financial statements.

Consolidated Income Statement

2014 *(Expressed in Renminbi)*

Items	Note VI	2014	2013
Operating income	29	731,173,407.25	678,142,799.36
Less: Operating costs	29	483,349,303.05	447,071,332.05
Business tax and surcharge	30	2,727,638.55	5,102,138.18
Selling expenses	31	96,325,526.09	76,225,695.13
Administrative expenses	32	128,453,958.87	113,354,849.66
Finance costs	33	48,629,840.08	27,977,359.52
Impairment loss on assets	34	38,839,665.75	11,910,205.29
Add: Gain on investments	35	493.88	5,600,000.00
Operating profit (loss expressed with "–")		-67,152,026.81	-7,898,780.47
Add: Non-operating income	36	20,841,641.00	17,543,361.21
Less: Non-operating expenses	37	487,015.92	453,249.55
Total profit (total loss expressed with "–")		-46,797,401.73	9,191,331.19
Less: Income tax expenses	38	68,985.45	2,188,230.03
Net profit (net loss expressed with "–")		-46,866,387.18	7,003,101.16
Net profit attributable to owners of parent company		-46,943,369.98	7,003,101.16
Profit or loss attributable to minority shareholders		76,982.80	-31,576.93
Earnings per share:			
Basic earnings per share		-0.1555	0.0233
Other comprehensive income		2,846,714.82	-252,146.83
Total comprehensive income		-44,019,672.36	6,750,954.33
Total comprehensive income attributable to owners of parent company		-44,096,655.16	6,782,531.26
Total comprehensive income attributable to minority shareholders		76,982.80	-31,576.93

Income Statement

2014 *(Expressed in Renminbi)*

Items	Note XV	Current Amount	Previous Amount
Total operating income	4	680,406,570.84	637,411,674.84
Less: Operating costs	4	519,873,452.08	480,097,687.05
Sales tax and levies		1,066,290.96	3,286,419.76
Selling expenses		77,481,364.91	55,846,615.56
Administrative expenses		30,565,345.37	64,381,944.91
Finance costs		34,887,311.88	33,294,174.20
Add: Impairment loss on assets		–	9,410,519.78
Investment income (loss expressed with "-")	5		5,600,000.00
Operating profit (loss expressed with "-")		-61,895,499.02	-3,305,686.92
Add: Non-operating income		4,686,369.39	4,174,621.53
Less: Non-operating expenditure		466,919.59	400,629.97
Total profit (loss expressed with "-")		-57,676,049.22	468,305.14
Less: Income tax expenses		–	–
Net profit (loss expressed with "-")		-57,676,049.22	468,305.14
Total comprehensive income		-57,676,049.22	468,305.14

The attached notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

2014 *(Expressed in Renminbi)*

Items	Note VI	Current Amount	Previous Amount
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		791,903,749.61	740,306,761.25
Refund of taxes and levies		42,484,812.30	48,790,093.57
Other cash receipts relating to operating activities	39.1	18,634,107.20	7,864,229.93
Sub-total of cash inflows from operating activities		853,022,669.11	796,961,084.75
Cash paid for goods and services		537,288,604.86	478,229,178.70
Cash paid to and on behalf of employees		125,817,850.20	99,290,142.09
Payments of taxes and levies		23,950,817.94	32,123,706.39
Other cash payments relating to operating activities	39.2	212,166,280.49	74,025,237.45
Sub-total of cash outflows from operating activities		899,223,553.49	683,668,264.63
Net cash flows from operating activities		-46,200,884.38	113,292,820.12
Cash flows from investing activities:			
Cash received from return of investments		499.33	5,600,000.00
Cash received from disposals of fixed assets, intangible assets and other long-term assets		6,409,924.41	1,076,334.04
Sub-total of cash inflows from investing activities		6,410,422.74	6,676,334.04
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		76,297,103.25	164,584,605.49
Cash paid for investments		–	–
Net cash paid to acquire subsidiaries and other operating entities		–	-7,432.90
Sub-total of cash outflows from investing activities		96,297,103.25	164,577,172.59
Net cash flows from investing activities		-89,886,680.51	-157,900,838.05

Consolidated Cash Flow Statement

2014 *(Expressed in Renminbi)*

Items	Note VI	Current Amount	Previous Amount
Cash flows from financing activities			
Cash received from borrowings		865,586,648.65	802,408,508.92
Sub-total of cash inflows from financing activities		865,586,648.65	802,408,508.92
Cash repayments of borrowings		780,148,598.03	712,059,032.61
Cash payments for interest expenses, distribution of dividend or profits		44,180,139.00	27,619,148.71
Sub-total of cash outflows from financing activities		824,328,737.03	739,678,181.32
Net cash flows from financing activities		41,257,911.62	62,730,327.60
Impact on cash by changes in foreign exchange rates		-206,533.90	-4,034,742.72
Net increase in cash and cash equivalents		-95,036,187.17	14,087,566.45
Add: Cash and cash equivalents at beginning of the period		313,134,998.39	299,047,431.94
Cash and cash equivalents at end of the period		218,098,811.22	313,134,998.39

The attached notes are an integral part of these financial statements.

Cash Flow Statement

2014 *(Expressed in Renminbi)*

Items	Note XV	Current Amount	Previous Amount
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		722,751,298.84	697,128,418.53
Refund of taxes and levies		26,316,028.87	29,080,433.42
Other cash receipts relating to operating activities		77,011,066.33	41,319,928.20
Sub-total of cash inflows from operating activities		826,078,394.04	767,528,780.15
Cash paid for goods and services		573,805,333.08	565,385,036.38
Cash paid to and on behalf of employees		87,272,922.07	58,636,003.93
Payments of taxes and levies		7,399,065.83	7,544,220.70
Other cash payments relating to operating activities		192,324,809.03	106,961,298.18
Sub-total of cash outflows from operating activities		860,802,130.01	738,536,559.19
Net cash flows from operating activities		(34,723,735.97)	28,993,220.96
Cash flows from investing activities:			
Cash received from return of investments		–	5,600,000.00
Cash received from disposals of fixed assets, intangible assets and other long-term asset		6,153,424.41	978,334.04
Sub-total of cash inflows from investing activities		6,153,424.41	6,578,334.04
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		49,534,526.28	99,287,189.66
Cash paid for investments		–	54,600,738.13
Net cash paid to acquire subsidiaries and other operating entities		–	880,000.00
Sub-total of cash outflows from investing activities		49,534,526.28	154,767,927.79
Net cash flows from investing activities		-43,381,101.87	-148,189,593.75

2014 (Expressed in Renminbi)

Item	Note XV	Current Amount	Previous Amount
Cash flows from financing activities			
Cash received from borrowings		833,186,648.65	802,408,508.92
Sub-total of cash inflows from financing activities		833,186,648.65	802,408,508.92
Cash repayments of borrowings		779,539,185.53	681,434,073.56
Cash payments for interest expenses, distribution of dividend or profits		29,144,535.36	25,158,816.21
Sub-total of cash outflows from financing activities		808,683,720.89	706,592,889.77
Net cash flows from financing activities		24,502,927.76	95,815,619.15
Impact on cash by changes in foreign exchange rates		–	-4,034,742.72
Net increase in cash and cash equivalents		-53,601,910.08	-27,416,496.36
Add: Cash and cash equivalents at beginning of the period		260,767,900.84	288,184,397.20
Cash and cash equivalents at end of the period		207,165,990.76	260,767,900.84

The attached notes are an integral part of these financial statements.

Consolidated Statement of Movement on Equity

2014 *(Expressed in Renminbi)*

	2014						
	Attributable to shareholders of the parent company						
Item	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	Undistributed profits	Minority interests	Total shareholders' equity
Ending balance of previous year	60,360,000.00	283,188,427.20	-323,440.16	18,099,377.81	261,412,303.61	140,529.72	622,877,198.18
Opening balance of current year	60,360,000.00	283,188,427.20	-323,440.16	18,099,377.81	261,412,303.61	140,529.72	622,877,198.18
Changes for current period ("-" decrease)	241,440,000.00	241,440,000.00	2,846,714.82	–	-46,943,369.98	76,982.80	-44,019,672.36
Comprehensive income	–	–	2,846,714.82	–	-46,943,369.98	76,982.80	-44,019,672.36
Capital surplus transfer to share capital	241,440,000.00	241,440,000.00	–	–	–	–	–
Ending balance for current period	301,800,000	41,748,427,70	2,523,274.66	18,099,377.81	261,468,933.63	217,512.52	578,857,525.82

The attached notes are an integral part of these financial statements.

Consolidated Statement of Movement on Equity

2014 *(Expressed in Renminbi)*

	2013						
	Attributable to shareholders of the parent company						
Item	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
Ending balance of previous year	60,360,000.00	283,188,427.20	-71,293.33	18,099,377.81	254,377,625.52	–	615,954,137.20
Opening balance of current year	60,360,000.00	283,188,427.20	-71,293.33	18,099,377.81	254,377,625.52	–	615,954,137.20
Changes for current period ("-" decrease)	–	–	-252,146.83	–	7,034.678.09	140,529.72	6,923,060.98
Net profit	–	–	–	–	7,034.678.09	-31,576.93	7,003,101.16
Other comprehensive income	–	–	-252,146.83	–	–	–	-252,146.83
Invested and reduced capital of shareholders	–	–	–	–	–	172,106.65	172,106.65
Ending balance for current period	60,360,000.00	283,188,427.20	-323,440.16	18,099,377.81	261,412,303.61	140,529.72	622,877,198.18

The attached notes are an integral part of these financial statements.

Statement of Movement on Equity

2014 *(Expressed in Renminbi)*

	2014				
Item	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Ending balance of previous year	60,360,000.00	283,290,620.14	180,999,377.81	3,7,978,806.08	323,771,191.87
Opening balance of current year	60,360,000.00	283,290,620.14	180,999,377.81	3,7,978,806.08	323,771,191.87
Changes for current period ("-" decrease)	241,440,000.00	241,440,000.00	–	-57,676,049.22	-57,676,049.22
Total comprehensive income	–	–	–	-57,676,049.22	-57,676,049.22
Capital surplus transfer to share capital	241,440,000.00	241,440,000.00	–	–	–
Ending balance for current period	301,800,000.00	41,850,620.14	18,099,377.81	-95,654,855.30	266,095,142.65

The attached notes are an integral part of these financial statements.

2014 (Expressed in Renminbi)

	2013				
Item	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Ending balance of previous year	60,360,000.00	283,290,620.14	180,999,377.81	38,447,111.22	323,302,886.73
Opening balance of current year	60,360,000.00	283,290,620.14	180,999,377.81	38,447,111.22	323,302,886.73
Changes for current period ("-" decrease)	–	–	–	468,305.14	468,305.14
Net profit	–	–	–	468,305.14	468,305.14
Ending balance for current period	60,360,000.00	283,290,620.14	18,099,377.81	-37,978,806.08	323,771,191.87

The attached notes are an integral part of these financial statements.

I. GENERAL INFORMATION OF THE COMPANY

(I) Place of registration, type of organization and address of headquarter

Launch Tech Company Limited (hereinafter referred to as the "Company") is a joint-stock limited liability company converted from Shenzhen Launch Computer Company Limited in April 2001 pursuant to the "Reply on Consenting to the Establishment of Launch Tech Company Limited by Way of Promotion" (Shen Fu Gu [2001] No.16 issued by the People's Government of Shenzhen, Guangdong Province, and Shenzhen Dahua Tiancheng Certified Public Accountants verified the capital of the promoters and issued the Capital Verification Report Shen Hua (2001) Yan Zi No. 050 on 13 April 2001. On 1 June 2001, the Company received the Business License for Legal Person Enterprises (registration No.: 4403012020436) issued by the Administration of Shenzhen for Industry and Commerce after turned into a joint stock company, and the name was changed to Launch Tech Company Limited with a registered capital of RMB33 million.

In 2002, pursuant to the "Reply on Consenting to the Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited" (Zheng Jian Zi (2002) No.13) of China Securities Regulatory Commission ("CSRC"), the Company issued 110 million foreign shares (H shares) of RMB0.10 each listing on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited, with registered capital increasing to RMB44 million, which was verified by Huazheng Certified Public Accountants Co., Ltd. with Capital Verification Report (Hua Zheng Yan Zi Bao Zi (2002) No. 328) issued on 23 December 2002.

In 2003, pursuant to the "Reply on Consenting to the Additional Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited" (Zheng Jian Guo He Zi (2003) No.33 of CSRC), an addition of 80 million foreign shares (H shares) of RMB0.10 each were offered and listed on the GEM of the Stock Exchange of Hong Kong Limited, with registered capital increasing to RMB52 million, which was verified by Shenzhen Dahua Tiancheng Certified Public Accountants with Capital Verification Report (Shen Hua (2003) Yan Zi No. 063).

On 4 November 2004, Shenzhen Deshiyu Investment Co., Ltd. signed the Equity Transfer Agreement with China Special Situations Holdings(1)(BVI)Limited, China Special Situations Holdings(2)(BVI)Limited, Crosby China Chips Holdings(1)(BVI) Limited, respectively, pursuant to which, Shenzhen Deshiyu transferred 277,200.00 shares, 2,000,000.00 shares and 1,646,700.00 shares respectively to the above mentioned companies. On 18 January 2005, the Ministry of Commerce issued the "Reply of the Ministry of Commerce on Approving the Change of Launch Tech Company Limited into A Foreign Invested Joint Stock Company "(Shang Zi Pi (2005) No. 63) approving the equity transfer and change of the Company into a foreign invested joint stock company, and issued the Certificate for Approval of Establishment of A Foreign Invested Enterprises (Shang Wai Zi Zi Shen Zi (2005) No. 0003). The equity transfer was also approved by Shenzhen Bureau of Trade and Industry with the "Reply on Approving the Change of Launch Tech Company Limited into A Foreign Invested Joint Stock Company" (Shen Zi Gong Zi Fu (2005) No. 0058).

I. GENERAL INFORMATION OF THE COMPANY (Continued)

(I) Place of registration, type of organization and address of headquarter (Continued)

In 2006, pursuant to the "Reply on Consenting to the Additional Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited" (Zheng Jian Guo He Zi (2005) No.33 of CSRC), additional 38 million foreign shares (H shares) of RMB0.10 each were issued and issued on the GEM of the Stock Exchange of Hong Kong Limited, with registered capital increasing to RMB55.8 million, which was verified by Zhongtian Huazheng CPA Co., Ltd. with Capital Verification Report (Zhong Tian Hua Zheng (Jing) Yan Zi (2006) No. 3001) issued on 17 January 2006.

On 11 December 2007, pursuant to the "Reply on Consenting to the Additional Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited" (Zheng Jian Guo He Zi (2007) No.24 of CSRC), additional 45.6 million foreign shares (H shares) of RMB0.10 each were issued and listed on the GEM of the Stock Exchange of Hong Kong Limited with registered capital increasing to RMB60.36 million, which was verified by Zhonglian CPA Co., Ltd Shenzhen Branch with Capital Verification Report (Zhong Lian Shen Suo Yan Zi (2008) No. 029).

Pursuant to the "Reply on Consenting to the Transfer of Listing of Launch Tech Company Limited to the Main Board of the HKEX" dated 6 January 2011 (CSRC Approval (2011) No. 15 of CSRC) and the approval of the Hong Kong Stock Exchange, share consolidation of the Company was completed on 21 March 2011 and the nominal value per share was consolidated from RMB0.10 to RMB1.00, with total number of shares of the Company changing from 603.6 million shares to 60.36 million shares. The Company was listed on the Main Board of the Hong Kong Stock Exchange on 28 March 2011 with stock code HK2488.

The Company's Registration No. of Business License for Legal Person: 440301501126682.

Registered address of the Company: 2-8 Floors, Xin Yan Building, Bagua Number Four Road, Futian District, Shenzhen.

Principal place of business of the Company: Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen.

Legal representative: Liu Xin.

2014 (Expressed in Renminbi)

I. GENERAL INFORMATION OF THE COMPANY (Continued)

(II) Scope of operation

General operations: research, development, production and sale of automotive diagnostic, testing, repair and maintenance equipment and relevant software; research, development, production and sale of automotive electronic products; provision of network information service (excluding commodities subject to exclusive operation, control, and franchising, and restricted items); operation of import and export business as specified in Grading Certificate for Self-operated Import and Export Business (Shen Mao Deng Ji Zheng Zi No. 17).

(III) Business nature and major activities of the Company

The Company belongs to the industry of automotive maintenance and repair equipment for automotive aftermarket, and its major products or services are automotive diagnostic and testing equipment.

(IV) Approval of the financial statements

These financial statements were approved by the Board of Directors on 31 March 2015.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

During the period, 5 entities were consolidated in the consolidated financial statements, which were:

Name of Subsidiary	Type of Subsidiary	Grade	Shareholding Percentage (%)	Percentage of Voting Rights (%)
Shanghai Launch Mechanical Equipment Co., Ltd. ("Shanghai Launch")	Wholly-owned subsidiary	One	100.00	100.00
Launch Software Development Co., Ltd. ("Launch Software")	Wholly-owned subsidiary	One	100.00	100.00
Xi'an Launch Software Technology Co., Ltd. ("Xi'an Launch")	Wholly-owned subsidiary	One	100.00	100.00
Launch Europe GmbH	Wholly-owned subsidiary	One	100.00	100.00
Shenzhen Peng Ao Da Technology Co. Ltd. (Peng Ao Da)	Controlling subsidiary	One	88.00	88.00

There was no change in the entities that were included in the consolidated financial statements during the period.

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of preparation of the financial statements

The financial statements of the Company were prepared on the going concern basis according to the transactions and matters actually occurred, and recognitions and measurements were made in accordance with the Accounting Standards for Enterprises – Basic Standards published by the Ministry of Finance and specific accounting standards, guidance on application of accounting standards for enterprises, interpretations to accounting standards for enterprises and other relevant requirements (hereinafter collectively referred to as the "Accounting Standards for Enterprises"), in combination with the provisions of the Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No.15: General Provisions for Financial Statements (Revised in 2014) of CSRC.

In addition, these financial statements are also in compliance with the disclosure requirements of the Companies Ordinance in Hong Kong and the applicable disclosure rules of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Except that the Statement of Cash Flows was prepared on a cash basis, the other statements of the Company were prepared on accrual basis.

(II) Going concern

After taking a full consideration of several factors, such as risks of macro-policy and market operation, present and long-term profitability of the Company, debt-paying ability, financial flexibility and the intention of the management to change operation policy, the management of the Company believes that, there are no matters or events that may raise any material doubts on the continuing operation viability of the Company within 12 months since the end of the reporting period, and the Company can operate on a going concern in the coming 12 months.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement of compliance

The financial statements prepared by the Company meet the requirements of the enterprise accounting standards; exactly and completely reflect the financial status, operation result, and cash flow, etc. of the Company.

(II) Accounting period

The accounting year of the Company is from January 1 each year to December 31 of the same year in western calendar.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(III) Functional currency

Renminbi is the functional currency.

The functional currency of the overseas subsidiary shall be the currency of the economic environment where its operations are located, which is converted to Renminbi for the purpose of preparing the financial statements.

(IV) Accounting treatments of business combinations involving entities under common control and entities not under common control

1. If the terms, conditions and economic effects of transactions for the purpose of realizing business combination in phases, fall in the following one or more situations, regard multiple transactions as a package transaction for accounting treatment:

1) these transactions were entered into at the same time or after considering the effects of each other;

2) only when regarding these transactions as a whole, can it achieve a complete business result;

3) the occurrence of one transaction depends on the occurrence of at least one other transaction;

4) a transaction is not economical when treated alone, but is economical when considered with other transactions.

2. Business combinations involving entities under common control

1) Separate Financial Statements

If the Company settles combination consideration by cash, non-cash asset transfer, assumption of obligations or issue of equity securities, take the share obtained of the carrying amount of interests attributable to owners of the combined party at the date of combination as initial investment costs of long-term equity investment in the consolidated financial statements of the ultimate controller. Capital reserve is adjusted according to the difference between the initial investment costs of long-term equity investment and the combination consideration; retained earnings are adjusted if capital reserve is not enough for hedging. If there is any contingent consideration required to be recognized as estimated obligations or assets, capital reserve (capital or share premium) is adjusted by the difference between the amount of such estimated obligations or assets and the amount of settlement of subsequent contingent consideration; where the capital reserve is insufficient, the retained earnings are adjusted.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IV) Accounting treatments of business combinations involving entities under common control and entities not under common control (Continued)

2. Business combinations involving entities under common control (Continued)

1) Separate Financial Statements (Continued)

For business combination finally realized through several transactions, in case of a package transaction, all the transactions are accounted as one transaction to acquire the control; in case of no package transaction, on the date of acquisition of the control, the capital reserve is adjusted by the difference between the initial investment cost of long-term equity investment and the sum of the book value before the combination and the book value of the new payment consideration for further acquisition of shares on the date of combination; where the capital reserve is insufficient, the retained earnings are adjusted. For the equity investment held before the date of combination, the other comprehensive income measured and recognized under the equity method or financial instrument recognition and measurement standards are not accounted until the accounting treatment for the disposal of relevant assets or liabilities of the investee is adopted the same for the disposal of such equity investment; changes in the owners' equity other than the net losses and profits, other comprehensive income and profit distribution in the net assets of the investee that is recognized under the equity method, is not accounted, until disposal of such investment is transferred to current profit and losses.

All direct expenses occurred for the purpose of combination (including audit fees, assessment fees and legal service fees paid in relation to combination) are credited in profit or loss in the period when they occurred; trading expenses in direct relation to the issuance of equity instrument as the consideration for the combination is written down to the capital reserve, where the capital reserve is insufficient, and to surplus reserve and undistributed profits; trading expenses in direct relation to the issuance of debt instrument as the consideration for the combination is included in the initial recognition amount of the debt instrument.

The combined party determines the initial investment cost of the long-term equity investment based on the owner's equity attributable to the parent company in the consolidated financial statement on the date of combination.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IV) Accounting treatments of business combinations involving entities under common control and entities not under common control (Continued)

2. Business combinations involving entities under common control (Continued)

2) Consolidated Financial Statements

Assets and liabilities obtained by the combining party in the business combination shall be measured by the carrying amount of the combined party at the date of combination in the consolidated financial statements of the ultimate controller.

For business combination finally realized through several transactions, in case of a package transaction, all the transactions are accounted as one transaction to acquire the control; in case of no package transaction, the long-term equity investment held by the combining party before the date of combination, and the profit and loss, the other comprehensive income and changes in the other owners' equity before the date of combination, on the later of the date of acquisition and the date when the combining and the combined parties are under the common control of the same party, are written down to the retained earnings or current profit and loss at the end of the comparative reporting period, respectively.

Where the accounting policies of the combined parties are inconsistent with that of the Company, at the date of combination, the Company shall make adjustments based on the accounting policies of the Company and recognize on this basis subject to the requirements of the Accounting Standards for Enterprises.

3. Business combinations involving entities not under common control

In a business combination involving entities not under common control, the cost of combination shall be the fair value of the assets paid, obligations incurred or assumed and the equity instruments or debt instruments issued by the acquirer for obtaining control of the acquiree at the date of acquisition. Where any agreement has been made in the combination contract in respect of future events which may affect the cost of combination, and if the estimated future events are likely to happen at the date of purchase, and the affected amount can be measured reliably, such amount shall be credited to the cost of combination.

Intermediary fees (such as audit, legal services and valuation consultancy) and other relevant management fees incurred by the Company for the purpose of business combination are credited in profit or loss in the period when they occurred. Transaction fees for the equity instruments or debt instruments issued by the acquirer as combination consideration is included in the initial recognition amount of such equity instruments or debt instruments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IV) Accounting treatments of business combinations involving entities under common control and entities not under common control (Continued)

3. Business combinations involving entities not under common control (Continued)

Goodwill is recognized when the combination cost paid by the Company is higher than the share of the fair value of the net tangible assets in the acquiree obtained through the combination. When the combination cost paid by the Company is lower than the fair value of the share of the fair value of the net tangible assets in the acquiree obtained through the combination, such difference shall be recognized in profit or loss for the period if the combination cost is still lower than the fair value of the share of the fair value of the net tangible assets in the acquiree obtained through the combination after re-assessment.

In a business combination involving entities not under common control that is realized in phases through multiple exchange transactions, in case of a package transaction, the accounting treatment should be conducted with all transactions as the one to obtain the power of control; in case of non-package transaction, accounting treatment can be divided into separate financial statements and consolidated financial statements:

(1) In separate financial statements, where the equity investment held before the date of combination is accounted under equity method, the sum of the book value of the equity investment held by the acquiree before the date of acquisition and the cost of new investment on the date of acquisition are recognized as the initial investment cost of such investment; due to the other comprehensive income accounted and recognized under equity method, the equity investment held before the date of acquisition is accounted on the same basis as used for disposal of relevant assets or liabilities of the investee when disposal of such investment.

Where the equity investment held before the date of combination is accounted according to the recognition and measurement criteria for financial instruments, the sum of the fair value of such equity investment on the date of combination and the new investment cost are accounted as the initial investment cost on the date of combination. The difference between the fair value of the original equity and its book value and the accumulative changes originally included in the other comprehensive income are transferred to current investment income on the date of combination.

(2) In consolidated financial statement, the equity of the acquiree held before the date of acquisition is re-measured at the fair value on the date of acquisition, and the difference between the fair value and book value is included in current investment income; where the equity of the acquiree held before the date of acquisition involves the other comprehensive income under equity method, such equity and relevant other comprehensive income are transferred to current investment income on the date of acquisition.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements

The scope of consolidation of the consolidated financial statements of the Company is determined on the basis of control. All subsidiaries (including individual entities controlled by the parent company) are included in the consolidated financial statements.

All subsidiaries within the scope of consolidation of the consolidated financial statements shall adopt accounting policies and financial period consistent with the Company. When there is any inconsistency on the accounting policies or financial period adopted by the subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or financial period adopted by the Company as necessary.

The consolidated financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries and other relevant information.

When consolidating the financial statements, the effects on the consolidated balance sheets, consolidated incomes statements, consolidated cash flow statements and consolidated statements of changes in shareholders' equity due to internal transactions between the Company and its subsidiaries and among the subsidiaries shall be offset.

When loss for the period attributable to minority shareholders of a subsidiary exceeds the initial share of owners' equity in the subsidiary owned by such minority shareholders, the excess amount shall still be deducted against shareholders' equity.

During the reporting period, initial amount in the consolidated balance sheets are adjusted for the addition of new subsidiaries and businesses due to business combinations involving entities under common control. The income, expenses and profits of the subsidiaries from the beginning of the consolidation to the end of the reporting period are included in the consolidated income statements, and the cash flows of the subsidiaries and the businesses from the beginning of the consolidation to the end of the reporting period are included in the consolidated cash flow statements.

During the reporting period, initial amount in the consolidated balance sheets are not adjusted for the addition of new subsidiaries and businesses due to business combinations involving entities not under common control. The income, expenses and profits of the subsidiaries from the date of acquisition to the end of the reporting period are included in the consolidated income statements, and the cash flows of the subsidiaries and businesses from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statements.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

During the reporting period, for disposal of subsidiaries and businesses by the Company, the income, expenses and profits of the subsidiaries from the beginning of the period to the date of disposal are included in the consolidated income statements, and the cash flows of the subsidiaries and businesses from the beginning of the period to the date of disposal are included in the consolidated cash flow statements.

When the Company loses control on its former subsidiary due to partial disposal of equity investment or otherwise, in the consolidated financial statements the remaining equity is re-measured based on the fair value at the date when control was lost. The difference between the sum of consideration received from disposal of equity and the fair value of the remaining equity, and the share of net assets calculated on an continual basis starting from the date of acquisition based on the former holding ratio, shall be recognized as the investment gain for the period when control was lost. Other comprehensive income associated with equity investment in the former subsidiary shall be transferred to investment gain upon the loss of control.

(VI) Accounting treatment of joint venture arrangement and joint operations

1. Classification of joint venture arrangements

The Company classifies the joint venture arrangements into joint venture and joint operation according to the structure, legal form of joint venture arrangement, the terms agreed in the arrangement, other relevant matters and situations.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation. Any joint venture arrangement that is achieved by a separate entity shall be generally classified as a joint venture. But if a joint venture arrangement is conclusively proved to meet any of the following conditions and meets the provisions of relevant laws and regulations, it shall be classified as joint operation:

(1) its legal form shows the joint venturers enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

(2) contract terms of the joint venture arrangement stipulate that the joint venturers enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

(3) other relevant facts and situations show that the joint venturers enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint venturers enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint venturers’ supports.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VI) Accounting treatment of joint venture arrangement and joint operations (Continued)

2. Accounting method for joint operation

The Company recognizes the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with relevant accounting standards for business enterprises:

(1) assets it solely holds and its share of jointly-held assets based on its percentage;

(2) liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;

(3) incomes from sale of output enjoyed by it from the joint operation;

(4) incomes from sale of output from the joint operation based on its percentage; and

(5) separate costs and costs for the joint operation based on its percentage.

When the Company invests or sells assets and others in or to the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8--Assets Impairment and other provisions, the Company shall recognize such loss in full.

When the Company purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8--Assets Impairment and other provisions, the Company shall recognize its part of such loss based on its percentage.

If the Company has no joint control over a joint operation enjoys and assumes relevant assets and liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant accounting standards for business enterprises.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VII) Determination criteria for cash and cash equivalents

In preparing cash flow statements, the Company's cash on hand and deposits that can be readily utilized for payment are recognized as cash. Investments that satisfy four conditions, namely short duration (normally means maturity within three months from the purchase date), high liquidity, readily convertible into known amount of cash and minimal risk of value change, are recognized as cash equivalents.

(VIII) Foreign currency businesses and translation of foreign currency statements

1. Foreign currency businesses

Foreign currency business transaction are recognized at the beginning and translated into Renminbi using the spot exchange rate prevailing on the date when transaction occurred.

Balance of monetary items in foreign currency are translated using the spot exchange rate prevailing on the balance sheet date, and the exchange differences arising therefrom are recognized in profit or loss for the period, except for special foreign currency loans related to acquisition and construction of assets that satisfy capitalization requirements, whose exchange differences are accounted for using principles on capitalization of loan expenses. Non-monetary items in foreign currency measured at historical cost are translated using the spot exchange rate prevailing on the date when transaction occurred and its functional currency shall remain unchanged.

Non-monetary items in foreign currency carried at fair value are translated using the spot exchange rate prevailing on the date when such fair value was determined, and any exchange difference arising therefrom is recognized in profit or loss for the period. In case of non-monetary items in foreign currency available for sales, the exchange difference arising therefrom is included in the other comprehensive income.

2. Translation of foreign currency statements

Items of assets and liabilities in the balance sheet are translated using the spot exchange rate prevailing at the balance sheet date. Items in the owners' equity, except for "undistributed profits", are translated using the spot exchange rate prevailing at the time of occurrence. Items of income and expenses in the income statement are translated using the spot exchange rate prevailing at the date of transaction. The foreign currency translation difference arisen as a result of the above currency translation is included in the other comprehensive income.

When disposing of an overseas operation, the foreign currency translation difference for items under the other comprehensive income in the balance sheet that are related to such overseas operation are transferred from the other comprehensive income to profit or loss for the period; for partial disposal of an overseas operation, the foreign currency translation difference attributable to the portion disposed of is transferred to profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

1. Classification of financial instruments

The management classifies the financial assets and financial liabilities into different categories according to the contractual terms of the financial instruments and the economic substance reflected rather than the legal form and in combination with the purposes for holding such financial assets and undertaking of financial liabilities: financial assets (or financial liabilities) measured at fair value and changes of which are included in current profit and loss; held-to-maturity investment; trade receivables; and other financial liabilities, etc.

2. Recognition and measurement of financial instruments

(1) Financial assets (financial liabilities) measured at fair value through profit or loss for the period

Financial assets or financial liabilities measured at fair value through profit or loss for the period, including financial assets or financial liabilities held for trading and financial assets or financial liabilities designated at fair value through profit or loss for the period.

The financial assets or liabilities meeting any of the following requirements shall be classified as trading financial assets or financial liabilities:

(1) The purpose to acquire the said financial assets or undertake the financial liabilities is mainly for selling or repurchase of them in the near future;

(2) Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future;

(3) Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(1) Financial assets (financial liabilities) measured at fair value through profit or loss for the period (Continued)

Only when any of the following requirements is met, they can be initially recognized, as financial assets or financial liabilities as measured at its fair value and of which the variation is included in the current profits and losses:

(1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arisen from the different basis of measurement of the financial assets or financial liabilities;

(2) The official written documents on risk management or investment strategies of the enterprise concerned have recorded that the combination of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel;

(3) Mixed instrument containing one or more embedded derivative instruments, unless the embedded derivative instruments do not materially change the cash flows of the mixed instruments, or the embedded instruments obviously should not be separated from relevant mixed instruments;

(4) Mixed instrument containing embedded derivative instrument that is required to be separated but cannot be individually measured on acquisition or subsequent balance sheet date.

For financial assets or financial liabilities that are measured at fair value and the change of which are included in current profit and loss, the fair value on acquisition (deducting declared but not distributed cash dividend or due but not claimed debt interests) is determined as the initial recognition value and relevant trading expenses are included in current profit and loss. Interests or cash acquired during the holding period are recognized as investment income, the fair value changes in which are included in current profit and loss. At the time of disposal, the difference between fair value and initial recognition amount is recognized as investment income and gains or losses on changes in fair value are adjusted at the same time.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(2) Trade receivables

The debt receivable due to the sale of goods or provision of services by the Company and the debt instruments of other enterprises held by the Company (except for those quoted on an active market), including trade receivables and other receivables, are recognized using the contractual amount receivable from the buyer or the agreed fees as initial recognition amount; those of a financing nature are recognized using its current value as initial recognition amount.

Upon receipt or disposal, the difference between the consideration received and the carrying amount of the receivable is recognized in profit or loss for the period.

(3) Held-to-maturity investments

Held-to-maturity investment refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the Company holds for a definite purpose or the enterprise is able to hold until its maturity.

For the held-to-maturity investment, the sum of the fair value on acquisition (deducting the debt interests with due invest payment period but not yet claimed) and relevant trading expenses are the initial recognition amount. During the holding period, the interest income is calculated based on amortized costs and effective interest rate and included in the investment income. Effective interests rate is determined on acquisition, and remains unchanged in the expected existing or applicable shorter period. During disposal, the difference between the price and the book value of the investment is included in the investment income.

Where the Company sells its outstanding held-to-maturity investment within the current accounting year or re-classifies it as the amount of available-for-sale financial asset, and the such amount is considerably large as compared with the amount before such investment is sold or re-classified, the surplus of such investment shall be re-classified as an available-for-sales financial asset; on the date of reclassification, the difference between the book value of the investment and its fair value is included in the other comprehensive income; and transferred out when the available-for-sales financial asset is impaired or de-recognized and included in current profit and loss. However, the following circumstances shall be excluded:

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(3) Held-to-maturity investments (Continued)

1) The date of sale or re-classification is quite near to the maturity date or the repo date of the said investment (e.g., within 3 months prior to maturity) that any change of the market interest rate will produce little impact upon the fair value of the said investment.

2) Enterprise has received almost all the initial principal of the investment according to the provisions on repayment of the contract.

3) The sale or re-classification is caused by any independent event that the enterprise cannot control, is predicted not to occur again and is hard to be reasonably predicted.

(4) Available-for-sale financial assets

Available-for-sale financial asset refers to the non-derivative financial assets which are designated as available for sales when they are initially recognized as well as the financial assets other than other financial assets.

For financial assets available for sales, the fair value on acquisition (deducting declared but not distributed cash dividend or due but not claimed debt interests) is determined as the initial recognition value and relevant trading expenses are included in current profit and loss. Interests or cash dividends acquired during the holding period are recognized as investment income. Gains or losses on changes in the fair value of available-for-sales financial assets, other than impairment loss and the exchange difference from the financial assets in foreign currency, are directly included in the other comprehensive income. During the disposal, the difference between the price acquired and the book value of the financial assets; and meanwhile, the accumulative changes in fair value of the original value included in the comprehensive income corresponding to the disposal is transferred out and include in gains or losses on investment.

The equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument shall be measured at their costs.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(5) Other financial liabilities

The sum of fair value and relevant transaction fees is used as the initial recognition amount. Amortization cost is used for subsequent measurements.

3. Recognition and measurement of transfer of financial assets

For transfer of financial assets of the Company, a financial asset i s derecognized when substantially all of the risks and return on the ownership of the financial asset have been transferred to the transferee; no derecognition is made if substantially all of the risks and return on the financial asset are retained.

When determining whether the above derecognition conditions for the transfer of financial asset have been met, the material aspect overrides the formal aspect. Transfer of financial assets of the Company is classified into entire transfer and partial transfer of financial assets. When the transfer of a financial asset satisfies the derecognition conditions, the difference between the two amounts below are recognized in profit or loss for the period:

(1) carrying amount of the financial asset transferred;

(2) the sum of the consideration received from the transfer and the accumulated change in fair value originally recognized directly in owners' equity (when the transfer involves available-for-sale financial assets).

When the partial transfer of a financial asset satisfies the derecognition conditions, the carrying amount of the entire financial asset transferred is amortized according to the respective fair value between the derecognized portion and the not derecognized portion, and the difference between the two amounts below is recognized in profit or loss for the period:

(1) carrying amount of the derecognized portion;

(2) the sum of the consideration received from transfer of the derecognized portion and the accumulated change in fair value of the corresponding derecognized portion originally recognized directly in owners' equity (when the transfer involves available-for-sale financial assets).

When the transfer of a financial asset does not satisfy the derecognition conditions, the financial asset continues to be recognized and the consideration received is recognized as a financial liability.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

4. Derecognition of financial liabilities

A financial liability or its portion is derecognized when all or a portion of the current obligations of the financial liability is released. Existing financial liability is derecognized when the Company enters into an agreement with the creditor to replace the existing financial liability with newly committed financial liability under materially different contractual conditions, and at the same time the new financial liability is recognized.

When material amendments are made to all a portion of the contractual conditions of an existing financial liability, the existing financial liability or its portion is derecognized and the financial liability with amended conditions is recognized as a new financial liability.

When the all or a portion of a financial liability is derecognized, the difference between the carrying amount of the financial liability derecognized and the consideration paid (including the non-cash assets transferred out or newly committed financial liability) is recognized in profit or loss for the period.

When the Company repurchases a portion of a financial liability, on the repurchase date the overall carrying amount of the financial liability is allocated based on the relative fair value of the portion continued to be recognized and the derecognized portion. The difference between the carrying amount allocated to the derecognized portion and the consideration paid (including the non-cash assets transferred out or newly committed financial liability) is recognized in profit or loss for the period.

5. Determination of the fair value of financial assets and financial liabilities

For financial assets and financial liabilities of the Company measured at fair value which an actively traded market exists, their fair values are determined based on the prices quoted on the actively traded market; for financial assets and financial liabilities which no actively traded market exists, their fair values are determined using valuation techniques (by referencing prices used in recent market transactions between willing parties who are familiar with the market, referencing the current fair value of other financial instruments that are materially the same, using discounted cash flow method and option pricing models); for financial assets initially obtained or derived or financial liabilities assumed, fair value is determined based on market transaction prices.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

6. Provision for impairment of financial assets (excluding receivables)

On balance sheet date, the carrying amounts of financial assets (except for those measured at fair value through profit or loss of the period) are assessed for impairment. Provision for impairment is made when there exists objective evidence that impairment of a financial asset has occurred.

For financial assets, objective evidence of impairment includes, but not limited to:

(1) significant financial difficulty of the issuer or debtor;

(2) breach of contract, such as delinquency or default in interest and principal payments made by the debtor;

(3) the creditor, for economic or legal reasons, granting concession to the debtor in financial difficulty;

(4) it becoming probable that the debtor will enter bankruptcy or financial reorganization;

(5) the disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes adverse change in the payment status of debtor of the group of assets, or increased unemployment rate in the country or region where the debtor is located, decreased price of collateral in the region where it belongs, recession in the industry, etc.;

(7) significant adverse changes in the technological, market, economic or legal environment in which the issuer of equity instrument operates, indicating that the cost of the equity instrument investment may not be recovered by the investor;

(8) a significant or prolonged decline in the fair value of the investment in equity instrument;

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

6. Provision for impairment of financial assets (excluding receivables) (Continued)

Specific method for impairment of financial assets:

(1) Impairment of available-for-sale financial asset

The Company adopts specific identification to evaluate the impairment losses of available-for-sale financial assets on the balance sheet. Among others, the objective evidence indicating the impairment of the available-for-sale equity instrument includes the significant losses or non-transient fall in the fair value of the investment in equity instruments with the specific quantitative criteria as follows: if the fair value of the equity instrument investment on the balance sheet date is less than 50%(inclusive) of the cost or is lower than the cost for more than 12 months (inclusive), impairment is indicated.

Where an available-for-sale financial asset is impaired, even if the recognition of the financial asset has not been terminated, the accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

As for the available-for-sale debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period.

(2) Provision for impairment of held-to-maturity financial assets:

If there is objective evidence that indicates impairment has occurred on a held-to-maturity investment, the difference between its carrying amount and the present value of its estimated future cash flow is recognized as impairment loss. If there is subsequent evidence to prove that its value has recovered, the originally recognized impairment loss may be reversed and recognized in profit or loss for the period, however the carrying amount so reversed may not exceed the amortization cost of the financial asset at the date of reversal had there been no provision for impairment.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

7. Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented in the balance sheet respectively and are not offset with each other. However, the net value after offset is presented in the balance sheet when the following conditions are satisfied:

(1) The Company has the legal right to offset the recognized amount and such right is exercisable;

(2) The Company plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

(X) Receivables

1. Individually significant receivables subjected to provision for bad debts on individual basis

Recognition criteria for provision for bad debts on individually significant receivables on individual basis: a receivable accounting for over 5% of the portion or exceeding RMB10 million are determined as an individually significant receivable.

Provision for bad debts of individually significant receivables: Individually tested for impairment. The difference between the present value of the estimated future cash flow and its higher carrying amount is provided for impairment and recognized in profit or loss for the period. For a receivable which impairment has not occurred after being tested individually, it is classified into a corresponding portfolio for provision for bad debts.

2. Receivables subjected to provision for bad debts on portfolio basis

(1) Determination criterion for credit risks characteristics of a portfolio of receivables:

Receivables that are individually insignificant, is classified by credit risks into several portfolio with those that are individually significant without impairment after separate tests. Based on the actual loss rate of the portfolio of receivables with similar credit characteristics in previous years in combination with the current situation, the provision for bade debts is determined.

The Company divides its receivables by nature into receivables classified by credit risks characteristics based on aged group, and VAT refund receivables. Receivables classified by credit risks characteristics based on aged group are provided for bad debts using aged group analysis. VAT refund receivables are not subjected to provision for bad debts.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Receivables (Continued)

2. Receivables subjected to provision for bad debts on portfolio basis (Continued)

(2) Provision for portfolio based on credit risk characteristics:

① Provision for bad debts based on aged group analysis:

Ageing	Provision proportion for trade receivables (%)	Provision proportion for other receivables (%)
Under 1 year	5.00	5.00
1-2 years	10.00	10.00
2-3 years	30.00	30.00
3-4 years	50.00	50.00
4-5 years	80.00	80.00
Over 5 years	100.00	100.00

② Provision for bad debts based on other methods:

Name of Portfolio	Provision Method
Value Added Tax refund receivables	No provisions made for bad debts

3. Individually insignificant receivables subjected to provision for bad debts on individual basis

Reason for provision bad debts for individual receivable: objective evidence shows that the Company cannot collect payment according to the original terms of the receivables.

Method of provision for bad debts: provision is made according to the difference between the book value and the present value of the estimated future cash flows of the receivables.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories

1. Classification of inventories

Inventories refer to the completed products or merchandize, semi-finished products under production process, and materials and items consumed during production or provision of labor services which are held for sale by the Company over the course of ordinary activities. These mainly include raw materials, semi-finished products and merchandizes in inventory.

2. Valuation of inventories

Inventories are initially measured at cost upon acquisition, which includes procurement costs, processing costs and other costs. The prices of inventories are calculated using weighted average method when they are delivered.

3. Determination criteria for the net realizable value of inventories and provision for inventory impairment

When a comprehensive count of inventories is done at the end of the period, provision for inventory impairment is allocated or adjusted using the lower of the cost of inventory and the net realizable value. The net realizable value of stock in inventory (including finished products, inventory merchandize and materials for sale) that can be sold directly is determined using the estimated saleable price of such inventory deducted by the cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of material in inventory that requires processing is determined using the estimated saleable price of the finished product deducted by the cost to completion, estimated cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of inventory held for performance of sales contract or labor service contract is determined based on the contractual price; in case the amount of inventory held exceeds the contractual amount, the net realizable value of the excess portion of inventory is calculated using the normal saleable price.

Provision for impairment is made according to individual items of inventories at the end of the period; however, for inventories with large quantity and low unit price, the provision is made by categories; inventories of products that are produced and sold in the same region or with the same or similar purpose or usage and are difficult to be measured separately are combined for provision for impairment.

If the factors causing a previous write-off of inventory value has disappeared, the amount written-off is reversed and the amount provided for inventory impairment is reversed and recognized in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories (Continued)

4. Inventory system

Perpetual inventory system is adopted.

5. Amortization of low-value consumables and packaging

(1) Low-value consumables are amortized by one-time write-off;

(2) Packaging materials are amortized by one-time write-off;

(3) Other supplementary materials are amortized by one-time write-off.

(XII) Long-term equity investments

1. Determination of investment costs

(1) For long-term equity investment formed by business combination, please refer to "Accounting treatments of business combinations involving entities under common control and entities not under common control" of notes IV/(IV) for details of accounting policies.

(2) Long-term equity investments obtained through other means

Initial investment costs of long-term equity investment obtained through cash payment is determined by the actual consideration paid. The initial investment cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Initial investment costs of long-term equity investment obtained through issuance of equity securities is determined by the fair value of the equity securities issued; trading expenses incurred during insurance or acquisition of equity instrument that may be directly attributable to equity trade can be deducted from the equity.

The initial investment costs of long-term equity investment obtained in an exchange of non-monetary assets is determined using the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; the initial investment costs of a long-term equity investment in a nonmonetary asset exchange that cannot satisfy the above conditions is determined by the carrying amount of the asset surrendered and the amount of relevant taxation payable.

The initial investment costs of a long-term equity investment obtained through debt restructuring is determined based on the fair value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Subsequent measurement and profit or loss recognition

(1) Cost method

The Company may adopt the cost method for accounting of the long-term equity investment controlled by the investee, and measure the investment at the initial investment cost, which can be adjusted by addition or recovery of investment.

Except for the price actually paid for obtaining the investment or the cash dividends or profits declared but not yet distributed which is included in the consideration, the Company recognizes cash dividends or profits declared by the investee as current investment gains.

(2) Equity method

The Company adopts the equity method for accounting of long-term equity investment in joint ventures and associates; where part of the equity investment of the investing party is indirectly held by venture capital institutions, mutual funds, trust companies or similar subjects including unit-linked insurance fund, the investment is measured at fair value, the changes in which are included in the profit and loss.

When the initial investment cost of the long-term equity investment exceeds the share of fair value in the net tangible assets in the investee, the initial investment cost of a long-term equity investment is not adjusted based on such difference. When the initial investment cost is lower than the share of fair value in the net tangible asset in the investee, such difference is recognized in profit or loss for the period.

After the Company acquires a long-term equity investment, it shall, in accordance with its attributable share of the net profit or loss and other comprehensive income realized by the investee, recognize the investment income and other comprehensive income respectively and simultaneously adjust the book value of the long-term equity investment. The Company shall, in the light of the profits or cash dividends that the invested entity declares to distribute, reduce the book value of the long-term equity investment correspondingly. As to any change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution, the Company shall adjust the book value of the long-term equity investment and include such change into the owners' equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

2. Subsequent measurement and profit or loss recognition (Continued)

(2) Equity method (Continued)

The Company shall, based on the fair value of identifiable net assets of the invested entity when it obtains the investment, recognize its attributable share of the net profit or loss of the invested entity after it adjusts the net profit of the invested entity. The profit or loss of the unrealized internal transaction between the Company and the associates, joint ventures be deducted with the part attributable to the Company according to the proportion the Company is entitled to, and the gains or losses on investment shall be recognized on such basis.

Recognition of loss in the investee by the Company shall follow this order: firstly, reduce the carrying amount of the long-term equity investments; secondly, if the carrying amount of long-term equity investments is insufficient for such reduction, continue to recognize such investment loss to the extent of the carrying amount of the long-term equity net investment in the investee and reduce the carrying amount of long-term receivables. Finally, after the above treatment, if the Company still bears additional obligations stipulated under the investment contract or agreement, the estimated obligations assumed are recognized as estimated obligations and recognized in profit or loss for the period.

If the investee records a profit subsequently, after reducing the attributable loss that is not yet recognized, the treatment by the Company shall be the reverse of the above order: reverse the carrying balance of estimated obligations already recognized, restore the carrying amount that physically constitute the long-term interests and long-term equity investment in the investee, and recognize investment gain.

3. Change of the accounting methods for long-term equity investments.

(1) Change of measurement at fair value to accounting under equity method

Where the equity investment held by the Company have no control, joint control or significant impact on the investee and that are accounted according to the financial instrument recognition and measurement criteria can place significant impact or carry out common control but cannot control the investee due to addition of investment, the sum of the fair value of the equity investment originally held determined subject to the Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments and the new investment cost are determined to be the initial investment cost accounted under equity method.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

3. Change of the accounting methods for long-term equity investments. (Continued)

(1) Change of measurement at fair value to accounting under equity method (Continued)

Where the equity investment originally held is classified into available-for-sale financial assets, the difference between the fair value and the book value and the accumulative changes in fair value that are originally included in other comprehensive income are included in current profit and losses under equity method.

The book value of the long-term equity investment is adjusted by the difference between the fair value shares of the identifiable net assets of the investee on the date of additional investment determined by calculation of the new shareholding proportion after such additional investment and the initial investment cost under equity cost and is included in current non-operating income.

(2) Change of measurement at fair value or accounting under equity method to cost method

The equity investment of the investee held by the Company with no control, joint control or significant impact and accounted according to the financial instrument recognition and measurement criteria, or the long-term equity investment in associates or joint venture originally held that can be controlled due to addition of investment, the sum of the book value of the original equity investment and the cost of new investment is changed to be accounted under cost method and recognized as the initial investment cost when preparing individual financial statements.

The other comprehensive income recognized due to the adoption of cost method for the equity investment held before the date of acquisition shall be accounted on the same basis for the disposal of relevant assets or liabilities of the investee during the disposal of such investment.

Equity investment held before the date of acquisition shall be subject to Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments and the accumulated fair value changes that were originally included in other comprehensive income shall be included in current profit or loss under cost method.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

3. Change of the accounting methods for long-term equity investments. (Continued)

(3) Change of accounting under equity method to measurement at fair value

Where the Company losses common control or significant impact over the investee due to disposal of some of the equity investment, the remaining equity after disposal shall be subject to accounting under Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the common control or significant impact is lost and the book value is included in current profit or loss.

Other comprehensive income that is recognized due to adoption of the equity method shall be subject to accounting on the same basis for disposal of relevant assets or liabilities of the investee at the time when the equity method is ceased.

(4) Change of cost method to equity method

Where the Company losses the control over the investee due to disposal of some of the equity investment, and the remaining equity after disposal can place common control or significant impact over investee, it should be changed to equity method in preparing individual financial statements and the remaining equity shall be adjusted as if the equity method is adopted at the acquisition.

(5) Change of cost method into measurement at fair value

Where the Company losses the control over the investee due to disposal of some of the equity investment, and the remaining equity after disposal cannot place common control or significant impact over investee, the accounting should be changed and become subject to Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the control is lost and the book value is included in current profit and loss.

4. Disposal of long-term equity investment.

When an investing party disposes of long-term equity investment, the difference between its book value and the payment actually acquired shall be included in the current profit or loss. When an investing party disposes of long-term equity investment measured by employing the equity method, accounting treatment of the portion previously included in other comprehensive income shall be made on the same basis as would be required if the invested entity had directly disposed of the assets or liabilities related thereto according to the corresponding proportion.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

4. Disposal of long-term equity investment. (Continued)

If the terms, conditions and economic effects of transactions in relation to the disposal of equity investments in subsidiaries, fall in the following one or more situations, regard multiple transactions as a package transaction for accounting treatment:

(1) these transactions were entered into at the same time or after considering the effects of each other;

(2) only when regarding these transactions as a whole, can it achieve a complete business result;

(3) the occurrence of one transaction depends on the occurrence of at least one other transaction;

(4) a transaction is not economical when treated alone, but is economical when considered with other transactions.

When an entity loses control on its original subsidiary due to partial disposal of equity investment or otherwise, it does not belongs to a package transaction, and the accounting treatment shall be differentiated by separate financial statements and consolidated financial statements:

(1) in separate financial statements, for equity disposed, the accounting treatment for disposal of equity, the difference between the book value and the actual payment is included in current profit or loss. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the book value is included in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

4. Disposal of long-term equity investment. (Continued)

(2) In consolidated financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will. Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

Transactions in relation to the disposal of equity investments in subsidiaries until control is lost belong to a package transaction, and the accounting treatment shall be differentiated by separate financial statements and consolidated financial statements:

(1) in separate financial statements, the difference between the book value of the long-term equity investment corresponding to disposal price and equity disposed before the loss of control is recognized as investment is recognized other comprehensive income; and transferred to current profit or loss at the time of loss of control.

(2) in consolidated financial statements, the difference between the accumulated disposal considerations before control is lost and the share of net assets in the subsidiary is recognized as other comprehensive income, and shall be transferred to profit or loss for the period when control was lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments (Continued)

5. Criteria for determination of common control and significant impact

If the Company collectively control certain arrangement with the other participants as agreed, and the decisions on the activities that may have significant impact on the return of arrangement exit with consistent agreement from participants sharing the control power, then the Company and the other participants are deemed to have common control over certain arrangement, which is joint venture arrangement.

Where the joint venture arrangement is realized through individual entity, it is judged according to relevant agreement that, when the Company is entitled to rights over the net assets of such entity, the entity is a joint venture and adopts equity method for accounting treatment. If judged according to relevant agreement that, the Company has no rights over the net assets of such entity, such entity is joint operation, and the Company recognize the items in relation to the shares in the joint operation and adopts provisions of relevant accounting standards for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of an invested entity, but not to control or jointly control together with other parties over the formulation of these policies. The Company determines, the significant impact is placed on investee in one or more situations as follows after a comprehensive consideration of all facts and situations: (1) dispatching representatives in the board of directors or similar power organ of the investee; (2) participating in the formulation of the financial and operation policies of the investee; (3) having significant deals with the investee; (4) dispatching management personnel to the investee; and (5) providing key technical data to investee.

(XIII) Fixed assets

1. Recognition of fixed assets

Fixed assets refer to tangible assets held for the production of merchandize, provision of labor services, renting or operational management with useful life over one accounting year. Fixed assets are recognized when all of the following conditions are met:

(1) economic benefits related to such fixed assets are likely to flow into the enterprise;

(2) costs of such fixed assets can be reliably measured.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

2. Initial measurement of fixed assets

The fixed assets of the Company are initially measured at cost. The cost of the externally purchased fixed assets include the purchase price, the import duties, and the other expenditure direct attributable to such assets for such assets to be available for its intended use. The cost of a self-constructed fixed asset consists of all necessary expenses incurred for enabling the asset to be available for its intended use. The cost invested to a fixed asset by the investor is determined according to the value agreed upon in the investment contract or agreement. Where the valued agreed upon in the said investment contract or agreement is unfair, the said cost will be determined according to the fair value of the asset. Where the price for purchase of the fixed assets exceeds the deferred payment on normal credit terms with substantial financing nature, the cost is determined on the basis of the present value of the purchase price. The difference between the actual payment and the purchase price, besides being capitalized, shall be included in current profit or loss during the credit period.

3. Subsequent measurement and disposal of fixed assets

(1) Depreciation of fixed assets

The depreciation of fixed assets is provided within the estimated useful life based on the value carried less the expected net residue. For fixed assets with impairment provided, the depreciation can be determined based on the book value less the provision for impairment in future period and the remaining useful life.

The Company determines the useful life and estimated residual value of fixed assets based on their nature and use condition. The useful life, estimated residual value and method of depreciation of fixed assets are re-assessed at the end of the period, corresponding adjustment is made when any difference from the originally estimated amount is found.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

3. Subsequent measurement and disposal of fixed assets (Continued)

(1) Depreciation of fixed assets (Continued)

The period of depreciation and depreciation ratio of different categories of assets are as follows:

Category	Method of depreciation	Period of depreciation (year)	Residual ratio (%)	Annual depreciation ratio (%)
Buildings	Average year method	20-25	5	4.75-3.8
Machinery	Average year method	5-10	5	19-9.5
Electronic equipment	Average year method	5	5	19
Transportation vehicle	Average year method	4-5	5	23.75-19
Other equipment	Average year method	5	5	19

(2) Subsequent expenses of fixed assets

For subsequent expenses in relation to fixed assets, those that comply with the recognition criteria for fixed assets are included in the costs of fixed assets; those that do not are included in current profit or loss at the time of incurrence.

(3) Disposal of fixed assets

A fixed asset is derecognized when the disposal or expected use or disposal of such fixed asset cannot create any economic benefits. The disposal income from sale, transfer, retirement or damage of fixed assets is recognized in profit or loss for the period after deducting its carrying amount and relevant taxation.

4. Determination basis, measurement and depreciation method of fixed assets acquired under financial lease

The fixed asset leased by the Company will be recognized as fixed asset acquired under finance leases when it complies with one or more of the following standards:

(1) The ownership of the leased asset will be transferred to the Company upon expiry of the lease term.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

4. Determination basis, measurement and depreciation method of fixed assets acquired under financial lease (Continued)

(2) The Company has the option to acquire the leased asset, and the acquisition consideration is expected to be much lower than the fair value of the leased asset at the time when the right of option is exercised. Therefore, it can be reasonably confirmed from the commencement date of the lease term that Company will exercise the right of option.

(3) Even if the ownership of the leased asset will not be transferred, the lease term accounts for the most of useful life of the leased asset.

(4) The present value of the minimum lease payment made by the Company at the commencement date of the lease almost equals to the fair value of the leased asset at the commencement date of the lease.

(5) The leased asset is of a specialized nature that only the Company can use it without making major modifications.

The value of the leased asset acquired under finance leases is recorded as the lower of the fair value of the leased asset and the present value of the minimum lease payment at the commencement date of the lease. The minimum lease payment is recognized as long-term payable, and the difference between them is recognized as unrecognized finance charge. Initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement, such as handling fees, attorney fees, traveling expenses and stamp duty, are also credited to the value of the leased asset. Unrecognized finance charge is amortized using effective interest method over the lease term.

In calculating the depreciation of the fixed asset acquired under finance leases, the Company adopted a depreciation policy consistent with that for fixed assets owned by the Company. If there is reasonable certainty that the Company will obtain ownership of the leased asset upon expiry of the lease term, the leased asset is depreciated over its useful life. If there is no reasonable certainty that the Company will obtain ownership of the leased asset upon expiry of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIV) Constructions in progress

1. Categories

The self-constructed constructions in progress of the Company are measured at actual cost, which consist of the necessary expenses required for bringing such constructions to the expected useable conditions including the cost of construction materials, labor costs, relevant taxes, borrowings capitalized. The constructions in progress of the Company are accounted by project.

2. Criteria and timing for conversion of construction in progress into fixed assets

The initial book values of the fixed assets are stated at total expenditures incurred before construction in progress reaching the working condition for their intended use. For construction in progress that has reached working conditions for its intended use but for which the completion of settlement has not been handled, it shall be transferred into fixed assets at the estimated value according to the project budget, construction price or actual cost, etc. from the date when it reaches the working conditions for its intended use. And the fixed assets shall be depreciated in accordance with the Company's policy on fixed asset depreciation. Adjustment shall be made to the originally and provisionally estimated value based on the actual cost after the completion of settlement is handled, but depreciation already provided will not be adjusted.

(XV) Borrowing expenses

1. Principles of recognizing capitalization of borrowing expenses

The loan expenses of the Company directly attributable to the construction or production of an asset meeting capitalization conditions are capitalized and recognized in relevant asset costs; other loan expenses are recognized as expenses based on the amount incurred and recognized in profit or loss for the period.

An asset that meets the capitalization conditions refers to fixed assets, real estate investments and inventories that require a considerable amount of time for construction or production to reach the expected usable or saleable condition.

Loan expenses are capitalized when all of the following conditions are met:

(1) the asset expense has occurred, which includes expenses in the form of cash paid, non-monetary asset transferred or interest-bearing obligations assumed for the construction or product of an asset that meets capitalization conditions;

(2) the loan expenses have occurred;

(3) the necessary construction or production activities for bringing the asset to the expected usable or saleable conditions have started.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Borrowing expenses

2. Capitalization period of borrowing expenses

Capitalization period refers to the time starting from the loan expenses are capitalized to the time capitalization is stopped, except for the period which capitalization of loan expenses is suspended.

When the construction or production of an asset meeting capitalization conditions has reached expected useful or saleable conditions, the capitalization of loan expenses is stopped.

When the a portion of the construction or production of an asset meeting capitalization conditions has completed and can be used individually, the capitalization of loan expenses of such portion of asset is stopped.

When portions of the construction or production of an asset have been completed but will only become useful or saleable after the entire asset is completed, the capitalization of loan expenses is stopped when the entire asset is completed.

3. Suspension of capitalization period

Capitalization of loan expenses is suspended when any abnormal interruption continues for over three months during the construction or production of an asset that meets capitalization conditions. If such interruption is a necessary procedure for the construction or production of the asset that meets capitalization conditions, the loan expenses are continued to be capitalized. The loan expenses incurred during the interruption are recognized as profit or loss for the period, and capitalization of loan expenses continues when the construction or production activities of the asset resumes.

4. Calculation of capitalized amount of borrowing expenses

Interest expenses of special loans (net of interest income from unutilized loans deposited in bank or investment gain earned from temporary investment) and supplementary expenses incurred for the construction or production of asset that meets capitalization conditions before the asset reaches expected useable or saleable condition are capitalized.

The interest amount that should be capitalized on normal borrowings is calculated based on the weighted average of expenses of the aggregate asset exceeding the expenses of the portion of special loan multiplied by the capitalization ratio of the normal borrowings utilized. Capitalization ratio is calculated based on normal weighted average interest rate.

When there is discount or premium in the loan, the discount or premium to be amortized in each accounting period is determined using effective interest method and the interest amount for each period is adjusted.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVI) Intangible assets and development expenses

Intangible assets refer to the identifiable non-monetary assets owned or controlled by the Company which have no physical form, including land use rights, proprietary technology, and membership of golf course.

1. Initial measurement of intangible assets

The cost of externally purchased intangible assets includes the purchase price, relevant taxation and other expenses directly attributable to bringing the asset to expected usage. If payment for the price of intangible assets purchased is delayed beyond normal credit conditions and is in fact financing in nature, the cost of the intangible asset is determined based on the present value of the purchase price.

For intangible asset obtained through debt restructuring for offsetting the debt of the debtor, the entry value of the intangible asset is determined based on its fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible asset used for offsetting the debt is recognized in profit or loss for the period.

The entry value of intangible asset received in an exchange for non-monetary asset is based on the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of nonmonetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and the amount of relevant taxation payable, and no profit or loss is recognized.

For intangible asset obtained through business absorption or combination of entities under common control, the entry value is determined by the carrying amount of the combined party; for intangible asset obtained through business absorption or merger of entities not under common control, the entry value is determined by the fair value of the intangible asset.

The cost of an internally developed intangible asset include: the materials consumed in developing the intangible asset, labor costs, registration fees, amortization of other patented rights and licensed rights used during the development process, interest expenses meeting capitalization conditions, and other direct costs for bringing the intangible asset to expected usage.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVI) Intangible assets and development expenses (Continued)

2. Subsequent measurement

The Company determines the useful life of intangible assets on acquisition, which are classified as intangible life with limited life and indefinite life.

(1) Intangible asset with a limited life

Intangible asset with a limited life is depreciated using straight line method over the term which it brings economic benefit to the Company. The estimated useful life and basis for the intangible assets with a limited life are as follows:

Item	Estimated useful life	Basis
Land use right	50 years	Title certificate
Proprietary technology	5-8 years	Expected period of benefit

The useful life and depreciation method of intangible assets with limited life are re-assessed at the end of each period. If the original estimate varies, corresponding adjustments are made.

Upon re-assessment, at the end of the period there was no difference in the useful life and depreciation method of intangible assets from the previous estimates.

(2) Intangible assets with indefinite useful life

If the term of economic benefit the intangible asset can bring to the Company cannot be estimated, it is deemed to be an intangible asset with indefinite life. Intangible assets with indefinite useful life are as follows:

Item	**Basis**
Membership of Mission Hills Golf Club China	It is determined as an intangible asset with indefinite life since it is a life membership

Intangible assets with indefinite useful life are not amortized during the holding period. The useful life of intangible assets with indefinite life is re-assessed at the end of each period. If it is re-assessed to remain indefinite at the end of the period, impairment tests shall be conducted during reach accounting period.

Upon re-assessment, the useful life of this type of intangible assets was still indefinite.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVI) Intangible assets and development expenses (Continued)

3. Specific criteria in dividing the research stage and development stage of internal research and development projects of the Company

Research stage: the stage when innovative and planned investigation and research activities are conducted for obtaining and understanding new scientific or technological knowledge.

Development stage: the stage when activities are conducted to apply research findings or other knowledge to a certain plan or design to produce new or substantially improved materials, devices, products, etc. prior to commercial production or usage.

The expenses in the development stage of internal research and development projects are recognized as expensed in profit or loss for the period.

4. Specific criteria of capitalization for expenses during development stage

The expenses during development stage of internal research and development projects are recognized as intangible asset when all of the below conditions are met:

(1) it is technically feasible to complete the intangible asset to bring it to useable or saleable conditions;

(2) there is intention to complete the intangible asset for use or sale;

(3) there is a way for generating economic benefits from the intangible asset, including the ability to prove there exists a market for products produced using the intangible asset or there exists a market for the intangible asset itself; for intangible asset to be used internally, its usability can be proved;

(4) there is sufficient support in the areas of technology, financial and other resources to complete the development of the intangible asset, and there is the ability to use or sell the intangible asset;

(5) the expenses attributable to the development stage of the intangible asset can be reliably measured.

The expenses during development stage that do not comply with the conditions above are included current profit or loss on incurrence. Development expense included in profit or loss in previous period are not re-recognized as assets in subsequent period. Capitalized expenses during development stage are presented as development expenses on the balance sheet and transferred to intangible assets since they reach the intended use.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVII) Goodwill

Goodwill refers to the difference in cost of business combination of entities not under common control that exceeds the share in the fair value of the identifiable net assets of the investee or acquiree at the date of acquisition or date of purchase.

Goodwill related to subsidiaries are stated separately on the consolidated financial statements; goodwill related to associated companies and joint ventures are included in the carrying amount of long-term equity investments.

(XVIII) Impairment of long-term assets

The Company makes a judgment on whether there is any sign of possible long-term assets impairment on the balance sheet date. Where there is any evidence indicating a possible impairment of assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs.

The estimate of the recoverable amount of the assets are determined at the higher of the net amount of the fair value less the disposal expenses and the present value of the estimated future cash flows.

Where the measurement result of the recoverable amount indicates that the recoverable amount of the long-term asset is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, a provision for the asset impairment shall be made accordingly. Once the asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual service life of the asset.

No matter whether there is any sign of possible assets impairment, the business reputation formed by the merger of enterprises and intangible assets with uncertain service lives shall be subject to impairment test every year.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Impairment of long-term assets (Continued)

The goodwill shall, together with the related asset group or combination of asset group, be subject to the impairment test. When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the Company shall first make an impairment test on the asset groups or combinations of asset groups not containing the goodwill, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss. Then the Company shall make an impairment test of the asset groups or combinations of asset groups containing goodwill, and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the goodwill apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill.

(XIX) Employee Compensation

Employee compensation refers to all kinds of remunerations and other relevant reimbursements made by enterprises to their employees in exchange for services of said employees, including short-term employee remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

1. Short-term remuneration

Short-term remuneration refers to the employee compensation in addition to post-employment benefits and termination benefits, which are required to be fully paid within 12 months upon the annual reporting period when the employees provide relevant services. During the accounting period when the employees provides services, the Company recognizes the short-term remuneration payable as liabilities and includes them into relevant asset costs and expenses according to benefits from the services provided by employees.

2. Post-employment benefits

"Post-employment benefit" refers to all kinds of remunerations and benefits other than short-term remuneration and termination benefits that are provided by the Company after the retirement of the employees or termination of labor ration with enterprises in exchange for services provided by employees. The post-employment benefits are categorized as defined contribution plans and defined benefit plans.

The defined contribution plans under the post-employment benefits are mainly for the participation in the social basis endowment insurance and unemployment insurance organized and carried out by local labor and social guarantee authorities. During the accounting period when the employees provide services for the Company, the payable amount of defined contribution plans is recognized as liabilities and included in current profit or loss or relevant costs of assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIX) Employee Compensation (Continued)

2. Post-employment benefits (Continued)

The Company has no other payment obligations after making the above-mentioned payment periodically according to the standards specified by the country.

3. Termination benefits

Termination benefit refers to indemnity provided by enterprises for employees for the purpose of terminating labor relation with the employees before the expiry of the labor contract or encouraging employees to accept downsizing voluntarily. It is included in current profit or loss on incurrence.

4. Other long-term employee benefit

Other long-term employee benefits refer to all the employee compensations other than short-term remuneration, post-employment benefits and termination benefits.

For other long-term employee benefits qualified for defined contribution plans, during the accounting period when the employees provide services for the Company, the amount payable is recognized as liabilities and included in current profit and loss or relevant asset cost; in any other circumstances, the other long-term employee benefits are calculated by actuary with the expected accumulative benefit unit method on balance sheet date, and benefit obligations arising from defined benefit plans attributable to the period when the employees provide services, and are included in current profit or loss or relevant asset costs.

(XX) Income

1. Specific determination criteria for timing of recognition of income from sale of merchandize

Income from sale of merchandize is recognized when: the Company has transferred the key risks and return on the ownership of the merchandize to the buyer; the Company has not retained continued management rights associated with ownership and no longer exercises effective control on the merchandize sold; the amount of income can be reliably measured; the relevant economic benefits are very likely to flow to the enterprise; the costs incurred or to be incurred can be reliably measured.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Income (Continued)

1. Specific determination criteria for timing of recognition of income from sale of merchandize (Continued)

Specific procedures for recognition of income from sale of merchandize of the Company are as follows:

① Export business: after the contract is signed, the Company organizes production according to the contract. There are different modes of settlement when the good is delivered: where the acquirer designates shipping company under FOB mode, income is recognized when bill of landing is obtained after the good crossed the ship's rail, and the export declaration shall be approved by the custom; where the seller arranges freight and transport insurance under CIF mode, income is recognized when bill of landing is obtained after the good crossed the ship's rail, and the export declaration shall be approved by the custom; where the acquirer designates delivery point under mode DDU, income is recognized when receipt is provided by the acquirer and the entitlement of payment is obtained; where the good is delivered in the place in which the Company is located or other designated places (such as airport) under mode EXW, income is recognized when the delivery is finished and delivery receipt is obtained.

② Domestic business: under the distributor model, income is recognized when the good is delivered and the amount is received or the proof of its receipt is obtained; for key customers and government procurement projects, income is recognized when the good is delivered, the sales invoice from the sales department is received, and the outbound order of the warehouse is received with the confirmation notice from the customs.

For the software upgrade business of the Company, income is recognized when the labor service is provided, the amount is received or the proof of its receipt is obtained.

Contractual fee or negotiated price is received using the deferred method; if it is in fact financing in nature, the fair value of the receivable contractual or negotiated price is recognized as income from sale of merchandize.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Income (Continued)

2. Criteria for recognition of alienating the right to use assets

When the economic benefit related to the transaction will very likely flow to the enterprise and the income amount can be reliably measured, the income amount from alienating the right to use assets is recognized according to the below conditions:

(1) interest income is calculated based on the time period and actual interest rate the bank balances and cash of the Company is used by the other party;

(2) asset use income is calculated using the charging period and method stipulated in the relevant contract or agreement.

(XXI) Government subsidies

1. Classification

Government subsidies refer to monetary and non-monetary assets received from the government without compensation, however excluding the capital invested by the government as a corporate owner. According to the subsidy object stipulated in the documents of relevant government, government subsidies are divided into subsidies related to assets and subsidies related to revenue.

Government subsidies related to assets is obtained by the Company for the purposes of constructing or forming long-term assets in other ways. Government subsidies related to revenue refer to the government subsidies other than those related to assets.

2. Recognition of government subsidies

Where evidence shows that the Company complies with relevant conditions of policies for financial supports and are expected to receive funds rapidly at the end of the period, the amount receivable is recognized as the government subsidies. Otherwise, the government subsidy is recognized upon receipt.

Government subsidies in the form of monetary assets are stated at the amount received or receivable. Government subsidies in the form of non-monetary assets are measured at fair value; if fair value cannot be obtained, a nominal amount (RMB1) is used. Government subsidies that are measured at nominal amount shall be recognized in profit or loss for the period directly.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXI) Government subsidies (Continued)

3. Accounting treatment

Government subsidies related to assets are recognized as deferred income, and are recognized as nonoperation income in each period over the useful term of the constructed or purchased asset.

Government subsidies related to revenue aimed at compensating for relevant expenses or losses to be incurred by the enterprise in subsequent periods are recognized as deferred income once received, and are recognized as non-operation income in the periods when relevant expenses are recognized. Government subsidies aimed at compensating for relevant expenses or losses the enterprise that are already incurred are recognized as deferred income directly once received.

When it is required to return recognized government subsidy, if there is relevant balance of deferred income, it shall be written down to relevant book value of relevant deferred income, and the excess is included in current profit or loss; where there is no relevant deferred income, it shall be directly included in current profit or loss.

(XXII) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are measured and recognized based on the difference (temporary difference) between the taxable base of assets and liabilities and book value. On balance sheet date, the deferred tax assets and deferred tax liabilities are measured at the applicable tax rate during the period, when it is expected to recover such assets or repay such liabilities.

1. Criteria for recognition of deferred income tax assets

The Company recognizes deferred income tax assets arising from deductible temporary difference to the extent it is probably that future taxable amount will be available against which the deductible temporary difference can be utilized. However, the deferred income tax assets arising from the initial recognition of assets or liabilities in transactions with the following features are not recognized: (1) the transaction is not a business combination; or (2) neither the accounting profit or the taxable income or deductible losses is affected when the transaction occurs.

For deductible temporary difference in relation to investment in the associates, corresponding deferred income tax assets are recognized in the following conditions: the temporary difference is probably reversed in a foreseeable future and it is likely that taxable income is obtained for deduction of the deductible temporary difference in the future.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Deferred tax assets and deferred tax liabilities (Continued)

2. Criteria for recognition of deferred income tax liabilities

The Company recognizes deferred income tax liabilities on the temporary difference between the taxable but not yet paid taxation in the current and previous periods, excluding

(1) temporary difference arising from the initial recognition of goodwill;

(2) transactions or events arising from no business combination, and neither the accounting profit or the taxable income (or deductible losses) is affected when the transaction or event occurs;

(3) for taxable temporary difference in relation to investment in subsidiaries or associates, the time for reversal of the difference can be controlled and the difference is probably not reversed in a foreseeable future.

(XXIII) Segment reporting

Operating segments of the Company are identified on the basis of internal organization structure, management requirements and internal reporting system. An operating segment represents a component of the Company that satisfied the following criteria simultaneously:

1. its business activities are engaged to earn revenue and incur expenses;

2. its operating results are regularly reviewed by the Company's management to make decisions on resources allocation performance assessment;

3. its financial information, operating results, cash flow and related accounting information is available to the Company.

The Company determines reporting segments on the basis of operating segments. The intra-segment transfer price is determined with reference to market price, and the jointly used assets and relevant expenses are allocated to segments based on their income ratio.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV) Changes in key accounting policies and accounting estimates

1. Changes in accounting policies

There were no changes in key accounting policies during the reporting period.

2. Changes in accounting estimates

There were no changes in key accounting estimates during the reporting period.

V. TAXATION

(I) Main tax types and tax rates of the Company

Tax type	Basis of taxation	Tax rate
Business tax	Income from provision of labor services	5%
Value-added tax	Domestic sales; provision of processing repair and maintenance labor services	17%
	Overseas sales; provision of processing repair and maintenance labor services (German subsidiary)	19%
Urban construction tax	Turnover tax amount payable	1%, 7%
Education surcharges	Turnover tax amount payable	3%
Local education surcharges	Turnover tax amount payable	2%

Tax rates of different tax entities:

Name	Tax Rate
The Company	15.00%
Launch Software	15.00%
Shanghai Launch	25.00%
Xi'an Launch	25.00%
Peng Ao Da	15.00%

Launch Europe GmbH, a subsidiary of the Company pay the comprehensive tax at the rate of 32% in 2014.

V. TAXATION (Continued)

(II) Preferential tax policies and basis

Pursuant to Guo Fa [1997] Article No.8 "Notice Concerning the Implementation of Tax Exemption, Offsetting and Refund Procedures for Goods Exported by Production Enterprises for Their Own Account or by Foreign Trade Enterprises Upon Appointment as Agents for Production Enterprises", the "tax exemption, offsetting and refund" procedures are applicable to the value-added tax of the export products sold by the Company. Pursuant to the "Notice Concerning Further Increasing the Export Tax Refund Rate of Selected Merchandize" (Cai Shui (2009) No.88) dated 3 June 2009 issued by Ministry of Finance and State Administration of Taxation, starting from 1 June 2009, the effective tax refund rate for different product companies are 9%, 15% and 17%, respectively.

Pursuant to "Notice Concerning Value-Added Tax Policy on Software Products" (Cai Shui (2011) No.100) issued by Ministry of Finance and State Administration of Taxation, starting from 1 January 2011, the sale of proprietarily developed software products by the Company and its subsidiary Launch Software) is subject to value-added tax of 17% at statutory tax rate, and for any effective tax of value-added tax burden exceeding 3%, tax refund is immediate given upon collection.

Pursuant to Shenzhen Science, Industry, Trade and Information Technology Commission Chan Ye Zi [2009] No.25, the Company was recognized as a new and high technology enterprise with new and high technology enterprise certificate number GR200944200349, and passed the review on 12 September 2012; according to the provisions of The Law of the People's Republic of China on Enterprise Income Tax, the applicable tax rate of the Company for 2014 was 15%.

Launch Software was recognized as a new and high technology enterprise with new and high technology enterprise certificate number GR201044200043; according to the provisions of the Law of the People's Republic of China on Enterprise Income Tax, the applicable tax rate of Launch Software for 2014 was 15%.

Peng Ao Da was recognized as a new and high technology enterprise with new and high technology enterprise certificate number GR201244200645; according to the provisions of the Law of the People's Republic of China on Enterprise Income Tax, the applicable tax rate of Peng Ao Da for 2014 was 15%.

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts were in RMB if not otherwise specified)

(1) Bank balances and cash

Item	Ending balance	Beginning balance
Cash on hand	1,074,276.64	1,282,124.27
Bank deposit	255,273,775.72	311,852,874.12
Other bank balances and cash	87,448,809.00	2,110,000.00
Total	343,796,861.36	315,244,998.39
Including: total amount of deposits overseas	1,223,407.89	2,772,106.19

Details of restricted bank balances and cash are listed as follow:

Item	Ending balance	Beginning balance
Other bank balances and cash – performance bond	2,112,802.17	2,110,000.00
Other bank balances and cash – bond for acceptance draft	85,336,006.83	
Time deposits or call deposits for guarantee – acceptance draft	38,249,241.14	
Total	125,698,050.14	2,110,000.00

(2) Bills receivable

1. Categories of bills receivable

Item	Ending balance	Beginning balance
Bank acceptance notes	23,608,007.71	20,764,740.93
Commercial acceptance bill	300,000.00	
Total	23,908,007.71	20,764,740.93

2. The Company had no pledged bills receivable at the end of the period

3. The Company had no endorsed or discounted bills receivable that are not mature on balance sheet date

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables

1. Trade receivables disclosed by categories

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Trade receivables that are individually significant and are subjected to provision for bad debts on individual basis					
Trade receivables that are subjected to provision for bad debts on portfolio basis	316,965,673.26	99.06	53,919,302.33	17.01	263,046,370.93
Trade receivables that are individually insignificant but are subjected to provision for bad debts on individual basis	2,997,896.24	0.94	2,997,896.24	100.00	
Total	319,963,569.50	100.00	56,917,198.57	17.79	263,046,370.93

Continued:

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Trade receivables that are individually significant and are subjected to provision for bad debts on individual basis					
Trade receivables that are subjected to provision for bad debts on portfolio basis	286,126,349.69	95.78	36,775,260.15	12.85	249,351,089.54
Trade receivables that are individually insignificant but are subjected to provision for bad debts on individual basis	12,611,959.87	4.22	12,611,959.87	100.00	
Total	298,738,309.56	100.00	49,387,220.02	16.53	249,351,089.54

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

1. Trade receivables disclosed by categories (Continued)

(1) Aging of trade receivables within the group:

	Ending balance		
Aging	Trade receivables	Provision for bad debts	Proportion (%)
Under 1 year	140,163,226.98	7,008,161.35	5.00
1-2 years	87,035,615.14	8,703,561.52	10.00
2-3 years	47,211,490.29	14,163,447.09	30.00
3-4 years	33,635,789.10	16,817,894.55	50.00
4-5 years	8,466,569.63	6,773,255.70	80.00
Over 5 years	452,982.12	452,982.12	100.00
Total	316,965,673.26	53,919,302.33	17.01

Explanations of the basis for determination of the portfolio:

The Company made the best estimates for the proportion of provision for the trade receivable according to the pass experience, and classified the credit risk portfolio with reference to the aging of the trade receivable.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

2. Trade receivables subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period

Trade receivables	Carrying balance	Amount of provision for bad debts	Proportion of provision (%)	Reasons
Engecass Equipamentos Industriais Ltd	444,557.22	444,557.22	100.00	Low recoverability due to significant risks
AUTOMEC	37,937.80	37,937.80	100.00	Low recoverability due to significant risks
C4 Auto Importadora Ltda	16,521.30	16,521.30	100.00	Low recoverability due to significant risks
Vermelho's car	11,932.05	11,932.05	100.00	Low recoverability due to significant risks
Analyzer Services Limited	9,949.74	9,949.74	100.00	Low recoverability due to significant risks
Shenzhen Jinlongxiang Electronics Technology Co., Ltd.	1,205,174.98	1,205,174.98	100.00	Low recoverability due to significant risks
Hafei Motor Co., Ltd. Sales Company	146,347.83	146,347.83	100.00	Low recoverability due to significant risks
Liuzhou Wuling Motors Company Limited	14,499.70	14,499.70	100.00	Low recoverability due to significant risks
Werkstatt-Technik Michael Blau, Berlin	34,965.27	34,965.27	100.00	Low recoverability due to significant risks
FILIPPETTI SRL, Cattolica	204,730.77	204,730.77	100.00	Low recoverability due to significant risks
ELIT CZ, spol. s.r.o., Praha 13	32,051.62	32,051.62	100.00	Low recoverability due to significant risks
WAS GmbH, Erkrath	101,921.54	101,921.54	100.00	Low recoverability due to significant risks
TECNOSERVICE SRL, Roma	604,969.52	604,969.52	100.00	Low recoverability due to significant risks
Mangili Dario, Albano S.A. (Bg)	132,336.90	132,336.90	100.00	Low recoverability due to significant risks
Total	2,997,896.24	2,997,896.24	100.00	

3. Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 19,142,311.07; and the amount of write-off of the provision for bad debts during the period amounted to RMB11,612,332.52.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

4. Trade receivables actually written off during the reporting period

Item	Amounts written off
Trade receivables actually written off	11,612,332.52

Trade receivables actually written off are as follows:

Name	Nature of trade receivables	Amounts written off	Reason for write-off	Whether arising from connected transaction
Achieve Made M.E.FZE	Payment for goods	5,558,135.63	Uncollectible	No
Lanzamiento Latinoamerica s de R.L. DE C.V.	Payment for goods	2,128,212.91	Uncollectible	No
Launch France S.A.S.	Payment for goods	939,564.86	Uncollectible	No
BD Automotive Equipment	Payment for goods	668,883.81	Uncollectible	No
Ferreteria Vidrieria Central Avila Celi Cia.Ltda	Payment for goods	271,365.24	Uncollectible	No
Traffic Police Detachment of Xiangtan Public Security Bureau	Payment for goods	217,247.00	Uncollectible	No
Abletage Limited	Payment for goods	145,178.76	Uncollectible	No
Perfect-Instruments	Payment for goods	129,912.62	Uncollectible	No
84 accounts with insignificant amounts	Payment for goods	1,553,831.69	Uncollectible	No
Total		11,612,332.52		

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

5. Top five trade receivables by ending balance collection of the borrower

Name	Ending balance	Proportion in ending balance already of trade receivables (%)	Provision made for bad debts
Launch Tech (USA), Inc.	110,913,993.75	34.67	8,962,606.99
Launch Tech Japan.Inc.	24,247,302.56	7.57	9,035,536.84
Matco Tools	16,218,623.11	5.07	810,931.16
Launch Ibérica, S.L.	15,188,230.65	4.75	2,104,437.18
Launch Technologies SA (PTY) LTD	9,105,293.52	2.84	3,091,203.72
Total	175,673,443.59	54.90	24,004,715.89

(4) Prepayments

1. Classification based on aging

	Ending balance		Beginning balance	
Aging	Amount	Proportion (%)	Amount	Proportion (%)
Under 1 year	48,420,350.75	76.84	71,169,853.99	85.23
1-2 years	6,213,494.57	9.86	11,551,890.94	13.83
2-3 years	7,894,414.44	12.53	743,607.59	0.89
Over 3 years	483,207.40	0.77	39,621.83	0.05
Total	63,011,467.16	100.00	83,504,974.35	100.00

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Prepayments (Continued)

2. Prepayments with significant balances aged over 1 year and reasons of failure of timely settlement

Name	Ending balance	Aging	Reasons
Housing and Construction Bureau of Shenzhen Municipality	5,320,415.72	1-2 years	Not yet settled
Shenzhen Lianqian Technology Co., Ltd.	845,473.75	1-2 years	Not yet settled
Shenzhen Baolisi Technology Co., Ltd.	845,292.79	2-3 years	Not yet settled
Tongxiang Xngye Machinery (Shenzhen) Co., Ltd.	842,085.50	2-3 years	Not yet settled
Shenzhen Baoan Longhua Nanda Pneumatic and Hydraulic Pressure Business Department	747,251.00	2-3 years	Not yet settled
Total	8,600,518.76		

3. Top five prepayments by ending balance of collection of prepaid objects

Name	Ending balance	Proportion in total prepayment (%)	Year of prepayment	Reasons for unsettlement
Shenzhen Ouya Meihua Electronic Technology Co., Ltd.	11,109,074.42	17.63	2014	Settlement date undue
Shenzhen Sanmu Communications Technology Co., Ltd.	8,630,335.89	13.70	2014	Settlement date undue
Housing and Construction Bureau of Shenzhen Municipality	5,320,415.72	8.44	2013	Settlement date undue
Shenzhen Jiayang Electronic Co., Ltd.	3,949,268.48	6.27	2014	Settlement date undue
Shenzhen Zhaobaichuan Prevision Mold& Plastic Co., Ltd.	3,219,290.41	5.11	2014	Settlement date undue
Total	32,228,384.92	51.15		

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables

1. Disclosure of other receivables by categories:

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables that are individually significant and are provided for bad debts on individual basis					
Other receivables that are provided for bad debts on basis of credit risk portfolio	34,668,074.33	91.14	5,292,567.62	15.27	29,375,506.71
Other receivables that are individually insignificant but are provided for bad debts on individual basis	3,370,155.62	8.86	3,370,155.62	100.00	
Total	38,038,229.95	100.00	8,662,723.24	22.77	29,375,506.71

Continued

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables that are individually significant and are provided for bad debts on individual basis					
Other receivables that are provided for bad debts on basis of credit risk portfolio	30,771,209.04	84.86	2,521,986.41	8.20	28,249,222.63
Other receivables that are individually insignificant but are provided for bad debts on individual basis	5,490,813.38	15.14	5,490,813.38	100.00	
Total	36,262,022.42	100.00	8,012,799.79	22.10	28,249,222.63

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

1. Disclosure of other receivables by categories: (Continued)

Explanations of categories of other receivables:

(1) Detailed of other receivables that are subjected to provision for bad debts based on aging analysis:

	Ending balance		
Aging	Other receivables	Provision for bad debts	Proportion of provision (%)
Under 1 year	11,553,467.80	577,673.39	5.00
1-2 years	9,809,789.55	980,978.95	10.00
2-3 years	10,579,989.91	3,173,996.98	30.00
3-4 years	547,528.71	273,764.36	50.00
4-5 years	199,419.32	159,535.46	80.00
Over 5 years	126,618.48	126,618.48	100.00
Total	32,816,813.77	5,292,567.62	16.13

Explanations of the basis for determination of the portfolio:

The Company made the best estimates for the proportion of provision for the trade receivable according to the pass experience, and classified the credit risk portfolio with reference to the aging of the receivables.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

1. Disclosure of other receivables by categories: (Continued)

(2) Detailed of other receivables that are subjected to provision for bad debts through other methods

Name of portfolio	Ending balance Other receivables	 Provision for bad debts	 Proportion of provision (%)
Value Added Tax refund	1,851,260.56		No provision
Total	1,851,260.56		No provision

Explanations of the basis for determination of the portfolio:

It is determined according to the business nature that there is no credit risk, including: VAT refund.

2. Other receivables subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period:

Other receivables	Carrying balance	Amount of provision for bad debts	Proportion (%)	Reasons
Guangzhou Zhongngong Commercial Newspaper & Media Co., Ltd. (廣州中工商報傳媒有限公司)	304,000.00	304,000.00	100.00	Low recoverability due to significant risks
Shenzhen Xianglian Metal Produces Co., Ltd.	300,000.00	300,000.00	100.00	Low recoverability due to significant risks
Shenzhen Changchuang Electronic Technology Co., Ltd	210,000.00	210,000.00	100.00	Low recoverability due to significant risks
Shenzhen Defeng Mold Co., Ltd.	197,075.43	197,075.43	100.00	Low recoverability due to significant risks
Shenzhen Haolida Ultrasonic Equipment Co., Ltd.	159,999.99	159,999.99	100.00	Low recoverability due to significant risks
Shenzhen Changlongxing Metal Product Co., Ltd.	150,000.00	150,000.00	100.00	Low recoverability due to significant risks
Sub-total of 54 insignificant account	2,049,080.2	2,049,080.2	100.00	Low recoverability due to significant risks
Total	3,370,155.62	3,370,155.62	100.00	

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

3. Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB5,314,845.12; and the amount of write-off of the provision for bad debts during the period amounted to RMB 4,664,921.67.

4. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	4,664,921.67

Details of other receivables written off:

Name	Nature of other receivables	Amounts written off	Reason for write-off	Whether arising from connected transaction
Shenzhen Jinsanwei Mould Co., Ltd.	Current accounts	242,081.50	Uncollectible	No
Yingkou Anda Plastic Co., Ltd.	Current accounts	179,212.26	Uncollectible	No
SENSORS.INC.	Current accounts	152,660.04	Uncollectible	No
Shiying Industry Co., Ltd.	Current accounts	142,480.43	Uncollectible	No
Tianjin Special Electrical Machine Co., Ltd.	Current accounts	107,972.00	Uncollectible	No
Pingyun Tools Co., Ltd. (平宇工具股份有限公司)	Current accounts	766,228.51	Uncollectible	No
Shenzhen Yatu Digital Video Technology Co., Ltd.	Current accounts	1,258,894.14	Uncollectible	No
Sub-total of 66 insignificant account	Current accounts	1,815,392.79	Uncollectible	No
Total		4,664,921.67		

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

5. Top five other receivables by ending balance collected by borrowers

Name	Nature	Ending balance	Aging	Proportion in the ending balance of other receivables (%)	Provision for bad debts of ending balance
Shenzhen Kangmai Technology Co., Ltd.	Borrowings	7,000,000.00	2-3 years	18.40	2,100,000.00
Shenzhen Fulunda Precision Industry Technology Co., Ltd.	Borrowings	3,849,650.40	1-2 years	10.12	384,965.04
Shenzhen Jiayang Electronic Co., Ltd.	Borrowings	3,000,000.00	2-3 years	7.89	900,000.00
Shenzhen Qihongwei Technology Co., Ltd.	Borrowings	3,000,000.00	1-2 years	7.89	300,000.00
Beijing Yunfeng Culture and Investment Co., Ltd.	Borrowings	2,300,000.00	Within 2 years	6.05	187,500.00
Total		19,149,650.40		50.35	3,872,465.04

(6) Inventories

1. Categories

	Ending balance			Beginning balance		
Item	Carrying balance	Provision for impairment	Book value	Carrying balance	Provision for impairment	Book value
Raw materials	24,294,004.47	707,096.95	23,586,907.52	35,386,784.71	8,872,107.82	26,514,676.89
Work-in-progress	11,024,247.34	824,688.64	10,199,558.70	15,775,677.93	1,882,454.39	13,893,223.54
Finished goods	58,454,906.48		58,454,906.48	71,287,814.49	1,157,699.75	70,130,114.74
Total	93,773,158.29	1,531,785.59	92,241,372.70	122,450,277.13	11,912,261.96	110,538,015.17

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Inventories (Continued)

2. Provision for impairment of inventories

Categories	Beginning balance	Increase for the period		Decrease for the period			Ending balance
		Provision	Other	Reversal	Write-back	Other	
Raw materials	8,872,107.82				8,165,010.87		707,096.95
Work-in-progress	1,882,454.39				1,057,765.75		824,688.64
Finished goods	1,157,699.75				1,157,699.75		
Total	11,912,261.96				10,380,476.37		1,531,785.59

(7) Other current assets

Item	Ending balance	Beginning balance
Input tax pending for deduction	4,196,947.70	3,955,512.66
Financial products	50,000,000.00	
Total	54,196,947.70	3,955,512.66

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Fixed assets at cost and accumulated depreciation

1. Fixed asset

Item	Buildings	Machinery and equipment	Electronic equipment	Transport equipment	Other equipment	Total
I. Total original carrying value						
1. Beginning balance	307,371,843.73	50,792,729.78	96,859,964.90	25,735,698.03	104,037,332.31	584,797,568.75
2. Increase for the period	1,636,277.50	1,067,829.53	7,190,661.37	2,051,282.06	1,984,773.43	13,930,823.89
Purchase	1,000,380.06	1,067,829.53	7,190,661.37	2,051,282.06	1,984,773.43	13,294,926.45
Transfer from construction in progress	635,897.44					635,897.44
Increase from business combination						
Investment by shareholders						
Fixed assets under financing lease						
Other transfer						
3. Decrease for the period	4,407,910.34	1,457,009.44	1,413,677.47	867,974.44	1,212,986.31	9,359,558.00
Disposal or scrapping	4,407,910.34	1,457,009.44	1,413,677.47	867,974.44	1,212,986.31	9,359,558.00
Fixed assets rented out under financing lease						
Other transfer-out						
4. Ending balance	304,600,210.89	50,403,549.87	102,636,948.80	26,919,005.65	104,809,119.43	589,368,834.64

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Fixed assets at cost and accumulated depreciation (Continued)

1. Fixed asset (Continued)

Item	Buildings	Machinery and equipment	Electronic equipment	Transport equipment	Other equipment	Total
II. Accumulated depreciation						
1. Beginning balance	64,568,142.67	29,326,239.97	58,724,499.09	18,047,447.88	71,541,146.71	242,207,476.32
2. Increase for the period	13,393,452.36	3,875,437.12	13,140,624.29	2,496,827.39	10,718,029.41	43,624,370.57
Provisions	13,393,452.36	3,875,437.12	13,140,624.29	2,496,827.39	10,718,029.41	43,624,370.57
Increase from business combination						
Other transfer-in						
3. Decrease for the period	1,134,117.43	1,363,270.54	380,910.37	651,590.62	538,481.90	4,068,370.86
Disposal or scrapping	1,134,117.43	1,363,270.54	380,910.37	651,590.62	538,481.90	4,068,370.86
Fixed assets rented out under financing lease						
Other transfer-out						
4. Ending balance	76,827,477.60	31,838,406.55	71,484,213.01	19,892,684.65	81,720,694.22	281,763,476.03
III. Provision for impairment						
1. Beginning balance						
2. Increase for the period						
Provisions						
Increase from business combination						
Other transfer-in						
3. Decrease for the period						
Disposal or scrapping						
Fixed assets rented out under financing lease						
Other transfer-out						
4. Ending balance						
IV.Total Book value						
1. Book value at the end of the period	227,772,733.29	18,565,143.32	31,152,735.79	7,026,321.00	23,088,425.21	307,605,358.61
2. Book value at the beginning of the period	242,803,701.06	21,466,489.81	38,135,465.81	7,688,250.15	32,496,185.60	342,590,092.43

There were no fixed assets with title certificates not properly handled at the end of the period.

The original book value of the fixed assets for pledge at the end of the period was RMB 156,824,440.00, see Note XII(l) for details.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Construction in progress

1. Construction in progress

Item	Ending balance Carrying balance	Ending balance Provision for impairment	Ending balance Book value	Beginning balance Carrying balance	Beginning balance Provision for impairment	Beginning balance Book value
Research building	110,335,970.63		110,335,970.63	87,405,700.39		87,405,700.39
Other sporadic projects	433,503.81		433,503.81	661,897.44		661,897.44
Total	110,769,474.44		110,769,474.44	88,067,597.83		88,067,597.83

2. Changes in significant construction in progress

Name	Beginning balance	Increase	Transfer to fixed assets during current period	Decrease	Ending balance
Research building	87,405,700.39	22,930,270.24			110,335,970.63
Total	87,405,700.39	22,930,270.24			110,335,970.63

Continued:

Name	Budget (0'000)	Proportion of project investment in the budget (%)	Project progress (%)	Accumulative amount of interest capitalization	Including: amount of interest capitalization for current period	Interest capitalization rate for current period (%)	Fund source
Research building	11,700.00	94.30	94.30				Self-financing

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Intangible assets

1. Intangible assets

For the year 2014

Item	Land use right	Non-patent technology	Others	Total
I. Total original carrying value				
1. Beginning balance	22,679,018.09	141,550,090.92	1,177,350.41	165,406,459.42
2. Increase for the period	33,066,708.00	75,169,044.96		108,235,752.96
Purchase	33,066,708.00			33,066,708.00
Internal research and development		75,169,044.96		75,169,044.96
Increase from business combination				
Investment by shareholders				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance	55,745,726.09	216,719,135.88	1,177,350.41	273,642,212.38
II. Accumulated amortization				
1. Beginning balance	4,093,656.55	51,073,660.86		55,167,317.41
2. Increase for the period	674,553.36	31,304,652.33		31,979,205.69
Provisions	674,553.36	31,304,652.33		31,979,205.69
Increase from business combination				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance	4,768,209.91	82,378,313.19		87,146,523.10

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Intangible assets (Continued)

1. Intangible assets (Continued)

For the year 2014 (Continued)

Item	Land use right	Non-patent technology	Others	Total
III. Provisions for impairment				
1. Beginning balance				
2. Increase for the period		14,382,509.56	–	14,382,509.56
Provisions		14,382,509.56		14,382,509.56
Increase from business combination				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance		14,382,509.56		14,382,509.56
IV. Total Book value				
1. Book value at the end of the period	50,977,516.18	119,958,313.13	1,177,350.41	172,113,179.72
2. Book value at the beginning of the period	18,585,361.54	90,476,430.06	1,177,350.41	110,239,142.01

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Intangible assets (Continued)

1. Intangible assets (Continued)

For the year 2013

Item	Land use right	Non-patent technology	Others	Total
I. Total original carrying value				
1. Beginning balance	22,679,018.09	100,523,625.61	1,177,350.41	124,379,994.11
2. Increase for the period		41,026,465.31		41,026,465.31
Purchase				
Internal research and development		41,026,465.31		41,026,465.31
Increase from business combination				
Investment by shareholders				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance	22,679,018.09	141,550,090.92	1,177,350.41	165,406,459.42
II. Accumulated amortization				
1. Beginning balance	3,632,436.72	33,434,460.26		37,066,896.98
2. Increase for the period	461,219.83	17,639,200.60		18,100,420.43
Provisions	461,219.83	17,639,200.60		18,100,420.43
Increase from business combination				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance	4,093,656.55	51,073,660.86		55,167,317.41

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Intangible assets (Continued)

1. Intangible assets (Continued)

For the year 2013 (Continued)

Item	Land use right	Non-patent technology	Others	Total
III. Provisions for impairment				
1. Beginning balance				
2. Increase for the period				
Provisions				
Increase from business combination				
Other transfer-in				
3. Decrease for the period				
Disposal				
Other transfer-out				
4. Ending balance				
IV.Total Book value				
1. Book value at the end of the period	18,585,361.54	90,476,430.06	1,177,350.41	110,239,142.01
2. Book value at the beginning of the period	19,046,581.37	67,089,165.35	1,177,350.41	87,313,097.13

2. Explanations on intangible assets

The proportion of the intangible assets arising from internal research and development of the Company at the end of the reporting period in the original book value of intangible assets was 79.20%.

The other in the intangible assets is Membership of Mission Hills Golf Club China, which was purchased by the Company in 2008. As the membership is life-time, it is an intangible assets with indefinite useful life. According to the provisions of the accounting standards, the Company did not amortize the asset, and there was no impairment after testing.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Development expenditure

For the year 2014

Item	Beginning balance	Increase for the period: Internal development expenditure	Increase for the period: Others	Transferred out: Included in current profit or loss	Transferred out: Recognized as intangible assets	Ending balance
Easy Diag(Android/iOS)	5,377,227.79	3,629,189.76			9,006,417.55	
golo3	7,148,137.74	4,776,010.64			11,924,148.38	
golo technicians		9,567,630.39			9,567,630.39	
golo4		12,523,841.06			12,523,841.06	
golo5		2,944,678.52				2,944,678.52
golo6		4,115,692.66				4,115,692.66
X-712S	2,033,999.13	5,627,797.27			7,661,796.40	
X431 PRO3	1,780,405.48	6,232,190.62			8,012,596.10	
X431 PADII		8,002,830.73			8,002,830.73	
CRP229		7,188,780.65			7,188,780.65	
X431 MaxGo		7,399,085.80		7,399,085.80		
X431 Maximus20		7,088,334.71		7,088,334.71		
X431 Maxme		7,903,693.03				7,903,693.03
X431 PRO4		5,618,668.90				5,618,668.90
PDG500		1,281,003.70			1,281,003.70	
PDG800		492,263.07				492,263.07
Total	16,339,770.14	94,391,691.51		14,487,420.51	75,169,044.96	21,074,996.18

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Development expenditure (Continued)

For the year 2013

Item	Beginning balance	Increase for the period Internal development expenditure	Increase for the period Others	Transferred out Included in current profit or loss	Transferred out Recognized as intangible assets	Ending balance
iDiag(Android/iOS)	4,901,836.77	910,452.38			5,812,289.15	
Easy Diag(Android/iOS)		5,377,227.79				5,377,227.79
RCU-P		4,572,091.56			4,572,091.56	
golo2		4,660,565.14			4,660,565.14	
golo3		7,148,137.74				7,148,137.74
J2534	3,454,537.01	928,916.24		183,199.12	4,200,254.13	
MV3	2,029,680.34			2,029,680.34		
TGT Travel Navigator project	989,069.47	1,936,473.53		457,997.80	2,467,545.20	
X-712S		2,720,995.83		686,996.70		2,033,999.13
MatcoPAD		7,374,214.25		1,328,193.63	6,046,020.62	
X431 PRO		7,096,646.79		1,190,794.29	5,905,852.50	
CRP129		4,728,991.17		915,995.60	3,812,995.57	
CR V+		4,419,047.26		870,195.82	3,548,851.44	
X431 PRO3		2,238,403.28		457,997.80		1,780,405.48
CresetterII		1,831,991.21		1,831,991.21		
CR IV+		1,373,993.41		1,373,993.41		
Bangqi customized project		2,060,990.11		2,060,990.11		
Geely Automobile PC wireless diagnostic kits project		1,602,992.31		1,602,992.31		
Creader VII project		1,305,293.74		1,305,293.74		
Chongqing Lifan wireless offline detection project		2,289,989.01		2,289,989.01		
Creader VIII project		1,488,492.86		1,488,492.86		
X431 software upgrade project		4,854,776.71		4,854,776.71		
Total	11,375,123.59	70,920,682.32		24,929,570.46	41,026,465.31	16,339,770.14

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Goodwill

1. Original book value of goodwill

Investee	Beginning balance	Increase From business combination	Decrease Disposal	Ending balance
Launch Europe GmbH	1,139,412.80			1,139,412.80
Total	1,139,412.80			1,139,412.80

2. As at 31 December 2014, the Company conducted discounting calculation with a discount rate of 5.86% for the abovementioned goodwill based on estimated cash flow to determine whether impairment occur, no impairment was found after calculation and thus no impairment is considered necessary for the abovementioned goodwill.

(13) Deferred tax assets and deferred tax liabilities

1. Deferred income tax assets not written off

	Ending balance		Beginning balance	
Item	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provisions for asset impairment	38,259.80	5,738.97	26,144.06	3,921.61
Total	38,259.80	5,738.97	26,144.06	3,921.61

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Deferred tax assets and deferred tax liabilities (Continued)

2. Unrecognized deferred tax assets

Item	Ending balance	Beginning balance
(1) Deductible temporary differences	81,494,216.96	69,286,137.71
Bad debt provision – trade receivables	56,917,198.57	49,387,220.02
Bad debt provision – other receivables	8,662,723.24	7,986,655.73
Provision for inventories impairment	1,531,785.59	11,912,261.96
Provision for impairment of intangible assets	14,382,509.56	
(2) Deductible losses	153,348,895.83	150,969,619.30
(3) Internal unrealised profits	7,678,589.76	10,432,359.07
Total	242,521,702.55	230,688,116.08

As it is uncertain if sufficient taxable income will be obtained in the future, the deferred income tax asset is not recognized with respect to the above-mentioned deductible temporary difference and deductible losses.

3. Deductible loss of unrecognised deferred assets will be falling due

Item	Ending balance	Beginning balance	Note
2014		52,643,247.57	
2015	14,055,543.82	14,055,543.82	
2016	16,043,891.23	16,043,891.23	
2017	56,047,526.19	56,047,526.19	
2018	12,179,410.49	12,179,410.49	
2019	55,022,524.10		
Total	153,348,895.83	150,969,619.30	

The relevant recognition from tax authorities for the deductible losses was not obtained.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Short-term borrowings

1. Categories

Item	Ending balance	Beginning balance
Guaranteed	285,089,931.12	330,122,557.39
Secured + guaranteed	150,000,000.00	198,319,910.61
Banking acceptance draft financing	177,000,000.00	
Total	612,089,931.12	528,442,468.00

Explanation of classification of short-term borrowings:

See Note XI (IV) 2. Guarantee and Note XII (I) 3. relevant notes on other significant commitment for the detailed explanation of the guaranteed borrowings and the secured + guratnee borrowings.

Banking acceptance draft financing is an act of financing to discount the banking acceptance draft by Launch Software, a subsidiary of the Company, after it was issued by the Company.

(15) Notes payable

Categories	Ending balance	Beginning balance
Banking acceptance draft	103,420,000.00	
Commercial acceptance draft		
Total	103,420,000.00	

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Trade payables

Item	Ending balance	Beginning balance
Under 1 year	86,039,406.13	130,635,978.83
1-2 years	7,645,527.55	4,088,860.91
2-3 years	909,292.89	1,119,986.43
Over 3 years	1,560,462.46	1,357,878.11
Total	96,154,689.03	137,202,704.28

1. Key trade payables with aging of over 1 year

Name	Ending balance	Reasons for no repayment or settlement
Shanghai Caiyun Powder Coating Co., Ltd.	1,012,250.88	Settlement date undue
Suzhou Xingcheng Complete Automatic Equipment Co., Ltd.	934,686.64	Settlement date undue
Shanghai Jinli High Strenghth Fastener Co., Ltd.	787,172.07	Settlement date undue
Total	2,734,109.59	

(17) Receipts in advance

1. Receipts in advance

Item	Ending balance	Beginning balance
Under 1 year	53,064,711.56	56,957,621.86
Total	53,064,711.56	56,957,621.86

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Employee remuneration payables

1. Employee remuneration payables

Item	Beginning balance	Increase	Decrease	Ending balance
Short-term remuneration	2,967,594.15	145,370,175.44	145,406,816.56	2,930,953.03
Post-employment benefits-Defined contributions plan		15,084,318.64	15,084,318.64	
Termination benefits				
Other benefits maturing within one year				
Total	2,967,594.15	160,454,494.08	160,491,135.20	2,930,953.03

2. Short-term remuneration

Item	Beginning balance	Increase	Decrease	Ending balance
Salaries, bonus, allowance and subsidies	1,468,995.66	125,428,825.71	125,631,601.94	1,266,219.43
Staff welfare		6,632,827.59	6,632,827.59	
Social insurance fees		5,237,652.85	5,237,652.85	
Including: Basic medical insurance fees		4,433,458.76	4,433,458.76	
Injury insurance fees		480,517.80	480,517.80	
Maternity insurance fees		323,676.29	323,676.29	
Housing provident fund		7,019,632.40	7,019,632.40	
Union funds and employee education funds	1,498,598.49	1,051,236.89	885,101.78	1,664,733.60
Short-term accumulated paid absence				
Short-term profit (bonus) sharing plans				
Other short-term remuneration				
Total	2,967,594.15	145,370,175.44	145,406,816.56	2,930,953.03

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Employee remuneration payables (Continued)

3. Defined contribution plans

Item	Beginning balance	Increase	Decrease	Ending balance
Basic pension		14,502,996.05	14,502,996.05	
Unemployment insurance fees		581,322.59	581,322.59	
Total		15,084,318.64	15,084,318.64	

Explanation of defined contribution plan:

The basic pension and unemployment insurance fees under the defined contribution plan are social insurance provided and paid according to Regulations of Shenzhen Special Economic Zone on Social Endowment Insurance and Several Provisions of Shenzhen Special Economic Zone on Unemployment Insurance issued by Shenzhen Administration Bureau of Social Insurance Fund.

The calculation basis for the basic pension is: the payment base for the employees each month is the total salary of last month; the base for newly employed or re-employed and employees of newly established employers of the total salary of the first month. Where the total salary exceeds 300% of the monthly average salary of Shenzhen in the previous year, the excess shall not be included in the payment base; the payment base shall not be less than the minimum salary standard released by the city government. Employers shall use the total of payment base of their employees as the payment base for employers. The calculation formula for basic pension is payment base for employers X 13.00%.

The calculation basis for unemployment insurance fees: employers shall pay based on 2% of minimum monthly salary of Shenzhen for employees that should participate in the unemployment insurance.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Tax payables

Item	Ending balance	Beginning balance
VAT	2,024,035.96	-11,025,437.32
Business tax	103,074.25	555,739.38
EIT	959,516.10	472,846.46
Personal income tax	1,377,481.75	814,569.64
Urban maintenance and construction tax	116,723.35	105,163.59
Real estate tax	346,202.92	305,588.20
Land use tax	119,640.63	536,196.63
Education surcharge	84,581.33	76,336.07
Others	124,671.61	146,256.48
Total	5,255,927.90	-8,012,740.87

Note: Ending balance of tax payables increased by 165.59% from the beginning balance was mainly due to the decrease of remaining value-added tax at the end of the period.

(20) Other payables

1. Presentation of other payables by aging

Aging	Ending balance	Beginning balance
Under 1 year	3,747,790.70	5,997,377.91
1-2 years	2,306,780.19	2,766,995.10
2-3 years	2,220,725.82	
Total	8,275,296.71	8,764,373.01

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Other payables (Continued)

2. Significant other payables with aging of over 1 year

Name	Ending balance	Reason for un-repayment or settlement
Shanghai Jiading Hongmin Recycling Appliance Co., Ltd.	350,000.00	Security deposit
Shenzhen Yicheng Supply Chain Financing Co., Ltd.	280,000.00	Security deposit
Shenzhen Shixun'an Technology Co., Ltd.	198,440.00	Deposit
Shenzhen Nanfang Boke Technology Development Co., Ltd.	186,206.00	Security deposit
Bao Xudong	150,000.00	Deposit
Total	1,164,646.00	

(21) Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term borrowing due within 1 year	139,792.50	631,417.50
Total	139,792.50	631,417.50

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Long-term borrowings

1. Categories

Categories	Ending balance	Beginning balance
Credit loan		157,854.38
House mortgage repayment	2,095,867.32	
Total	2,095,867.32	157,854.38

Explanation of house mortgage repayment: on 4 March 2014, Launch Software, a subsidiary of the Company, signed a house loan contract with Ping An Bank Co., Ltd. with the period of loan from 31 March 2014 to 31 March 2019; the loan should be repaid with average capital plus interests; as of 31 December 2014, the balance of the loan contract was RMB 2,095,867.32.

(23) Deferred income

Item	Beginning balance	Increase	Decrease	Ending balance
Asset-related government subsidies	20,000,000.00			20,000,000.00
Total	20,000,000.00	–	–	20,000,000.00

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Deferred income (Continued)

1. Deferred income in relation to government subsidies

Item	Beginning balance	Amount of new subsidies for current period	Amount included in non-operating income for current period	Other changes	Ending balance	Asset-related/ income-related
Research on Critical Technique of Automobile Comprehensive Performance Testing, Development of its Product Series and its Industrialization	20,000,000.00				20,000,000.00	Asset-related
Total	20,000,000.00				20,000,000.00	

2. Other explanations of deferred income

Representing the amount of "Research on Critical Technique of Automobile Comprehensive Performance Testing, Development of its Product Series and its Industrialization" fund received from Shenzhen Financial Bureau pursuant to Cai Jian [2010] No. 251 of the Ministry of Finance, which will mainly be used for the project's infrastructure and the purchase of equipment. Main body of the research buildings relating to this project has been completed, and internal and external decoration is in process.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Share capital

		Increase(+)/Decrease(-) in current period					
Item	Beginning balance	Issuance of new shares	Bonus shares	Transfer from reserve	Others	Sub-total	Ending balance
Total number of shares	60,360,000.00			241,440,000.00		241,440,000.00	301,800,000.00

Explanation of changes in share capital:

According to the plan on transfer of capital reserve considered and passed on the annual general meeting held on 16 June 2014 (annual general meeting of H shareholders and annual general meeting of domestic shareholders), 40 shares were increased and transferred for every 10 shares. The share capital before the increase and transfer was 60,360,000.00 shares, including 27,360,000.00 shares issued in Hong Kong. The Stock Exchanges changed the 27,360,000.00 shares into 136,800,000.00 shares according to the plan (increase by 40 for 10) approved at the annual general meeting of the Company; however, as of the date of the report, the registration with the administration for industry and commerce in China was not completed.

(25) Capital reserve

Item	Beginning balance	Increase	Decrease	Ending balance
Capital premium (share premium)	283,188,427.20		241,440,000.00	41,748,427.20
Other capital reserve				
Total	283,188,427.20		241,440,000.00	41,748,427.20

Explanation of capital reserve:

Please see Note 24 for details of the capital reserve.

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Other comprehensive income

			Current period				
Item	Beginning balance	Current period before tax	Less: included in other comprehensive income in previous period but transferred into current profit or loss	Less: income tax expenses	After-tax income attributable to the parent company	After-tax income attributable to minority shareholders after tax	Ending balance
I. Other comprehensive income that cannot be reclassified into profit or loss in subsequent periods							
1. Changes from re-measurement of net liabilities or net assets under the defined benefit plans							
2. Shares of the investee in other comprehensive income that cannot be re-classified in subsequent period under equity method							
II. Other comprehensive income that will be re-classified in profit or loss in subsequent period							
1. Shares of the investee in other comprehensive income that will be re-classified in subsequent account period under equity method if specified provisions are satisfied							
2. Gains or losses on changes in fair value of available-for-sale financial assets							
3. Gains or losses on reclassification of held-to-maturity investment into available-for-sale financial assets							
4. Effective parts of Gains or losses on hedging of cash flows							
5 Translation difference of foreign currency statements	-323,440.16	2,846,714.82			2,846,714.82		2,523,274.66
Total of other comprehensive income	-323,440.16	2,846,714.82			2,846,714.82		2,523,274.66

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Surplus reserve

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserve	18,099,377.81			18,099,377.81
Discretionary surplus reserve				
Total	18,099,377.81			18,099,377.81

(27) Undistributed profits

Item	Amount	Provision or distribution proportion (%)
Undistributed profits at the end of last period before adjustment	261,412,303.61	–
Adjustment of total undistributed profits at the beginning of the period (“+” for increase and “-” for decrease)	–	
Undistributed profits at the beginning of the period after adjustment	261,412,303.61	–
Add: Net profits attributable to owners of parent company during this period	-46,943,369.98	–
Undistributed Profits at the end of period	214,468,933.63	

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Operating income and operating costs

1. Operating income and operating costs

Item	Current period		Previous period	
	Income	Cost	Income	Cost
Principal operation	722,094,905.25	482,969,007.69	668,704,916.42	446,792,981.32
Other operations	9,078,502.00	380,295.36	9,437,882.94	278,350.73
Total	731,173,407.25	483,349,303.05	678,142,799.36	447,071,332.05

(30) Business tax and surcharges

Item	Current period	Previous period
Business tax	651,855.35	2,831,645.84
City maintenance and construction tax	1,181,519.29	1,287,581.61
Education surcharges	849,139.80	922,986.12
Other	45,124.11	59,924.61
Total	2,727,638.55	5,102,138.18

Explanation of business tax and surcharges:

Current amount of business tax and surcharges reduced by 46.54% as compared with previous period, mainly attributable to the transfer of business tax into VAT.

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Selling expenses

Item	Current period	Previous period
Remuneration	38,731,123.60	35,477,530.92
Depreciation expenses	1,152,422.24	500,631.45
Rental expenses	5,043,136.98	4,438,929.32
Utilities	441,464.70	463,085.18
Office expenses	993,883.87	705,551.92
Packing expenses	31,562.20	46,345.95
Exhibition expenses	3,725,045.45	2,174,325.50
Advertising and printing expenses	5,625,137.46	630,565.62
Travelling expenses	4,300,286.81	4,065,750.99
Vehicle expenses	1,252,234.17	1,560,601.74
Repair costs	152,261.71	101,500.52
Entertainment	803,350.06	1,056,684.77
Postage	1,160,092.39	1,549,557.44
Storage and transportation fees	3,706,245.21	3,987,254.58
Amortization of low-cost consumables	360,594.63	126,822.94
Customs fees	1,535,970.60	1,874,198.71
Commissions	16,145,631.45	12,623,669.76
Training expenses	852,575.39	137,821.51
After-sales service costs	8,192,763.58	3,306,558.62
Cost of annual meeting	1,294,962.43	547,621.76
Insurance	292,989.37	356,608.14
Others	531,791.79	494,077.79
Total	96,325,526.09	76,225,695.13

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Administrative expenses

Item	Current period	Previous period
Remuneration	25,022,585.60	20,396,286.37
Office expenses	3,781,938.83	4,249,502.25
Travelling expenses	2,454,599.87	3,065,131.85
Entertainment	1,487,145.19	2,350,036.68
Taxation	2,551,814.82	2,852,526.21
Inventories losses	46,762.59	13,134.77
Amortization of low-cost consumables	489,722.41	521,701.67
Auditing and consulting expenses	3,213,241.82	2,248,267.43
Legal consultancy expenses	1,679,162.83	739,673.58
Depreciation expenses	24,992,829.57	26,799,290.04
Research and development expenses	21,406,531.78	24,182,988.75
Union funds and employee education funds	1,439,257.33	982,181.01
Vehicles and storage and transportation costs	3,377,455.19	2,821,040.07
Repairs and maintenance expenses	1,453,633.66	1,436,414.55
Amortization of intangible assets	31,979,205.69	18,100,420.43
Patent application and inspection certification fees	911,533.35	936,780.31
Other expenses	2,166,538.34	1,659,473.69
Total	128,453,958.87	113,354,849.66

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Finance costs

Categories	Current period	Previous period
Interest expenses	44,180,139.00	27,619,148.71
Less: Interest income	2,502,568.37	1,277,205.35
Exchange differences	3,838,889.04	8,973,623.79
Others	3,113,380.41	2,661,792.37
Total	48,629,840.08	37,977,359.52

(34) Asset impairment losses

Item	Current period	Previous period
Bad debt	24,457,156.19	11,910,205.29
Impartment loss on intangible assets	14,382,509.56	
Total	38,839,665.75	11,910,205.29

(35) Investment income

1. Details of investment income

Item	Current period	Previous period
Gain on disposal of long-term equity investment		5,600,000.00
Others	498.33	
Total	498.33	5,600,000.00

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Non-operating income

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Gain on disposals of non-current assets	3,068,043.64	107,990.75	3,068,043.64
Including: Gain on disposals of fixed assets	3,068,043.64	107,990.75	3,068,043.64
Government grants	17,283,434.63	15,826,507.95	17,283,434.63
Including: value-added tax refund	10,952,079.43	12,520,161.95	10,952,079.43
Business combination involving entities not under common control		382,115.43	
Others	490,162.73	1,226,747.08	490,162.73
Total	20,841,641.00	17,543,361.21	20,841,641.00

1. Government grants recognized in profits or losses

Item	Current period	Previous period	Asset-related/ Income-related
Intellectual property reward of special fund for industry development of Futian District, Shenzhen	49,800.00	57,000.00	Income-related grants
Shenzhen market Supervision Administration Bureau subsidy	99,000.00	90,000.00	Income-related grants
National special fund subsidy for development of small and medium-sized enterprises		60,000.00	Income-related grants
Reward from Shenzhen Social Insurance and Fund Administration (Shen She Bao Fa [2013] No.66)		10,000.00	Income-related grants
Technological innovation project subsidy of special fund for industry development of Futian District, Shenzhen		450,000.00	Income-related grants
Special fund for development of strategic emerging industries of Shenzhen	698,855.20	1,200,000.00	Income-related grants
Shenzhen financial reward for encouraging key enterprises to fasten development	100,000.00	260,000.00	Income-related grants
Discount loans of special fund for industry development of Futian District, Shenzhen	500,000.00	650,000.00	Income-related grants
Shenzhen science and technology (patent) reward	592,800.00	300,000.00	Income-related grants
Provincial special fund subsidy for intellectual property in 2013		229,346.00	Income-related grants
Special subsidies for high-tech industries in Shenzhen	4,290,900.00		Income-related grants
Total	6,331,355.20	3,306,346.00	

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Non-operating expenses

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Total loss on disposals of non-current assets	91,351.34	166,215.26	88,180.41
Including: Loss on disposals of fixed assets	91,351.34	166,215.26	88,180.41
Others	395,664.58	287,034.29	398,835.51
Total	487,015.92	453,249.55	487,015.92

(38) Income tax expense

Item	Current period	Previous period
Current income tax expenses	70,802.81	2,170,042.57
Deferred income tax expenses	-1,817.36	18,187.46
Total	68,985.45	2,188,230.03

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Notes to in cash flow statement

1. Other cash receipts relating to operating activities

Item	Current period
Interest income	2,502,568.37
Government grants	6,331,355.20
Other non-operating income	490,522.73
Current accounts	9,309,660.90
Total	18,634,107.20

2. Other cash payments relating to operating activities

Item	Current period
Administrative expenses	29,320,789.26
Selling expenses	47,540,148.54
Bank charges and other	3,113,380.41
Non-operating expenses	395,664.58
Other current accounts	8,208,247.56
Increase in performance bond that is not included in cash and cash equivalents	123,588,050.14
Total	212,166,280.49

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Supplementary Information of Cash Flow Statement

1. Supplementary Information of Cash Flow Statement

Item	Current period	Previous period
1. Reconciliation of net income to cash flows from operating activities:		
Net Income	-46,866,387.18	7,003,101.16
Add: Provision for impairment on assets	38,839,665.75	11,910,205.29
Depreciation of fixed assets, oil and gas assets and productive biological assets	43,630,410.74	46,141,438.44
Amortization of intangible assets	31,979,205.69	18,100,420.43
Amortization of long-term deferred expenses		
Loss on disposals of fixed assets, intangible assets and other long-term assets ("-" for gains)	-2,976,692.30	58,224.51
Losses on scrapping of fixed assets ("-" for gains)		
Losses on changes in fair value ("-" for gains)		
Finance costs ("-" for gains)	44,180,139.00	27,619,148.71
Investments losses ("-" for gains)	-498.33	-5,600,000.00
Decrease in deferred tax assets ("-" for increase)	-1,817.36	18,187.46
Increase in deferred tax liabilities ("-" for decrease)		
Decrease in inventories ("-" for increase)	28,677,118.84	9,232,297.33
Decrease in operating receivables ("-" for increase)	-78,736,021.18	-24,800,113.47
Increase in operating payables ("-" for decrease)	18,662,042.09	23,992,025.69
Others	-123,588,050.14	-382,115.43
Net cash flows from operating activities	-46,200,884.38	113,292,820.12
2. Investing and financing activities that do not involve cash receipts and payments		
Transfer of debt to capital		
Convertible corporate bond maturing within one year		
Fixed assets under financing lease		
3. Net increase in cash and cash equivalents		
Cash at the end of the period	218,098,811.22	313,134,998.39
Less: Cash at the beginning of the period	313,134,998.39	299,047,431.94
Add: Cash equivalent at the end of the period		
Less: Cash equivalent at the beginning of the period		
Net increase in cash and cash equivalents	-95,036,187.17	14,087,566.45

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Supplementary Information of Cash Flow Statement (Continued)

2. Composition of cash and cash equivalents

Item	Ending balance	Beginning balance
1. Cash	218,098,811.22	313,134,998.39
Including: Cash deposits	1,074,276.64	1,282,124.27
Available-for-use bank deposit	195,598,534.58	311,852,874.12
Other available-for-use bank balances and cash		
2. Cash equivalents		
Including: bond investment maturing within three months		
3. Cash and cash equivalents as at the end of the period	218,098,811.22	313,134,998.39
Including: Restricted cash and cash equivalent in the parent company or subsidiaries in the Group		

(41) Assets with restricted ownership or use rights

Item	Balance	Reason for restriction
Bank balance and cash	125,698,050.14	Security and performance bond for issuance of acceptance draft
Other non-current assets	50,000,000.00	Security for issuance of acceptance draft
Fixed assets	156,824,440.00	Mortgage loan
Total	332,522,490.14	

2014 (Expressed in Renminbi)

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Foreign currency items

1. Foreign currency items

Item	Ending balance in foreign currency	Exchange rate	Ending balance converted in RMB
Bank balances and cash			
Including: USD	14,079,490.52	6.119	86,152,402.48
Euro	247,363.18	7.4556	1,844,240.93
HKD	2.46	0.7889	1.94
AUD	0.38	5.0174	1.91
Trade receivables			
Including: USD	39,990,689.55	6.1190	244,703,029.36
Euro	1,405,242.93	7.4556	10,476,929.19
Non-current liabilities maturing within one year			
Including: Euro	18,750.00	7.4556	139,792.50

2. Foreign Operating Entities

Name of investee	Currency	Main item of the financial statements	Exchange rate	Note
Launch Europe GmbH	Euro	Long-term equity investments	10.1172	Historical exchange rate of investment
			9.1577	Historical exchange rate of investment
		Net assets (other than undistributed profits)	10.0000	Historical exchange rate when occurrence
		Profit and loss	8.1255	Annual average exchange rate
		Other items	7.4556	Year-end exchange rate

2014 (Expressed in Renminbi)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION

The scope of Consolidation has no change during the period.

VIII. EQUITY INTERESTS IN OTHER ENTITIES

(I) Equity interests in subsidiaries

1. Composition of the Group

Name of subsidiaries	Principal place of operation	Registration place	Business nature	Shareholding proportion (%) Direct	Indirect	Way of acquisition
Shanghai Launch	Shanghai	Shanghai	Production of automobiles maintenance machines and equipment and automobile warranty machines such as automobile spray booths, tire balancer, tire changer, 4-wheel a ligner, frame racks and automobile testing line.	100	100	Establishment
Xi'an Launch	Xi'an	Xi'an	Development, production and sales of automotive diagnosis, inspection, repair and maintenance software; development, production and sales of auto electronic products	100	100	Establishment
Launch Software	Shenzhen	Shenzhen	Development and sales of computer software and hardware; computer network engineering and development and consulting of computer technology, import and export business.	100	100	Business combination under common control
Launch Europe GmbH	Germany	Germany	Sales of computer software and hardware, consulting services of electronic products and technical.	100	100	Business combination not under common control
Peng Ao Da	Shenzhen	Shenzhen	Auto electronic products, automotive inspection equipment, automotive fault diagnostic software, computer network engineering, technological development, purchase and sales of computer software and hardware	88	88	Business combination not under common control

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

The Company may face all kinds of financial risks in its operating activities: credit risks, liquidity risks and market risks (mainly foreign exchange risk sand interests rate risk). The overall risk management plan of the Company focuses on the unpredictability of the financial market and strives to reeducate potential adverse impact on the financial results of the Company.

(I) Credit risks

The credit risks of the Company mainly comes from bank balances and cash, bills receivable, trade receivable and other receivables. The management has formulated certain credit policies and constantly supervise the exposure to such credit risks.

Bank balance and cash held by the Company are mainly deposited in financial institutions such as commercial banks. The management believes that, the commercial banks have good reputation and asset status with low credit risks. The Company adopt a quota policy to avoid credit risks from any financial institutions.

For trade receivable, the other receivables and bills receivable, the Company has adopted relevant policies to control the exposure to the credit risks. The Company assesses the credit quality of customers based on the financial conditions of the customers, possibility to obtain security from any third party, credit records and other factors such as current market status, and set up relevant credit period. The Company will monitor the credit records of customers on a periodical basis. For customers with no good credit records, the Company will press for payment in writing, reduce or cancel the credit period to make sure that the overall credit risks of the Company is within a controllable range.

As of 31 December 2014, receivables of top five customers of the Company accounted for 54.90% (2013: 47.34%) of the total receivables of the Company.

The maximum credit risk exposure for the Company is the book value of each item of financial assets (including the derivative financial instruments). The Company has not provided any security that may expose the Company to any credit risks.

2014 (Expressed in Renminbi)

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (Continued)

(II) Liquidity risks

Liquidity risk refers to the risk that the Company may not obtain sufficient funds in time to satisfy the demands for business development or repayment of the debts when due and other payment obligations.

The finance department of the Company constantly supervises the short-term and long-term demands for funds of the Company to make sure to maintain sufficient cash reserve; and meanwhile, the department also supervises compliance with loan agreements, the commitment from major financial institutions for sufficient reserve funds to satisfy the short-term and long-term demands for funds.

As of 31 December 2014, all the financial assets and financial liabilities of the Company are presented at undiscounted contractual cash flows by maturity date as follows:

			Ending balance			
Item	Net carrying value	Original carrying value	Under 1 year	1-2 years	2-5 years	Over 5 years
Bank balances and cash	343,755,473.17	343,755,473.17	343,755,473.17			
Trade receivables	263,046,370.93	319,963,569.50	239,386,273.62	80,577,295.88		
Prepayments	63,011,467.16	63,011,467.16	63,011,467.16			
Other receivables	29,375,506.71	38,038,229.95	31,403,373.78	6,634,856.17		
Sub-total	699,188,817.97	764,768,739.78	677,556,587.73	87,212,152.05		
Short-term borrowings	612,099,566.36	612,099,566.36	612,099,566.36			
Trade payables	96,154,689.03	96,154,689.03	96,154,689.03			
Other payables	8,275,296.71	8,275,296.71	8,275,296.71			
Long-term borrowings	2,095,867.32	2,095,867.32	405,510.24	371,717.72	1,318,639.36	
Sub-total	718,625,419.42	718,625,419.42	716,935,062.34	371,717.72	1,318,639.36	

2014 (Expressed in Renminbi)

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (Continued)

(II) Liquidity risks (Continued)

Continued

			Beginning balance			
Item	Net carrying value	Original carrying value	Under 1 year	1-2 years	2-5 years	Over 5 years
Bank balances and cash	315,244,998.39	315,244,998.39	315,244,998.39			
Trade receivables	249,351,089.54	298,738,309.56	218,368,003.48	80,370,306.08		
Prepayments	83,504,974.35	83,504,974.35	83,504,974.35			
Other receivables	28,249,222.63	36,262,022.42	29,107,804.16	7,154,218.26		
Sub-total	676,350,284.91	733,750,304.72	646,225,780.38	87,524,524.34		
Short-term borrowings	528,442,468.00	528,442,468.00	528,442,468.00			
Trade payables	137,202,704.28	137,202,704.28	137,202,704.28			
Other payables	8,764,373.01	8,764,373.01	8,764,373.01			
Long-term borrowings	157,854.38	157,854.38		157,854.38		
Sub-total	674,567,399.67	674,567,399.67	674,409,545.29	157,854.38		

(III) Market risks

1. Foreign exchange risk

The principal places of operation of the Company are located in China and the major businesses are settled in RMB. However, the recognized foreign currency assets and liabilities as well as the foreign currency transactions in the future (the functional currency of foreign assets and liabilities as well as the transactions are mainly USD and Euro) remain exposed to foreign exchange risks. The finance department of the Company is in charge of supervising the foreign currency transaction and the size of foreign assets and liabilities so as to reduce the exposure to foreign exchange risks.

2014 (Expressed in Renminbi)

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (Continued)

(III) Market risks (Continued)

1. Foreign exchange risk (Continued)

(1) as of 31 December 2014, the amounts of financial assets and financial liabilities in foreign currency held by the Company that is converted to RMB are presented as follows:

	Ending balance					
Item	USD	Euro	HKD	AUD	JPY	Total
Foreign currency financial assets						
Bank balance and cash	86,152,402.48	1,844,240.93	1.94	1.91		87,996,647.26
Trade receivables	244,703,029.36	10,476,929.19				255,179,958.55
Sub-total	330,855,431.84	12,321,170.12	1.94	1.91		343,176,605.81
Foreign currency financial liabilities:						
Trade payable						
Sub-total						

Continued:

	Beginning balance					
Item	USD	Euro	HKD	AUD	JPY	Total
Foreign currency financial assets						
Bank balance and cash	26,032,437.03	3,666,800.79	1.84	1.74	33.62	29,699,275.02
Trade receivables	222,748,602.06	11,633,429.40				234,382,031.46
Sub-total	248,781,039.09	15,300,230.19	1.84	1.74	33.62	264,081,306.48
Foreign currency financial liabilities:						
Trade payable					963,345.64	963,345.64
Sub-total					963,345.64	963,345.64

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (Continued)

(III) Market risks (Continued)

1. Foreign exchange risk (Continued)

(2) Sensitivity analysis

As of 31 December 2014, for the financial assets and financial liabilities of the Company in USD and Euro, if RMB appreciates or depreciates by 10% against USD and EUR with other factors remaining unchanged, the net profits of the Company will reduce or increase by RMB 34,317,660.20 (2013: approximately RMB 26,408,126.93.00).

2. Interest rate risks

The interest rate risk of the Company mainly comes from the bank borrowing. Financial liabilities with floating interest rate expose the Company to interest rate risk in cash flows; financial liabilities with fixed interest rate expose the Company to interest rate risk in fair value. The Company determines the comparative proportion of fixed rate and floating rate according to the market environment.

The finance department of the Company constantly supervise the interest rate level of the Company. Rise in the interest level will increase the cost of interest-bearing debts and the interest expenses of interest-bearing debts with floating rate that have not yet been repaid, and may have material adverse impact on the financial results of the Company. The management will make timely adjustment to reduce the interest rate risks according to the latest market conditions.

(1) The Company had no interest rate swap arrangement during the year.

(2) As of 31 December 2014, the Company's long-term interest-bearing debt is the contract with floating interest rate dominated in RMB, and the value is RMB 435,099,566.36 (excluding the bank acceptance draft financing of RMB177,000,000.00). See Note VI (14) for details.

(3) Sensitivity analysis:

As of 31 December 2014, if the interest rate of the loan with floating rate rises or falls by 50 basis points with the other factors remaining unchanged, the net profits of the Company reduces or increases by approximately RMB 2,175,497.83 (2013: approximately RMB2,642.212.34).

It is assumed in the sensitivity analysis above that, changes in interest rate occurred on the balance sheet date and were applied to all borrowings of the Company with floating rate.

X. FAIR VALUE

(I) Financial instrument measured at fair value

As of 31 December 2014, the Company had no financial instruments measured at fair value.

(II) Financial assets and financial liabilities that are not measured at fair value

Financial assets and financial liabilities that are not measured at fair value mainly include trade receivables, short-term borrowing, trade payables, non-current liabilities maturing within one year and long-term borrowings.

There are small differences between the book values of the financial assets and financial liabilities that are not measured at fair value and their fair values.

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS

(1) The ultimate controlling shareholder of the Company

The ultimate controlling shareholder of the Company is Mr. Liu Xin.

(2) Details of subsidiaries of the Company are set out in note VII (1) "Equity interests in subsidiaries".

(3) Other related parties

Name	Relation
He Penglin	Shareholder of Peng Ao Da, a controlling subsidiary

(4) Connected Transactions

1. For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

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XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

2. Guarantee with related parties

The Company as warrantee

No.	Warrantor	Amount guaranteed	Date of commencement	Maturity date	Completed or not
a	Liu Xin, Liu Jun, Hu Fang and Li Xiaoxia	100,000,000.00	2014/3/20	2017/3/20	No
b	Launch Software, Shanghai Launch, Liu Jun	116,089,931.12	2014/1/15	2017/1/14	No
c	Liu Xin, Liu Jun and Hu Kai	79,000,000.00	2014/10/23	2017/10/22	No
d	Liu Xin, Liu Jun	40,000,000.00	2014/6/24	2017/6/24	No
e	Launch Software	50,000,000.00	2014/7/15	2017/7/14	No
f	Launch Software, Shanghai Launch, Liu Xin and Liu Jun	20,000,000.00	2013/12/24	2016/12/23	No
g	Liu Jun, Liu Xin and the Company	30,000,000.00	2014/1/28	2017/1/28	No
Total			435,089,931.12		

Explanation of guarantee with related parties:

a. Guaranteed by Liu Xin, Liu Jun, Hu Fang and Li Xiaoxia, the Company entered into the "credit facilities agreement" 2014 Zhen Zhong Yin She Zong Xie Zi No.0009" with Shenzhen Shekou Branch of The Bank of China (for a credit facility of RMB100,000,000.00); as of 31 December 2014, the balance of borrowing under such facility was RMB 100,000,000.00.

b. Guaranteed by Launch Software, Shanghai Launch and Liu Jun, the Company entered into the "credit facility contract" Jie 2013 E 0914 Nan Shan with Shenzhen Huaqiaocheng Branch of China Construction Bank (for a credit facility of RMB195 million); as of 31 December 2014, the balance of borrowing under such facility was RMB116,089,931.12.

c. Guaranteed by Liu Xin, Liu Jun and Hu Kai, the Company entered into the "credit facility contract" No. 10206214035 with Shenzhen Branch of Guangdong Development Bank Co., Ltd (for a ceiling amount of the facility(including the security deposit) of RMB149 million, and the ceiling amount of credit facility exposure (excluding the security deposit) of RMB79 million); as of 31 December 2014, the balance of borrowing under the facility agreement was RMB 79,000,000.00.

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XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

2. Guarantee with related parties (Continued)

d. Guaranteed by Liu Xin and Liu Jun, the Company entered into the "maximum amount consolidated facility agreement" 2014 She Zi No. 0014201004 with Shenzhen Liantong Sub-branch of China Merchants Bank (for a credit facility of RMB100 million); as of 31 December 2014, the balance of borrowing under such facility was RMB 40,000,000.00.

e. Guaranteed by Launch Software, the Company entered into the "maximum amount consolidated facility agreement" Shen Zhong Xin Qu Nong Yin Shou Zi (2014) No. 0715YZ with Meilin Sub-branch of Shenzhen Brand of Agricultural Bank of China (for a credit facility of RMB 150 million); as of 31 December 2014, the balance of borrowing under such facility agreement was RMB 50,000,000.00.

f. Guaranteed by Launch Software, Shanghai Launch, Liu Xin and Liu Jun, the Company entered into the "maximum amount consolidated facility agreement " SX162114000650 with Shenzhen Branch of Jiangsu Bank (for a credit facility of RMB 50 million); as of 31 December 2014, the balance of borrowing under such facility was RMB 20,000,000.00.

g. Guaranteed by Liu Jun, Liu Xin and the Company, Launch Software entered the "maximum amount consolidated facility agreement" 2013SC000007984 (for a credit facility of RMB 30 million) with Nanshang Sub-branch of Hangzhou Bank; as of 31 December 2014, the balance of borrowing under such facility was RMB 30,000,000.00.

3. Key management personnel remuneration

Item	Current period	Previous period
Key management personnel remunerations	2,680,145.68	2,602,652.24

4. Receivables from/payables to related parties

(1) Receivables from related parties

		Ending balance		Beginning balance	
Name	Related party	Carrying balance	Provision for bad debts	Carrying balance	Provision for bad debts
Other receivables	He Penglin	690,777.00	69,037.70	2,498,534.00	124,926.70

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XII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

(I) Significant commitments

1. Ongoing contracting contracts agreements and related financial influence

As of 31 December 2014, the Company had total significant infrastructural expenditure of RMB 6,664,000 with contract signed yet unpaid, the details are as follows:

Name	Contractual investment	Investment paid	Unpaid investment	Estimated date of completion	Note
Infrastructure project					
Shenzhen Launch research building project	117,000,000.00	110,335,970.63	6,664,029.37	2015	
Total	117,000,000.00	110,335,970.63	6,664,029.37		

2. Ongoing lease agreements and related financial influence

As at 31 December 2014, the amount payables of irrevocable operating lease under the signed lease agreements during the following period are as follows:

Aging	Current period	Previous period
Under 1 year	3,696,885.51	2,866,308.72
2-5 years	1,945,057.21	9,512,057.34
Over 5 years		
Total	5,641,942.72	12,378,366.06

XII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(I) Significant commitments (Continued)

3. Other significant finance commitments

(1) Pledge of assets (details, amount and impact to be indicated)

The Company pledged its properties and buildings with an original amount of RMB54,581,743.00 to provide mortgage guarantee for the "maximum amount consolidated facility agreement" Shenzhen Center District Nong Yin Zhong Shou Zi No.0715YZ" entered into with Shenzhen Central District Branch of Agricultural Bank of China for a credit limit of RMB150,000,000 commencing from 15 July 2014 to 14 July 2015. As at 31 December 2014, the borrowing balance under the abovementioned "maximum amount consolidated facility agreement" was (RMB) 50,000,000.

The Company pledged its properties and buildings with an original amount of RMB102,242,697.00 as the mortgage and the time deposit of USD3,215,434.08 as charge to provide mortgage guarantee for the "credit facilities agreement" 2014 Zhen Zhong Yin She Zong Xie Zi No.0009" with Shenzhen Shekou Branch of The Bank of China (for a credit facility of RMB100,000,000.00, from 20 March 2014 to 31 December 2014); as at 31 December 2014, the balance of borrowing under the agreement was (RMB) 100,000,000.00.

Besides the commitment above, the Company had no significant commitments that should be disclosed as at 31 December 2014.

(II) Contingent liabilities on the balance sheet date

The Company has no contingent liabilities that need to be disclosed.

XIII. POST-BALANCE SHEET EVENTS

As of the date of the annual report, there is no material post-balance sheet event which is required to be disclosed but has not been disclosed.

XIV. OTHER SIGNIFICANT EVENTS

(I) Prior accounting error

1. Retrospective restatement method

No errors from previous periods were identified during the reporting period using the retrospective restatement method.

2. Prospective application method

No errors from previous periods were identified during the reporting period using the prospective application method.

(II) Segment information

1. Determination criterion and accounting policies for reporting segment

Operating segments of the Company are identified on the basis of internal organization structure, management requirements and internal reporting system. An operating segment represents a component of the Company that satisfied the following criteria simultaneously:

(1) its business activities are engaged to earn revenue and incur expenses;

(2) its operating results are regularly reviewed by the Company's management to make decisions on resources allocation performance assessment;

(3) its financial information, operating results, cash flow and related accounting information is available to the Company.

The Company determines the reporting segment based on the operating segment, and the operating segment that meets any of the following conditions is determined as the reporting segment:

(1) The segment income of the operating segment accounts for 10% of total income of all segments or more;

(2) The absolute amount of profit (losses) of the segment account for 10% of the higher of the absolute amount of total profits of the profiting segment and the absolute amount of total losses of the unprofitable segment or more.

Where the proportion of the total external revenue of the operating segment determined to be reporting segments according to the accounting policies above does not amount to 75%, the number of reporting segments should be increased; operating segments that are not determined to be reporting ones can be included in the scope of reporting ones according to the following rules till the proportion reaches 75%:

XIV. OTHER SIGNIFICANT EVENTS (Continued)

(II) Segment information (Continued)

1. Determination criterion and accounting policies for reporting segment (Continued)

(1) The operating segments, which the management believes may be useful for users of accounting information if their information is disclosed, are determined as reporting segments;

(2) one or more operating segments with economic features with similar features that are qualified for combination the operating segment are combined as one reporting segment.

The transfer price among segments is determined with reference to the market price, and assets used joint by segments and relevant expenses are distributed among segments according to the proportion of income.

2. Factors considered when determine reportable segments of the Company, types of products and services of reportable segments

Reporting segments of the Company are business units providing different products and services. As each business requires different skills and market strategies, each segment is managed independently.

The Company has three reporting segments: automotive diagnosis segment, lift segment and overseas sales segment. The automotive diagnosis segment covers research and development, production and sales of automotive diagnostic and inspection products. The lift segment covers research and development, production and sales of machinery products in the automotive aftermarket. The overseas sales segment covers development and maintenance of European distributors and customers.

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XIV. OTHER SIGNIFICANT EVENTS (Continued)

(II) Segment information (Continued)

3. Financial information of the reporting segment

Current unit: RMB

Item		Ending balance/Current period				
		Automotive diagnosis segment	Lift segment	Overseas sales segment	Write-off	Total
I.	Operating income	652,426,131.14	258,987,807.09	50,215,224.92	230,455,755.90	731,173,407.25
	Including: Revenue from external transaction	627,661,430.89	57,346,751.44	50,215,224.92		735,223,407.25
	Revenue from inter-segment transaction	24,764,700.25	201,641,055.65		226,405,755.90	
II.	Operating expenses	284,002,659.96	15,711,527.67	19,370,730.27	4,050,000.00	315,034,917.90
	Including: income from investment in associates and joint ventures					
	Impairment loss of assets	34,918,199.30	4,091,196.89	-169,730.44		38,839,665.75
	Depreciation and amortization expenses	66,702,671.59	8,833,681.03	73,263.81		75,609,616.43
III.	Operating profit(loss)	–50,545,803.95	2,653,525.12	-1,658,892.21	-2,753,769.31	-46,797,401.73
IV.	Income tax expenses	–52,994.56		121,980.01		68,985.45
V.	Net profits (losses)	–50,492,809.39	2,653,525.12	-1,780,872.22	-2,753,769.31	-46,866,387.18
VI.	Total assets	1,828,923,728.46	224,366,343.55	61,350,583.65	632,355,960.67	1,482,284,694.99
VII.	Total liabilities	1,138,170,985.09	119,739,313.73	50,540,469.53	405,023,599.18	903,427,169.17
VIII.	Other significant non-monetary items					
	1. Capital expenditure	95,760,683.44	474,698.19	61,721.62		96,297,103.25

The accounting policy of operating segments of the Company is the same as the accounting policy stated in the section of "The Significant Accounting Policies and Accounting Estimates".

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(1) Trade receivables

1. Trade receivables disclosed by categories

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Trade receivables that are individually significant and are subjected to provision for bad debts on individual basis					
Trade receivables that are subjected to provision for bad debts on portfolio basis	276,842,818.75	99.32	43,505,745.91	15.71	233,337,072.84
Trade receivables that are individually insignificant but are subjected to provision for bad debts on individual basis	1,886,920.62	0.68	1,886,920.62	100.00	
Total	278,729,739.37	100.00	45,392,666.53	16.29	233,337,072.84

Continued:

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Trade receivables that are individually significant and are subjected to provision for bad debts on individual basis					
Trade receivables that are subjected to provision for bad debts on portfolio basis	258,697,184.4	95.79	30,143,951.15	11.65	228,553,233.25
Trade receivables that are individually insignificant but are subjected to provision for bad debts on individual basis	11,383,189.09	4.21	11,383,189.09	100.00	
Total	270,080,373.5	100.00	41,527,140.24	15.38	228,553,233.25

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Trade receivables (Continued)

1. Trade receivables disclosed by categories (Continued)

(1) Explanation of trade receivables:

Aging of trade receivables within the group:

	Ending balance		
Aging	Trade receivable	Provision for bad debts	Proportion of provision (%)
Under 1 year	108,018,320.89	5,400,916.04	5.00
1-2 years	70,696,992.68	7,069,699.27	10.00
2-3 years	37,657,446.06	11,297,233.82	30.00
3-4 years	30,155,253.24	15,077,626.62	50.00
4-5 years	5,557,687.09	4,446,149.67	80.00
Over 5 years	214,120.49	214,120.49	100.00
Total	252,299,820.45	43,505,745.91	16.29

(2) Trade receivables with provision made for bad debts by other methods within the group

	Ending balance		
Name	Trade receivable	Provision for bad debts	Proportion of provision (%)
Related parties within the range of consolidation	24,542,998.30		No provisions are made
Total	24,542,998.30		

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Trade receivables (Continued)

2. Trade receivables subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period

Name	Carrying balance	Amount of provision for bad debts	Proportion of provision (%)	Reason
Engecass Equipamentos Industriais Lt	444,557.22	444,557.22	100.00	Low recoverability due to significant risks
AUTOMEC	37,937.80	37,937.80	100.00	Low recoverability due to significant risks
C4 Auto Importadora Ltda	16,521.30	16,521.30	100.00	Low recoverability due to significant risks
Vermelho's car	11,932.05	11,932.05	100.00	Low recoverability due to significant risks
Analyzer Services Limited	9,949.74	9,949.74	100.00	Low recoverability due to significant risks
Shenzhen Jinlongxiang Electronics Technology Co., Ltd.	1,205,174.98	1,205,174.98	100.00	Low recoverability due to significant risks
Hafei Motor Co., Ltd. Sales Company	146,347.83	146,347.83	100.00	Low recoverability due to significant risks
Liuzhou Wuling Motors Company Limited	14,499.70	14,499.70	100.00	Low recoverability due to significant risks
Total	1,886,920.62	1,886,920.62		

3. Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 15,215,858.31; and the amount of write-off of the provision for bad debts during the period amounted to RMB11,350,332.02.

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Trade receivables (Continued)

4. Trade receivables actually written off during the reporting period

Item	Amount written off
Trade receivables actually written off	11,350,332.02

Details of trade receivables actually written off:

Name	Nature	Amount written off	Reason	Whether arising from connected transaction
Achieve Made M.E.FZE	Payment for goods	5,558,135.63	Uncollectible	No
Lanzamiento Latinoamerica s de R.L. DE C.V.	Payment for goods	2,128,212.91	Uncollectible	No
Launch France S.A.S.	Payment for goods	939,564.86	Uncollectible	No
BD Automotive Equipment	Payment for goods	553,454.94	Uncollectible	No
Ferreteria Vidrieria Central Avila Celi Cia.Ltda	Payment for goods	269,972.37	Uncollectible	No
Traffic Police Detachment of Xiangtan Public Security Bureau	Payment for goods	217,247.00	Uncollectible	No
Perfect-Instruments	Payment for goods	129,912.62	Uncollectible	No
84 accounts with insignificant amounts	Payment for goods	1,553,831.69	Uncollectible	No
Total		11,350,332.02		

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Trade receivables (Continued)

5. Top five trade receivables by ending balance collection of the borrower

Name	Ending balance	Proportion in ending balance of trade receivables (%)	Provision already made for bad debts
Launch Tech (USA), Inc.	90,575,598.37	32.50	6,686,866.58
Launch Europe GmbH	24,526,140.30	8.80	1,438,064.32
Launch Tech Japan.Inc.	24,247,302.56	8.70	9,035,536.84
Matco Tools	16,218,623.11	5.82	810,931.16
Launch Ibérica, S.L.	15,188,230.66	5.45	2,104,437.18
Total	170,755,895.00	61.27	20,075,836.08

(2) Other receivables

1. Disclosure of other receivables by categories:

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables that are individually significant and are provided for bad debts on individual basis					
Other receivables that are provided for bad debts on basis of credit risk portfolio	53,835,484.61	94.51	5,181,859.53	9.63	48,653,625.08
Other receivables that are individually insignificant but are provided for bad debts on individual basis	3,129,750.76	5.49	3,129,750.76	100.00	
Total	56,965,235.37	100.00	8,311,610.29	14.59	48,653,625.08

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

1. Disclosure of other receivables by categories: (Continued)

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Other receivables that are individually significant and are provided for bad debts on individual basis					
Other receivables that are provided for bad debts on basis of credit risk portfolio	120,451,635.7	95.82	2,437,179.43	2.02	118,014,456.27
Other receivables that are individually insignificant but are provided for bad debts on individual basis	5,250,408.52	4.18	5,250,408.52	100.00	
Total	125,702,044.22	100.00	7,687,587.95	6.12	118,014,456.27

(1) Detailed of other receivables that are subjected to provision for bad debts based on aging analysis:

	Ending balance		
Aging	Other receivables	Provision for bad debts	Proportion of provision (%)
Under 1 year	10,870,053.85	543,502.69	5.00
1-2 years	9,524,454.90	952,445.49	10.00
2-3 years	10,478,026.69	3,143,408.01	30.00
3-4 years	534,879.28	267,439.64	50.00
4-5 years	188,290.00	150,632.00	80.00
Over 5 years	124,431.70	124,431.70	100.00
Total	31,720,136.42	5,181,859.53	16.34

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

1. Disclosure of other receivables by categories: (Continued)

(2) Detailed of other receivables that are subjected to provision for bad debts through other methods

	Ending balance		
Name of portfolio	Name of portfolio	Provision for bad debts	Proportion of provision (%)
Related party in the scope of consolidation	22,115,348.19		No provision
Total	22,115,348.19		

2. Other receivables subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period:

Name	Carrying balance	Amount of provision for bad debts	Proportion of provision (%)	Reason
Guangzhou Zhogngong Commercial Newspaper & Media Co., Ltd.	304,000.00	304,000.00	100.00	Low recoverability due to significant risks
Shenzhen Xianglian Metal Produces Co., Ltd.	300,000.00	300,000.00	100.00	Low recoverability due to significant risks
Shenzhen Changchuang Electronic Technology Co., Ltd	210,000.00	210,000.00	100.00	Low recoverability due to significant risks
Shenzhen Defeng Mold Co., Ltd.	197,075.43	197,075.43	100.00	Low recoverability due to significant risks
Shenzhen Haolida Ultrasonic Equipment Co., Ltd.	159,999.99	159,999.99	100.00	Low recoverability due to significant risks
Shenzhen Changlongxing Metal Product Co., Ltd.	150,000.00	150,000.00	100.00	Low recoverability due to significant risks
Sub-total of 40 insignificant account	1,808,675.34	1,808,675.34	100.00	Low recoverability due to significant risks
Total	3,129,750.76	3,129,750.76		

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

3. Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 5,288,944.01; and the amount of write-off of the provision for bad debts during the period amounted to RMB4,664,921.67.

4. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	4,664,921.67

Details of other receivables written off:

Name	Nature of other receivables	Amounts written off	Reason for write-off	Whether arising from connected transaction
Shenzhen Jinsanwei Mould Co., Ltd.	Current accounts	242,081.50	Uncollectible	No
Yingkou Anda Plastic Co., Ltd.	Current accounts	179,212.26	Uncollectible	No
SENSORS.INC.	Current accounts	152,660.04	Uncollectible	No
Shiying Industry Co., Ltd.	Current accounts	142,480.43	Uncollectible	No
Tianjin Special Electrical Machine Co., Ltd.	Current accounts	107,972.00	Uncollectible	No
Pingyun Tools Co., Ltd.	Current accounts	766,228.51	Uncollectible	No
Shenzhen Yatu Digital Video Technology Co., Ltd.	Current accounts	1,258,894.14	Uncollectible	No
Sub-total of 66 insignificant account	Current accounts	1,815,392.79	Uncollectible	No
Total		4,664,921.67		

2014 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

5. Top five other receivables by ending balance collected by borrowers

Name	Nature	Ending balance	Aging	Proportion in the ending balance of other receivables(%)	Provision for bad debts of ending balance
Shenzhen Kangmai Technology Co., Ltd.	Borrowings	7,000,000.00	2-3 years	12.29	2,100,000.00
Shenzhen Fulunda Precision Industry Technology Co., Ltd.	Borrowings	3,849,650.40	1-2 years	6.76	384,965.04
Shenzhen Jiayang Electronic Co., Ltd.	Borrowings	3,000,000.00	2-3 years	5.27	900,000.00
Shenzhen Qihongwei Technology Co., Ltd.	Borrowings	3,000,000.00	1-2 years	5.27	300,000.00
Beijing Yunfeng Culture and Investment Co., Ltd.	Borrowings	2,300,000.00	Within 2 years	4.04	187,500.00
Total		19,149,650.40		33.63	3,872,465.04

(3) Long-term equity investment

Nature	Ending balance Carrying balance	Ending balance Provision for bad debts	Ending balance Book value	Beginning balance Carrying balance	Beginning balance Provision for bad debts	Beginning balance Book value
Investment in subsidiaries	169,413,562.18		169,413,562.18	169,413,562.18		169,413,562.18
Total	169,413,562.18		169,413,562.18	169,413,562.18		169,413,562.18

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(3) Long-term equity investment (Continued)

1. Investment in subsidiaries

Investee	Initial investment cost	Beginning balance	Increase	Decrease	Ending balance	Provision made for impairment for current period	Ending balance of provision for impairment
Shanghai Launch	68,180,685.53	97,781,423.66			97,781,423.66		
Launch Software	35,080,263.52	35,080,263.52			35,080,263.52		
LAUNCH EUROPE GmbH	671,875.00	671,875.00			671,875.00		
Xi'an Launch	35,000,000.00	35,000,000.00			35,000,000.00		
Peng Ao Da	880,000.00	880,000.00			880,000.00		
Total	139,812,824.05	169,413,562.18			169,413,562.18		

(4) Operating income and operating costs

Operating income and operating costs

Item	Current period Income	Current period Cost	Previous period Income	Previous period Cost
Major business	667,537,189.36	519,493,156.72	624,441,937.09	479,819,336.32
Other business	12,869,381.48	380,295.36	12,969,737.75	278,350.73
Total	680,406,570.84	519,873,452.08	637,411,674.84	480,097,687.05

(5) Investment income

Item	Current period	Previous period
Investment income from disposal of long-term equity investment		5,600,000.00
Total		5,600,000.00

XVI SUPPLEMENTARY INFORMATION

(1) Details of non-operating profit and loss for the period

Item	Amount	Note
Gain or loss on disposal of non-current assets	2,976,692.30	
Tax refund or exemption with unauthorized approval or no formal approval document		
Government grants recognized in profits or losses (excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	6,331,355.20	
Capital use fee received from non-financial enterprises recognized as gain or loss		
Gain on the difference between investment cost of acquiring subsidiaries, associates and joint ventures and the share of the fair value of the investee's identifiable net assets, where investment cost is less than the share of the fair value		
Gains or losses on exchange of non-monetary assets		
Gains or losses on entrusted investment or management of assets	498.33	
Provision for impairment of assets due to force majeure such as natural disasters		
Gains or losses on debt restructuring		
Expenses for reorganization such as expenditure for staffing and integration expenses, etc.		
Gains or losses on the excess beyond fair value in the transaction with unfair price		
Current gains or losses of subsidiaries from combination of enterprises under common control from the beginning of the period till the date of combination, net		
Gains or losses on contingencies that is in no connection with the normal operation of the Company		

2014 (Expressed in Renminbi)

XVI SUPPLEMENTARY INFORMATION (Continued)

(1) Details of non-operating profit and loss for the period (Continued)

Item	Amount	Note
Gain or loss on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging of the Company), as well as investment gains received from disposal of trading financial asset, trading financial liabilities and financial assets available for sale		
Reversal of provisions for impairment of trade receivables individually subjected to impairment test		
Profit from outward entrusted loans		
Gains or losses on changes in fair value in the investment property that are subsequently measured at fair value		
Effects of adjustments as required by taxation, accounting laws and regulations on the gains or losses for current period		
Trustee fee income from entrusted operations		
Other non-operating income and expenses other than the aforementioned items	94,498.15	
Other items of gain or loss in accordance with the definition of non-recurring gain or loss		
Impact of income tax	101,302.50	
Impact of minority shareholders' interests (after tax)	574,047.50	
Total	8,727,195.65	

(2) Return on net assets and earnings per share

Profits of the reporting period	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	-7.81%	-0.1555	-0.1555
Net profit after deducting non-recurring profit and loss attributable to ordinary shareholders of the Company	-9.27%	-0.1845	-0.1845

DIRECTORS OF THE COMPANY

Executive Directors
Mr. Liu Xin *(Chairman)*
Mr. Liu Jun *(Chief executive officer)*
Mr. Jiang Shiwen
Ms. Huang Zhao Huan

Non-executive Director
Ms. Liu Yong

Independent Non-executive Directors
Ms. Zhang Yan
Mr. Liu Yuan
Dr. Zou Shulin

SUPERVISORS

Mr. Sun Zhongwen
Mr. Du Xuan
Mr. Zhang Jiangbo

QUALIFIED ACCOUNTANT

Mr. Liu Chun Ming, FCCA

COMPANY SECRETARY

Mr. Liu Chun Ming, FCCA

REMUNERATION COMMITTEE

Mr. Liu Jun
Dr. Zou Shulin
Mr. Liu Yuan

NOMINATION COMMITTEE

Mr. Liu Xin
Dr. Zou Shulin
Mr. Liu Yuan

AUDIT COMMITTEE

Ms. Zhang Yan
Mr. Liu Yuan
Dr. Zou Shulin

COMPLIANCE OFFICER

Mr. Liu Jun

AUTHORISED REPRESENTATIVES

Mr. Liu Jun
Mr. Liu Chun Ming, FCCA

AUDITOR

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INVESTOR RELATIONSHIP

investor@cnlaunch.com

BOOK CLOSE DATE FOR ANNUAL GENERAL MEETING

– From 16 May 2015 to 15 June 2015, both dates inclusive.

– All transfers accompanied by relevant share certificates must be lodged with the Company's H Share registrar no later than 4:30 p.m. on 15 May 2015.

2014

Create – Change