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REPORT
2015

深圳市元征科技股份有限公司
LAUNCH TECH COMPANY LIMITED

年報

創新在改變
Create ñ Change

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

Since 2013, the development direction of the Group was set as "becoming global Internet of Vehicle core enterprise". After taking nearly two years of focused exploration and practice, the Group further established the concrete strategy for achieving the target of being service provider of the global Internet of Vehicle big data (based on vehicle identification number "VIN"). Based on this strategic target, the Group has implemented a more positive, practical and open cooperation strategy, vigorously develops different kinds of B2B2C cooperation patterns for different sectors such as insurance companies, auto manufacturers, second-hand car sellers, automobile service providers, the automobile spare parts renders, the logistic industry etc,. Through the full cooperation, parties hand in hand explored and the depth excavates the big data application services, further optimized the Internet of Vehicle service development layout.

In 2015, the Group, processing huge automobile service maintenance and the performance data, started to attempt to carrying out multi-dimension excavation analysis on commercial value of automobile big data, and unified the profession applications to explore new business models. After the depth excavation, the Group issued for the first time the"2015 White Paper of Chinese Passenger Car Usage", which caused giant echo in the industry. Moreover, he data specimen itself offered extremely positive impacts to the industry's development, the social public and so on.

Management Discussion and Analysis of Results of Operation

In 2015, the Group leaned the strength to consummate the golo vehicle networking ecology the service experience, positively explored possible change in business models of O2O, insurance and finance. The Group, having taken the golo vehicle cloud platform as the central global automobile service and the car life platform, as well as using a series of golo-based vehicle networking intelligence hardware, established a commercial closed circle for car owners, auto repair engineers, the automobile service enterprises, the third party application and the service providers and so on. Through these cross industries conformity ability and the innovative business model, the Group has basically established the leading status in the Internet of Vehicle industry.

In 2015, the second year for the Group's development in the Internet of Vehicle, we according to plans, comprehensively implemented the strategic transformation to Internet of Vehicle. In order to complete the layout even more faster, we extended and optimized our management strategies, in which gave up short-term benefit, nevertheless continuously injected more resources to the Internet of Vehicle business, and make it to be mainly shown in the following five aspects:

1. Carried out thought of Internet business management to enhance the product users' activeness;

2. Expanded research and development team, and enlarged investment in the research and development in the Internet of Vehicle;

3. Expanded network marketing team, and implemented O2O strategic plan;

4. Carried out open strategy to invite cooperation for development of different kinds of B2B2C cooperation model;

5. Continued to maintain the leading role in the automobile diagnostic equipment industry, and proactively lowered the products' selling price to rapidly penetrate the market, and meanwhile controlled the low value-added business.

Car-owner users, automobile service technicians, automobile service enterprises, and third party application service providers become the Group's core focused target of the development on Internet of Vehicle business.

We carried out the following measures:

a) Continued to subsidise golo series products to the market to speed up expansion of car-owner users;

b) Developed the channel vigorously, a series of B2B2C cooperations such as China Unicom, China Mobile, Car Inc, Lanyou Technology, Linkage Automobile Alliance, etc;

c) Encouraged original equipment users to upgrade to new car cloud products with remote diagnosis functions;

d) Provided special offers of golo technician box, the portable automobile diagnostic tool, to automobile repair technician and adopted real-name registration system.

Through the measures mentioned above, we completed the penetration into different sectors, and well prepared to accumulate further more Big Data. Nevertheless, reduction in selling price, positively encouragements to new and old users as well as series of cooperates on the one hand stimulated the sales volume but on the other hand adversely affected operating profits. The management believed the overall strategy is fruitful for development in coming few years. For these years this group always possessed a dominant role in the industry, along with the arrival of the information age, the Group aimed at transforming to a core global enterprise of Internet of Vehicle.

Passing through these two years plan and the deployment, in 2015, the Group succeeded to promote golo vehicle cloud platform, a global automobile service and car life platform. Moreover a series of intelligent hardware for Internet of Vehicles based on this platform were also promoted. We developed massive users groups including car owners, auto repair technicians, automobile service enterprises, and also introduced cooperation parties and application cooperation groups such as China Unicom, China Mobile, Baidu Map, PingAn Insurance, etc.. We constructed the golo vehicle networking ecology, and carried out strategic plans for O2O business model. We basically completed the layout for the Internet of Vehicle business. With superior product experience offered and innovation business model rendered, this group has basically established the leading status in Internet of Vehicle profession.

II. ANALYSIS OF INTERNET OF VEHICLE BUSINESS

During the "Two Sessions 2015", the PRC Government, again, mentioned that "speeding up the construction of Internet of vehicle, Internet of ship, automation of driving, digitization of facilities and intelligent operations" in the "Thirteenth Five-Year" plan. Simultaneously, the Big Data has also be included in "Thirteenth Five-Year" plan as the strategic development direction. For that the PRC Government hope the Internet innovation achievements could deeply get into economic societies and sectors, so as to enhance the strength in creativity and productivity in the real economy, and to form a new economic development of fundamental facilities and instruments with more popularized Internet usage. With numerous opportunities, we have completed the corresponding preliminary layout, ensuring that could take the initiative the development scale to obtain the highest benefits.

Our Plans

Being service provider of Big Data of Internet of Vehicle (based on VIN) the Group set up an auto networking business whith golo car cloud platform as the center and underneath, there were platforms for car owners, the technicians, the service enterprises, the third party services, so as to form the ecology of auto maintenance and car life. It provided high quality services to the users, with realization of high efficiency, safety, comfortable and friendly car management and user experience. At the same time, explored the commercial values of auto Big Data positively unified with applications in different industries and sectors, to make it to be mutually beneficial.

Leading the reform

In 2015, the application of Internet entered into all sectors. We did quickly become the wind vane of the industry, leading the traditional auto aftermarket to step into the Internet and information technology boundary. Through advanced functions and features like remote diagnosis, the real-time monitoring, online data bank, the interactive mode of technician, etc..to a large extent changed the services originally served in traditional customs and manners, resulting the reversion from passive services to pro-active services and then can be benefited from enhancement of working efficiency, optimization of user experiences and improvement of the industry competitiveness.

Unique repair technicians resources

In the repair technician aspect, we popularized the golo technician box comprehensively, and therefore the golo technician box became famous among the technicians, leading the sales quantity increase. With the adoption of real name registration system of golo technician, we can unify and accumulate the core ability of services provision. The opening of the service platform to the third party services providers could enhance the competiveness of golo ecology competitive power also lets the second-hand vehicle appraisers and valuers, the aftermarket chain enterprises, the vocational training colleges and universities those market’s subdivision become more activated

Care of users’ experience

We succeeded to develop the smallest and most advanced built-in intelligent hardware product for Internet of Vehicle. Taking the user experience as our first goal, made an multi auto life platform, the powerful functions and features included:

1) real-time path	2) remote diagnosis	3) entire car examination	4) Report to police
5) driving record	6) car servicing	7) drive and earn	8) Making friends
9) Rescue consultation	10) fleet management	11) remote control	12) WIFI etc.

With efforts from parties, we realized innovative dual channel data flow management modes which the users can only paid for their own data usage free of WIFI, and so resolved the problem of discontinuity of data collection the industry normally faced.

We also developed golo in car mobile products, with focus on driving safety support features which provide assistance to drivers for song selections, broadcasting, shopping and voice control etc, expecting to have good feedbacks in new sectors like travelling by car, new media radio etc.

Traditional equipment, the origin of technology

The Group believed that the strategy of raising importance of the online diagnosis products, and expected to shift the revenue and allocate more resources allocation to Internet of Vehicle business. In future, the scale of revenue from traditional equipment was expected to drop but it does not mean to the slowdown of the technology development. Our ultimate direction is still making the development of the best auto diagnosis technology as our first prioritized target.

Commercial cars, Internet, and finance, a new territory

In 2015, the Group, with strategic alliance with Linkage Automobile Alliance, set up a all in one commercial car internet finance platform, unifying and linking various commercial car related chain service industries likes car finance, insurance, manufacturers, distributors, repair and maintenance, spare parts suppliers, utilities suppliers etc. Though the number of commercial cars is much fewer than passengers cars, we focused the huge after market in reality resulted from it's shorter commercial car usage cycle. Being forward looking and aggressive, this strategic operational move to the commercial car sectors is definitely a very important decision and action.

Setting up Big Data Company, connecting everything for future

During 2015, We, via tools and instruments like cooperations, huge sum of mobile terminals, huge sums of car diagnosis reports, raising technicians user group, data from online maintenance equipments etc, with focus China's passenger car market, prepared an in-depth research and analysis and got very significant findings about the patterns, behaviors and preferences of car usage, car owners and driving, repairs technicians patterns and potential consumers, figuring out the silhouette of the situation and movement of latest China's passenger car market, and offering useful information to auto enterprises and government divisions, revealing a benchmark for the Big Data usage of the Internet of Vehicle. We are planning in progress to form a professional Big Data Company, so as to connect everything for future.

New product, our Smart bracelet for Internet of Vehicle

2015, the Group promoted a new smart bracelet named "Hesvit". With total of 143 Intellectual property rights, with 106 invention patents, everything surrounding the Internet of Vehicles living situations, it provides exceptional alert notification for car conditions and driving manners etc. Based on the concept inspired from body sensitivity smart and healthy bracelet for human, now we extend this concept to the car, which is a very innovative collaboration for both territories.

Reserve technology, research in advance, release when mature

Basing on over 20 years accumulation of auto diagnosis technology, the Group, few years ago, gained insight into the needs and future trend of the industry, and then started inputting a large quantity of human resources and capital into the research and development of the related matters of Internet of Vehicle. In 2015, we continued to invite talents of Internet research and development in connection with application plan, open platforms, Big Data exploration etc to join our Company, speeding up technology update and innovation of the Internet of Vehicle business. Good results were achieved in respect of development and application of the products and technology.

In 2015, we, having worked very hard, was granted over 80 patents, software copyrights, trademarks etc relating to Internet of Vehicle technologies, and the accumulated number of items was over 450. The patented chip 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 car owners. Repair technicians can provide a remote diagnostic and repair service for car owners anytime and such kind of service has become a benchmark of the ecosystem of the Internet of Vehicle.

III. FUTURE PROSPECTS

The Group will focus on the development of application technologies and services on Internet of Vehicle, and endeavor to create the automobile repair and maintenance and car life ecology based on the golo car cloud platform. By strengthening and optimizating internal control, and meanwhile by ceaselessly deepening "Innovation, Quality, Efficiency, Professional, Competitive", our enterprise's culture and stimulating the creativity of our staff, enhances our overall competitive advantage, and of course create better results to our shareholder.

IV. FINANCE

In 2015, the Group's intelligent hardware of Internet of Vehicle attracted a huge number of new users from the markets. We played significant role in the traditional equipment market but the ratio of revenue of traditional products dropped. The overall turnover slightly dropped by 5%. The high gross-profit-margin new products took over the pace and the overall volume of output increased tremendously. The average gross profit raised by 5% to approximately 39%. The change in combination of the turnover, and the increased gross profit margin revealed that the real in transformation from traditional equipment business to Internet of Vehicle business was happened. The big improvement of the sale of new products relied much on the marketing strategies and promotions throughout the year. It caused the increase in the selling expenses. The continuously pioneered products' behind was the huge sum of investment in research and development in this year. The overall cost of operation also increased rapidly and caused the increase in administrative expenses. However with careful judgments in fiscal measures, the Group's finance costs and impairment loss on assets reduced much. Even though the loss for the year enlarged, with exploration of new markets and then careful and right allocation of resources into those sectors, the management endeavored to improve our assets' quality and reduce indebtedness level. We will continue to work very hard to keep our mind that to work on the operation and management aggressively with care; on the one hand to explore new source of revenue and on the other hand tightly monitor the budgets, looking forward to having a reverse profit and loss situation in the new year.

R&D expenditure

R&D expenditure

Unit: million

R&D expenditure for current period	62
Capitalized R&D expenditure for current period	65
Total R&D expenditure	127
Percentage of total R&D expenditure over operation income (2014: 14%)	18%

We actively invested in research and development projects during the year and Research and development expenditure to total operating income ratio increases to at 14%, which is in line with the annual budget plan of the Company.

Principal Sources of Fund and Its Use

Cash flows from operating activities

The Company's cash inflows are mainly derived from revenue of goods selling. Cash outflow was mainly related to production and operating activities. The Company's cash inflow from operating activities for the reporting period amounted to 842,000,000, while cash outflow amounted to 925,000,000. The net cash outflow from actual operating activities amounted to 83,000,000.

Cash flows from investing activities

Cash inflow from investing activities during the reporting period amounted to 60,000,000. Cash outflow to investing activities amounted to 42,000,000, which was mainly used for capital expense on construction of plant and research building. The above expenditures were partly financed by the Company's internal resources and bank loans. Net cash outflow from investing activities for the reporting period amounted to 18,000,000.

Cash flows from financing activities

Cash inflow from financing activities during the reporting period amounted to 1,052,000,000, which was mainly derived from bank loans and placement of new shares. Cash outflow from financing activities during the reporting period amounted to 817,000,000 was mainly for repayment of bank loans and interest. Net cash inflow from fund-raising activities for the reporting period amounted to 234,000,000.

Total net cash in flow for the year was of 175,000,000 and the cash and cash equivalents was 415,000,000, an increase of 71,000,000 was noted.

Capital Structure

The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. Interests attributable to shareholders amounted to 703,000,000; and total liabilities amounted to 777,000,000. Total assets amounted to 1,480,000,000. As at the end of the year, the Company's gearing ratio was 190% (2014: 164%).

Capital structure by liquidity

Total current liabilities	751,000,000 (2014: 727,000,000)	Accounting for 51% (2014: 59%) of the capital
Total equity interest	703,000,000 (2014: 623,000,000)	Accounting for 48% (2014: 39%) of the capital

DIRECTORS

Executive Directors

Mr. Liu Xin, also known as **Louis Liu**, aged 47, 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 45, 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 51, 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 43, 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 52, 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 41, 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.

Ms. Zhang Yan, aged 33, 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.

Mr. Ning Bo, aged 38, graduated from Southwest University of Science and Technology majoring in accounting. Mr. Ning served as a credit manager in the branch of Bank of Communications at Wenjin, Shenzhen, from 2001 to 2002; and manager of auditing department in Shenzhen Commercial Bank (currently renamed as Ping An Bank) from 2002 to 2009. From 2009 to 2014, he worked in Shenzhen Shanghai Pudong Development Bank as the deputy general manager of the first business department and vice president of Xinzhou branch. Since 2014, Mr. Ning has been the general manager of Shenzhen Zhongzheng Hengshi Investment Co., Ltd. (深圳中正恒石投資有限公司).

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 70, 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 52, 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 38, 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 41, 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 44, 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 46, 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 40, 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 2015, 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
Mr. Ning Bo	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 Mr. Ning Bo 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 2015.

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 Mr. Ning Bo and Mr. Liu Yuan. Mr. Ning Bo has been appointed as the chairman of the Nomination Committee. No meeting was held by the Nomination Committee during the year ended 31 December 2015.

MEETINGS ATTENDANCE

	Board	Audit Committee
Number of Meetings	7	3
Executive Directors		
Mr. Liu Xin	7	N/A
Mr. Liu Jun	7	N/A
Mr. Jiang Shiwen	7	N/A
Ms. Huang Zhaohuan	7	N/A
Non-executive Director		
Ms. Liu Yong	7	N/A
Independent Non-executive Directors		
Mr. Liu Yuan	5	3
Mr. Ning Bo	4	3
Ms. Zhang Yan	6	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.

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.

COMPANY SECRETARY AND SHAREHOLDERS' RIGHTS (Continued)

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 2015.

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; at the period end, the distributable profit was amounted to approximately RMB128 million.

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

SHARE CAPITAL

Movements in share capital are set out in the notes to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets 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
Ms. Huang Zhao Huan

Non-executive director:
Ms. Liu Yong

DIRECTORS AND SUPERVISORS (Continued)

Independent Non-executive Directors:
Mr. Liu Yuan
Dr. Zou Shulin *(resigned on 15 June 2015)*
Ms. Zhang Yan
Mr. Ning Bo *(appointed on 15 June 2015)*

Supervisors:
Mr. Sun Zhongwen
Mr. Du Xuan
Mr. Zhang Jiangbo

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 2015, 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%	20.05%
	Interest in a controlled company	69,432,000	42.08% (Note 1)	21.09%
	Interest in a controlled company	5,130,500	3.11% (Note 2)	1.56%
Mr. Liu Jun	Interest in a controlled company	69,432,000	42.08% (Note 3)	21.09%
Ms. Liu Yong	Interest in a controlled company	5,130,500	3.11% (Note 4)	1.56%

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 2015, 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 2015, 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)	21.09%
Xizang Ruidong Wealth Investment Co., Ltd (西藏瑞東財富投資有限責任公司)	Interest of corporation controlled by substantial shareholder	20,000,000	12.12%	6.08%

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

Name	Capacity in which shares were held	Number of H shares	Approximate percentage of the Company's total issued H shares	Approximate percentage of the Company's total issued shares
China Point (CAY) Special Situations Fund SPC – China Point Special Situations Fund II Segregated Portfolio	Beneficial owner	15,000,000	9.14%	4.56%

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% of the Group's total turnover and the Group's largest client accounted for approximately 8% of the Group's turnover.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

EMPLOYEES AND REMUNERATION

As at 31 December 2015, the Group had 1,780 and 30 employees based in the PRC and overseas respectively. For the year ended 31 December 2015, the total staff cost net of the remunerations of the Directors and supervisors amounted to approximately RMB185 million. The Group remunerates employees by their performance and experience. Emolument or remuneration may include salary, overtime allowance, bonus and various subsidies.

The emolument of the Directors are determined, having regard to the Company's operating results, individual Directors' performance and comparable market trends.

It has adopted a share option scheme whereby employees of the Group may be granted options to acquire shares. The Group also offers staff benefits such as professional training programs enhance staffs' skills, knowledge and sense of belonging.

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 2014 and 2013 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
30 March 2016

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 2015 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 2015 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:

30 March 2016

Consolidated Balance Sheet

2015 *(Expressed in Renminbi)*

	Note VI	2015	2014
Current assets:			
Bank balances and cash	1	415,464,672.34	343,796,861.36
Bills receivable	2	17,036,907.00	23,908,007.71
Accounts receivable	3	241,169,471.34	263,046,370.93
Prepayments	4	57,399,353.54	63,011,467.16
Other receivables	5	39,648,210.28	29,375,506.71
Inventories	6	101,939,465.29	92,241,372.70
Other current assets	7	7,886,496.93	54,196,947.70
Total current assets		880,544,576.72	869,576,534.27
Non-current assets:			
Fixed assets	8	387,455,236.13	307,605,358.61
Construction in progress	9	1,718,549.29	110,769,474.44
Intangible assets	10	191,031,014.69	172,113,179.72
Development expenditure	11	11,067,683.04	21,074,996.18
Goodwill	12	1,139,412.80	1,139,412.80
Deferred income tax assets	13	6,988.56	5,738.97
Other non-current assets	14	6,911,826.72	–
Total non-current assets		599,330,711.23	612,708,160.72
Total assets		1,479,875,287.95	1,482,284,694.99
Current liabilities:			
Short-term borrowings	15	560,767,159.96	612,089,931.12
Bills payable	16	–	103,420,000.00
Accounts payable	17	88,357,296.14	96,154,689.30
Receipts in advance	18	79,364,620.11	53,064,711.56
Employee remuneration payable	19	3,930,285.40	2,930,953.03
Tax payables	20	5,085,902.08	5,255,927.90
Other payables	21	12,576,859.75	8,275,296.71
Non-current liabilities due within one year	22	468,152.45	139,792.50
Total current liabilities		750,550,275.89	881,331,301.85
Non-current liabilities:			
Long-term borrowings	23	1,190,145.51	2,095,867.32
Deferred income	24	25,500,000.00	20,000,000.00
Total non-current liabilities		26,690,145.51	22,095,867.32
Total liabilities		777,240,421.40	903,427,169.17

2015 (Expressed in Renminbi)

	Note VI	2015	2014
Shareholders' equity:			
Share capital	25	329,160,000.00	301,800,000.00
Capital reserve	26	231,421,588.86	41,748,427.20
Other comprehensive income	27	3,221,298.19	2,523,274.66
Surplus reserve	28	18,099,377.81	18,099,377.81
Undistributed profit	29	120,570,279.29	214,468,933.63
Total owners' equity attributable to parent company		702,472,544.15	578,640,013.30
Minority shareholders' equity		162,322.40	217,512.52
Total shareholders' equity		702,634,866.55	578,857,525.82
Total liabilities and shareholders' equity		1,479,875,287.95	1,482,284,694.99

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

Balance Sheet

2015 *(Expressed in Renminbi)*

	Note XV	2015	2014
Current assets:			
Bank balances and cash		402,247,836.57	332,864,040.90
Bills receivable		17,036,907.00	23,908,007.71
Accounts receivable	1	218,675,329.07	233,337,072.84
Prepayments		71,815,630.96	94,262,173.24
Other receivables	2	59,427,606.73	48,653,625.08
Inventories		65,064,161.47	63,806,539.70
Other current assets		5,459,652.77	54,194,498.25
Total current assets		839,727,124.57	851,025,957.72
Non-current assets:			
Long-term equity investments	3	184,513,562.18	169,413,562.08
Fixed assets		262,904,104.12	178,960,352.54
Construction in progress		–	110,335,970.63
Intangible assets		72,217,014.86	52,215,364.67
Development expenditure		10,677,389.64	7,060,371.18
Other non-current assets		2,928,360.00	–
Total non-current assets		533,240,430.80	517,985,621.20
Total assets		1,372,967,555.37	1,369,011,578.92

2015 (Expressed in Renminbi)

	Note XV	2015	2014
Current liabilities:			
Short-term borrowings		530,767,159.96	612,089,931.12
Bills payable		–	103,420,000.00
Accounts payable		335,936,924.43	326,613,016.01
Receipts in advance		72,325,517.98	47,279,849.54
Employee benefits payables		1,527,947.97	683,577.44
Tax payables		3,326,946.00	2,870,696.70
Other payables		23,922,771.66	19,959,365.46
Total current liabilities		967,807,268.00	1,082,916,436.27
Non-current liabilities:			
Deferred income		25,500,000.00	20,000,000.00
Total liabilities		993,307,268.00	1,102,916,436.27
Shareholders' equity:			
Share capital		329,160,000.00	301,800,000.00
Capital reserve		231,523,781.80	41,850,620.14
Surplus reserve		18,099,377.81	18,099,377.81
Undistributed profits		-199,122,872.24	-95,654,855.30
Total equity attributable to ordinary shareholders		379,660,287.37	266,095,142.65
Total shareholders' equity		379,660,287.37	266,095,142.65
Total liabilities and shareholders' equity		1,372,967,555.37	1,369,011,578.92

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

Consolidated Income Statement

2015 *(Expressed in Renminbi)*

	Note VI	2015	2014
Operating income	30	697,597,929.64	731,173,407.25
Less: Operating costs	30	427,983,171.61	483,349,303.05
Business tax and surcharge	31	4,154,526.73	2,727,638.55
Selling expenses	32	140,904,132.03	96,325,526.09
Administrative expenses	33	196,474,968.34	128,453,958.87
Finance costs	34	16,699,476.48	48,629,840.08
Impairment loss on assets	35	22,676,442.73	38,839,665.75
Add: Gain on investments	36	2,592,876.71	493.88
Operating profit (loss "–")		-108,701,911.57	-67,152,026.81
Add: Non-operating income	37	14,972,085.28	20,841,641.00
Less: Non-operating expenses	38	1,127,719.08	487,015.92
Total profit (loss "–")		-94,857,545.37	-46,797,401.73
Less: Income tax expenses	39	-903,700.91	68,985.45
Net profit (loss "–")		-93,953,844.46	-46,866,387.18
Net profit attributable to owners of parent company		-93,898,654.34	-46,943,369.98
Profit or loss attributable to minority shareholders (loss "–")		-55,190.12	76,982.80
Earnings per share:			
Basic earnings per share (loss "–")		-0.3111	-0.1555
Other comprehensive income		698,023.53	2,846,714.82
Total comprehensive income (loss "–")		-93,255,820.93	-44,019,672.36
Total comprehensive income attributable to owners of parent company (loss "–")		-93,200,630.81	-44,096,655.16
Total comprehensive income attributable to minority shareholders (loss "–")		-55,190.12	76,982.80

2015 (Expressed in Renminbi)

	Note XV	2015	2014
Total operating income	4	643,066,271.81	680,406,570.84
Less: Operating costs	4	474,474,996.27	519,873,452.08
Sales tax and levies		2,311,037.51	1,066,290.96
Selling expenses		122,289,670.09	77,481,364.91
Administrative expenses		120,513,086.34	78,428,364.91
Finance costs		13,402,030.71	30,565,345.37
Add: Impairment loss on assets		17,801,691.65	34,887,311.88
Investment income	5	2,592,876.71	–
Operating profit (loss "-")		-105,133,364.05	-61,895,499.02
Add: Non-operating income		1,980,039.85	4,686,369.39
Less: Non-operating expenditure		314,692.74	466,919.59
Total profit (loss "-")		-103,468,016.94	-57,676,049.22
Less: Income tax expenses		–	–
Net profit (loss "-")		-103,468,016.94	-57,676,049.22
Total comprehensive income (loss "-")		-103,468,016.94	-57,676,049.22

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

Consolidated Cash Flow Statement

2015 *(Expressed in Renminbi)*

	Note VI	2015	2014
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		782,279,295.93	791,903,749.61
Refund of taxes and levies		33,882,548.84	42,484,812.30
Other cash receipts relating to operating activities	40	26,198,157.80	18,634,107.20
Sub-total of cash inflows from operating activities		842,360,002.57	853,022,669.11
Cash paid for goods and services		573,451,267.78	537,288,604.86
Cash paid to and on behalf of employees		169,890,772.50	125,817,850.20
Payments of taxes and levies		31,677,730.88	23,950,817.94
Other cash payments relating to operating activities	40	143,224,315.29	212,166,280.49
Sub-total of cash outflows from operating activities		918,244,086.45	899,223,553.49
Net cash flows from operating activities		-75,884,083.88	-46,200,884.38
Cash flows from investing activities:			
Cash received from return of investments		2,592,876.71	499.33
Cash received from disposals of fixed assets, intangible assets and other long-term assets		7,463,014.64	6,409,924.41
Cash received from other investing activities		50,000,000.00	–
Sub-total of cash inflows from investing activities		60,055,891.35	6,410,422.74
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		48,709,118.19	96,297,103.25
Sub-total of cash outflows from investing activities		48,709,118.19	96,297,103.25
Net cash flows from investing activities		11,346,773.16	-89,886,680.51

2015 (Expressed in Renminbi)

	Note VI	2015	2014
Cash flows from financing activities			
Cash receipts from investors		217,033,161.66	–
Cash received from borrowings		731,025,123.87	865,586,648.65
Other cash received relating to financing activities		104,219,060.14	–
Sub-total of cash inflows from financing activities		1,052,277,345.67	865,586,648.65
Cash repayments of borrowings		782,477,688.16	780,148,598.03
Cash payments for interest expenses, distribution of dividend or profits		35,309,283.97	44,180,139.00
Sub-total of cash outflows from financing activities		817,786,972.13	824,328,737.03
Net cash flows from financing activities		234,490,373.54	41,257,911.62
Impact on cash by changes in foreign exchange rates		5,933,808.30	-206,533.90
Net increase in cash and cash equivalents		175,886,871.12	-95,036,187.17
Add: Cash and cash equivalents at beginning of the period		218,098,811.22	313,134,998.39
Cash and cash equivalents at end of the period		393,985,682.34	218,098,811.22

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

Cash Flow Statement

2015 *(Expressed in Renminbi)*

	Note XV	2015	2014
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		748,715,516.68	722,751,298.84
Refund of taxes and levies		22,351,723.01	26,316,028.87
Other cash receipts relating to operating activities		13,006,778.89	77,011,066.33
Sub-total of cash inflows from operating activities		784,074,018.58	826,078,394.04
Cash paid for goods and services		624,959,886.40	573,805,333.08
Cash paid to and on behalf of employees		122,695,237.98	87,272,922.07
Payments of taxes and levies		13,413,756.52	7,399,065.83
Other cash payments relating to operating activities		115,285,774.38	192,324,809.03
Sub-total of cash outflows from operating activities		876,354,655.28	860,802,130.01
Net cash flows from operating activities		-92,280,636.70	(34,723,735.97)
Cash flows from investing activities:			
Cash received from return of investments		2,592,876.71	–
Cash received from other investing activities		50,000,000.00	–
Cash received from disposals of fixed assets, intangible assets and other long-term asset		7,193,395.08	6,153,424.41
Sub-total of cash inflows from investing activities		59,786,271.79	6,153,424.41
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		23,499,903.59	49,534,526.28
Cash paid for investments		15,100,000.00	–
Sub-total of cash outflows from investing activities		38,599,903.59	49,534,526.28
Net cash flows from investing activities		21,186,368.20	-43,381,101.87

2015 (Expressed in Renminbi)

	Note XV	2015	2014
Cash flows from financing activities			
Cash receipts from investors		217,033,161.66	–
Cash receipts from other financing activities		104,219,060.14	–
Cash received from borrowings		701,025,123.87	833,186,648.65
Sub-total of cash inflows from financing activities		1,022,277,345.67	833,186,648.65
Cash repayments of borrowings		752,347,895.03	779,539,185.53
Cash payments for interest expenses, distribution of dividend or profits		29,631,469.83	29,144,535.36
Sub-total of cash outflows from financing activities		781,979,364.86	808,683,720.89
Net cash flows from financing activities		240,297,980.81	24,502,927.76
Net increase in cash and cash equivalents		169,203,712.31	-53,601,910.08
Add: Cash and cash equivalents at beginning of the period		207,165,990.76	260,767,900.84
Cash and cash equivalents at end of the period		376,369,703.07	207,165,990.76

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

Consolidated Statement of Movement on Equity

2015 *(Expressed in Renminbi)*

	2015						
	Attributable to shareholders of the parent company						
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	Undistributed profits	Minority interests	Total shareholders' equity
Ending balance of previous year	301,800,000.00	41,748,427.20	2,523,274.66	18,099,377.81	214,468,933.63	217,512.52	578,857,525.82
Opening balance of current year	301,800,000.00	41,748,427.20	2,523,274.66	18,099,377.81	214,468,933.63	217,512.52	578,857,525.82
Changes for current period ("-" decrease)	27,360,000.00	189,673,161.66	698,023.53	–	-93,898,654.34	-55,190.12	123,777,340.73
Comprehensive income	–	–	698,023.53	–	-93,898,654.34	-55,190.12	-93,255,820.93
Capital surplus transfer to share capital	27,360,000.00	189,673,161.66	–	–	–	–	217,033,161.66
Ending balance for current period	329,160,000.00	231,421,588.86	3,221,298.19	18,099,377.81	120,570,279.29	162,322.40	702,634,866.55

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

2015 (Expressed in Renminbi)

	2014						
	Attributable to shareholders of the parent company						
	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	301,800,000.00	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.

Statement of Movement on Equity

2015 *(Expressed in Renminbi)*

	2015				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Ending balance of previous year	301,800,000.00	41,850,620.14	18,099,377.81	-95,654,855.30	266,095,142.65
Opening balance of current year	301,800,000.00	41,850,620.14	18,099,377.81	-95,654,855.30	266,095,142.65
Changes for current period ("-" decrease)	27,360,000.00	189,673,161.66	–	-103,468,016.94	113,565,144.72
Total comprehensive income	–	–	–	-103,468,016.94	-103,468,016.94
Capital surplus transfer to share capital	27,360,000.00	189,673,161.66	–	–	217,033,161.66
Ending balance for current period	329,160,000.00	231,523,781.80	18,099,377.81	-199,122,872.24	379,660,287.37

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

2015 (Expressed in Renminbi)

	2014				
	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.

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.

Pursuant to the resolution for shares conversion from capital reserve approved in the Annual General meeting held on 16 June 2014(H shareholders annual general meeting and domestic shareholders annual general meeting), converted 40 additional shares for each 10 existing shares, the Company's total number of shares changed from 60.36 million to 301.8 million.

Pursuant to the "Reply on Consenting to the Additional Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited" dated 6 January 2015 (CSRC Approval (2015) No. 1863 of CSRC) and the approval of the Hong Kong Stock Exchange, additional 27.36 million foreign shares (H shares) were issued and listed on the Stock Exchange of Hong Kong Limited with total number of the Company's shares increasing from 301.8 million to 329.16 million, which was verified by Shenzhen Yongming CPA Co., Ltd with Capital Verification Report (Shen Yong Yan Zi (2016) No. 003).

I. GENERAL INFORMATION OF THE COMPANY (Continued)

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

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.

(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 30 March 2016.

2015 (Expressed in Renminbi)

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

During the period, 7 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
Shenzhen Haishiwei Heath Technology Co., Ltd. ("Shenzhen Haishiwei")	Wholly-owned subsidiary	One	100.00	100.00
Shenzhen Golo Software Development Co., Ltd. ("Golo Software")	Wholly-owned subsidiary	One	100.00	100.00

There were 2 additional entities included in the consolidated financial statements during the period as follows:

Inclusion of new subsidiaries in to the scope of consolidation in this period

Name	Reasons
Shenzhen Haishiwei	Investment establishment
Golo Software	Investment establishment

The details of changes in the entities that were included in the consolidated financial statements during the period were set out in "Note VII, CHANGE IN THE SCOPE OF CONSOLIDATION".

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.

(II) Going concern

Pursuant to the Company's assessment on the continuing operation viability of the Company within 12 months since the end of the reporting period, and there are no matters or events that may raise any material doubts on the continuing operation viability of the Company was discovered, and thus this financial statements were prepared under going concern basis.

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

For assets and liabilities acquired under business combinations, the assets, liabilities (including the value of goodwill on acquisition) on the date of combination is included in the consolidated financial statements using the book values. If there is any difference between the book values of net assets acquired and the consideration(or the total amount of face value of issued shares), share premium in capital reserve is adjusted If the share premium in capital reserve is insufficient, the retained earnings are adjusted.

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)

For business combination finally realized through several transactions, in case of a package transaction, those 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.

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

On the date of acquisition, when there is any difference between the fair values and book values of the assets provided and liabilities incurred or bornt by the Company as combination considerations, such differences shall be charged to profit and loss for the period.

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 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.

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, should be accounted with all transactions as the one to acquire the control; in case of non-package transaction, should be accounted under equity method: the equity investment held before the date of combination, 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.

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)

4. Relevant expenses in relation to combination

All direct fees for audit, legal and assessment occurred for the purpose of business combination are credited in profit or loss in the period when they incurred; trading fees for issue of equity, shall be directly charged to equity.

(V) Preparation of consolidated financial statements

1. Scope of Consolidation

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.

2. Procedures

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 the Company prepared consolidated financial statements, considered the whole business group as a single accounting entity. Pursuant to recognition, measurements and requirement of relevant accounting standards, basing on the consistent accounting policies, reflected the business group's financial positions, business results and cashflows.

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.

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. For the consolidated financial statements, when there is divergence in the recognition of a single transaction by the Company and its subsidiaries, the Company's position shall be taken up for adjustment on such transaction.

The owners' equity, the minority interest on net profit or loss for the period and comprehensive income should be separately disclosed under owners' equity in the consolidated balance sheet,and net profit and comprehensive income in the consolidated income statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

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.

For subsidiaries due to business combination involving entities under common control, their assets, liabilities (includes goodwill acquired), using on the book value of the ultimate controller's financial statement as basis to adjust their own financial statements.

Where as for For subsidiaries due to business combination involving entities not under common control, using the fair value on the acquisition as basis to adjust their own financial statements.

(1) Addition of subsidiary or business

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. At the same time adjust those relevant items of comparison of financial statements, considering the reporting entity exists since the date of establishment of control.

For exercising control over investee under common control due to the addition of investment, shall consider those entities consolidated since the date of control began and adjust the existing conditions. Between the later of the date of those equity held originally or the date of both parties under common control to combination date, those identifiable profit or loss, other comprehensive income and other change in net assets, shall be separately charged to initial amount of the comparative statements or the profit and loss of the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

(1) Addition of subsidiary or business (Continued)

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.

For exercising control over investee not under common control due to addition of investment, those equity held before acquisition date is subject to re-measurement using fair value. Differences between fair value and book value is charged to investment income for the period. For movement in owners' equity other than other comprehensive income and ex-dividend profit or loss, other comprehensive income and distributable profits, equity held before acquisition date which was measured under equity method; and relevant other comprehensive income and movement in other owners' equity were changed to the profit or loss of the financial period of the acquisition date, but except other comprehensive income occurred due to movement of net assets and liabilities under the remeasurment of defined benefit plan by the investor.

(2) Disposal of subsidiary or business

1) General treatments

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, the remaining invested equity after disposal 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 and ex-dividend proift or loss, other comprehensive income and distributable profits associated with equity investment in the former subsidiary shall be transferred to investment gain upon the loss of control, but except other comprehensive income occurred due to movement of net assets and liabilities under the remeasurment of defined benefit plan by the investor.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

(2) Disposal of subsidiary or business (Continued)

2) Piecemeal disposal of subsidiary

Through piecemeal disposals of equity of subsidiary until loss of control, normally those transactions would be accounted as a package of transactions if those arrangements and conditions and economic impacts of disposal transactions fullfiled one or more of the following situations:

A. Such transactions are occurred together or made under considerations of mutual impacts;

B. A complete business consequence could only be made under such series of transactions;

C. The occurance of a transaction is dependent on occurance of at least one transaction;

D. One transaction itself is not economical itself, but when considered together with other transactions would become economical.

Transactions for partly disposal of subsidiary until losing control which is considered as a package of transactions, the Company treats this as one transaction under accounting treatment; however the difference between each transaction proceeds and the net asset value of that disposal, is firstly treated as other comprehensive and then charged together to profit or loss for the period until the control of subsidiary lost.

Transactions for partly disposal of subsidiary until losing control which is not considered as a package of transactions, before lossing control, treat it as the same as transactions for not lossing control and treat as general disposal under accounting treatment when the control of subsidiary lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

(3) Acquisition of minority interest of subsidiary

When there is a difference between Company acquired minority interests as long term equity investment and basing on the new shareholding ratio owned the subsidiary under continuing calculation from the acquisition date(or combination date), the difference would be adjusted to the share premium of capital reserve in the consolidated balance sheet. If the share premium is insufficient, charge to the retained profits.

(4) Partly disposal of subsidiary without losing control

Under the situation the difference between the proceeds from disposal of subsidiary without lossing control and the attributable net assets value of the subsidiary continuously calculated from the acquisition date or combination date, the difference would be adjusted to the share premium of capital reserve in the consolidated balance sheet. If the share premium is insufficient, charge to the retained profits.

(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 ventures 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 ventures 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 ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

2. Translation of foreign currency statements (Continued)

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; when disposing of partial overseas equity investment or due to other reasons causing decrease in holding ratio of overseas operation but not losing control, the foreign currency translation difference attributable for disposed is transferred to minority interests but not profit or loss for the period. In occasion disposal of equity interest in foreign associate or joint operation, the foreign currency translation difference attributable to the portion disposed of is transferred to profit or loss for the period.

(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; accounts receivable; financial assets available for sale 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;

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)

(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.

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;

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)

(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.

(2) Accounts receivable

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 accounts receivable 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.

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)

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:

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(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.

(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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. Recognition and measurement of transfer of financial assets (Continued)

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; for financial assets initially obtained or derived or financial liabilities assumed, fair value is determined based on market transaction prices.

For valuation, the Company adopts those adequate data available and suitable for current situation and valuation techniques supported by other information, and choose input value with same features used by market players for transactions of relevant assts or liabilities, and managed to preferentially use relevant observable input value. Under the circumstance that is unable to obtain observable input value or infeasible, use unobservable input value.

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.

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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)

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

Basis for determination of portfolio:

Name of portfolio	Method of provision	Basis for determination of portfolio
Risk free portfolio	No provision to be made	Referring to operation nature, and ascertain it as risk-free item, mainly include VAT refund receivables.
Aged portfolio	Aged group analysis	Including all receivables not belongs to the portfolio above, the Company refers to experience on historical provision ratio used to make the best estimation, and refers to aged analysis to catergorize credit risk portfolio.

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

① Provision for bad debts based on aged group analysis:

Ageing	Provision proportion for accounts receivable (%)	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

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: (Continued)

② Provision for bad debts based on other methods:

Name of Portfolio	Provision proportion for accounts receivables (%)	Provision proportion for other receivables (%)
Value Added Tax refund receivables	N/A	0.00

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.

(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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories (Continued)

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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investments

1. Determination of investment costs

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

(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.

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.

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

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.

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.

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)

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 others.

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) 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.

When making impairment task on the goodwill shall, amortise the book value of goodwill to asset group or combination of asset group, which are expected to be beneficial from business combination. 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) 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.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Employee Compensation (Continued)

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. When the earlier of Company cannot unilaterally withdraws the employment relations or cut-down proposals and the date of confirmation of relevant cost and expenses on paying termination benefits, those liabilities arising from the confirmed terminations is charged to profit or loss for the period.

The Company provides early retirement benefits to those employees who accepted early retirement arrangement. Early retirement benefits mean payment of those salaries and paid social insurance and other expenses made to those who are under the government regulated retirement age and their early retirement were approved by the Company's management. The Company will pay early retirement benefits to those employees from the early retirement date to normal retirement date and consider the cost as liability and one-off charge to the profit and loss for the period. Difference arising from change in assumption on acturialcal calculation and change in benefit standards, will be charged to profit or loss for the period when it incurs.

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.

(XIX) 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)

(XIX) 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)

(XIX) 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.

(XX) 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)

(XX) Government subsidies (Continued)

3. Accounting treatment

Government subsidies related to assets are recognized as deferred income, and are recognized as non-operation 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.

(XXI) 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)

(XXI) 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.

(XXII) 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)

(XXIII) 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%

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 GR201544201449, 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 GR201344200084; 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 GR201544200122; 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	2,567,187.00	1,074,276.64
Bank deposit	391,418,495.34	255,273,775.72
Other bank balances and cash	21,478,990.00	87,448,809.00
Total	415,464,672.34	343,796,861.36
Including: total amount of deposits overseas	1,729,102.01	1,223,407.89

Upto 31 December 2015, there are no items pledged, freezed or with potential risk on collection.

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

Item	Ending balance	Beginning balance
Guarantee deposits	52,990.00	2,112,802.17
Time deposits or call deposits for guarantee	21,426,000.00	59,675,241.14
Deposits for acceptance draft	–	85,336,006.83
Total	21,478,990.00	147,124,050.14

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

(2) Bills receivable

1. Categories of bills receivable

Item	Ending balance	Beginning balance
Bank acceptance notes	16,836,907.00	23,608,007.71
Commercial acceptance bill	200,000.00	300,000.00
Total	17,036,907.00	23,908,007.71

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

3. Endorsed or discounted bills receivable that are not mature on balance sheet date

Items	Confirmed at the period end	Unconfirmed at the period end
Bank acceptance notes	71,420,000.00	-
Total	71,420,000.00	-

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

(3) Accounts receivable

1. Accounts receivable disclosed by categories

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable that are individually significant and are subjected to provision for bad debts on individual basis					
Accounts receivable that are subjected to provision for bad debts on portfolio basis	317,069,893.16	99.25	75,900,421.82	23.94	241,169,471.34
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	2,408,794.46	0.75	2,408,794.46	100.00	–
Total	319,478,687.62	100.00	78,309,216.28	24.51	241,169,471.34

Continued:

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable that are individually significant and are subjected to provision for bad debts on individual basis					
Accounts receivable 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
Accounts receivable 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

2015 (Expressed in Renminbi)

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

(3) Accounts receivable (Continued)

1. Accounts receivable disclosed by categories (Continued)

(1) Aging of accounts receivable within the group:

Aging	Ending balance Accounts receivable	Provision for bad debts	Proportion (%)
Under 1 year	121,658,281.76	6,082,914.11	5.00
including: within 90 days	49,164,100.35	2,458,205.03	5
91-180 days	22,663,469.84	1,133,173.49	5
181-270 days	24,376,700.06	1,218,835.00	5
271-365 days	25,454,011.50	1,272,700.59	5
1-2 years	85,507,830.70	8,550,783.07	10.00
2-3 years	34,541,396.77	10,362,419.03	30.00
3-4 years	36,969,732.30	18,484,866.14	50.00
4-5 years	29,866,060.80	23,892,848.64	80.00
Over 5 years	8,526,590.83	8,526,590.83	100.00
Total	317,069,893.16	75,900,421.82	23.94

Explanations of the basis for determination of the portfolio:

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

The Company mainly offered credit terms from 30 to 210 days to trading customers. Customers with good and long term records or major customers, or for those the Company decided to maintain long term operation relationship, would be offered different credit terms.

The aging of the not-past-due and overdue accounts receivable are as follows:

	Ending balance			Beginning balance		
Items	Carring balance	Provision	Book value	Carring balance	Provision	Book value
Not past due	61,183,510.02	3,059,175.50	58,124,334.52	77,827,516.63	3,891,375.83	73,936,140.80
overdue	258,295,177.60	75,250,040.78	183,045,136.82	242,136,052.87	53,025,822.74	189,110,230.13
Total	319,478,687.62	78,309,216.28	241,169,471.34	319,963,569.50	56,917,198.57	263,046,370.93

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

(3) Accounts receivable (Continued)

2. Accounts receivable 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

	Ending balance			
Company name	Accounts receivable	Provision	Age	Reasons for provision
Shenzhen Jinnongxiang Electronic Technology Co., Ltd	1,205,174.98	1,205,174.98	Over 5 years	Low recoverability due to significant risk
TECNOSERVICE SRL, Roma	575,725.60	575,725.60	Over 5 years	Low recoverability due to significant risk
FILIPPETTI SRL, Cattolica	194,834.2	194,834.20	Over 5 years	Low recoverability due to significant risk
Hafei Automobile Co., Ltd sales branch	146,347.83	146,347.83	Over 5 years	Low recoverability due to significant risk
L'Autoservices SRL, Castenedolo (BS)	125,939.80	125,939.80	Over 5 years	Low recoverability due to significant risk
WAS GmbH, Erkrath	96,994.72	96,994.72	Over 5 years	Low recoverability due to significant risk
Werkstatt-Technik Michael Blau, Berlin	33,275.07	33,275.07	Over 5 years	Low recoverability due to significant risks
ELIT CZ, spol. s.r.o., Praha 13	30,502.26	30,502.26	Over 5 years	Low recoverability due to significant risks
Total	2,408,794.46	2,408,794.46		

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 RMB23,381,593.16; and no written back of provision for bad debts during the period is noted.

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

(3) Accounts receivable (Continued)

4. Accounts receivable actually written off during the reporting period

Item	Amounts written off
Accounts receivable actually written off	1,989,575.45

Accounts receivable actually written off are as follows:

Name	Nature of accounts receivable	Amounts written off	Reason for write-off	Verification procedures fulfilled	Whether arising from connected transaction
Engecass Equipamentos Industriais Ltda.	Payment for goods	826,419.02	Uncollectible	Normal approval	No
Shanghai GeneralMotors Wuling Co., Ltd	Payment for goods	205,660.00	Uncollectible	Normal approval	No
Tbc De Mexico S.A. De C.V.	Payment for goods	187,570.75	Uncollectible	Normal approval	No
Wuhubangde Trading Co., Ltd	Payment for goods	144,184.00	Uncollectible	Normal approval	No
Brothers and Business Co.,Ltd	Payment for goods	144,179.78	Uncollectible	Normal approval	No
40 accounts with insignificant amounts	Payment for goods	481,561.90	Uncollectible	Normal approval	No
Total		1,989,575.45			

2015 (Expressed in Renminbi)

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

(3) Accounts receivable (Continued)

5. Top five accounts receivable by ending balance collection of the borrower

Name	Ending balance	Proportion in ending balance already of accounts receivable (%)	Provision made for bad debts
Launch Tech (USA), Inc.	108,112,330.10	33.84	9,808,587.93
Launch Tech Japan.Inc.	24,917,340.42	7.80	14,993,232.83
Launch Ibérica, S.L.	15,477,766.71	4.84	3,001,826.72
Matco Tools	9,936,054.90	3.11	496,802.75
Launch Technologies SA (PTY) LTD	9,177,396.44	2.87	3,842,410.23
Total	167,620,888.57	52.46	32,142,860.46

(4) Prepayments

1. Classification based on aging

	Ending balance		Beginning balance	
Aging	Amount	Proportion (%)	Amount	Proportion (%)
Under 1 year	35,598,349.15	62.02	48,420,350.75	76.84
1-2 years	11,787,437.14	20.53	6,213,494.57	9.86
2-3 years	2,431,620.71	4.24	7,894,414.44	12.53
Over 3 years	7,581,946.54	13.21	483,207.40	0.77
Total	57,399,353.54	100.00	63,011,467.16	100.00

2015 (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
Shenzhen Sanmu Communications Technology Co., Ltd	5,679,999.98	1-2 years	still processing
Shenzhen Jiayang Electronic Co., Ltd	4,313,988.21	1-2 years	still processing
Shenzhen Kangmai Technology Co., Ltd	1,111,358.97	1-2 years	still processing
Shenzhen Liangian Technology Co., Ltd	976,362.05	within 3 years	still processing
Total	12,081,709.21		

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

Name	Ending balance	Proportion in total prepayment (%)	Year of prepayment	Reasons
Shenzhen Ouya Meihua Electronic Technology Co., Ltd.	7,895,683.26	13.76	2015	still processing
Shenzhen Sanmu Communications Technology Co., Ltd.	5,679,999.98	9.90	2014	still processing
Shenzhen Jiayang Electronic Co., Ltd.	4,313,988.21	7.52	2014	still processing
JVC Inc.	3,949,732.20	6.88	2015	still processing
Shenzhen Zhaobaichuan Prevision Mold& Plastic Co., Ltd.	2,555,659.16	4.45	2014	still processing
Total	24,395,062.81	42.51		

2015 (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	42,906,264.66	93.63	3,258,054.38	7.59	39,648,210.28
Other receivables that are individually insignificant but are provided for bad debts on individual basis	2,920,780.57	6.37	2,920,780.57	100.00	–
Total	45,827,045.23	100.00	6,178,834.95	13.48	39,648,210.28

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	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

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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	29,796,117.34	1,489,805.87	5.00
1-2 years	2,449,243.66	244,924.36	10.00
2-3 years	2,766,936.09	830,080.83	30.00
3-4 years	383,683.75	191,841.88	50.00
4-5 years	458,978.71	367,182.96	80.00
Over 5 years	134,218.48	134,218.48	100.00
Total	35,989,178.03	3,258,054.38	9.05

Explanations of the basis for determination of the portfolio:

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

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

	Ending balance		
Name of portfolio	Other receivables	Provision for bad debts	Proportion of provision (%)
Value Added Tax refund	6,917,086.63		No provision
Total	6,917,086.63		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.

2015 (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)

(3) 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			
	Other receivables	Amount of provision for bad debts	Aged	Reasons
Guangzhou Zhogngong Commercial Newspaper & Media Co., Ltd. (廣州中工商報傳媒有限公司)	304,000.00	304,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen Xianglian Metal Produces Co., Ltd.	300,000.00	300,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen ShijiHengXing Technology Co., Ltd.	274,225.13	274,225.13	Over 5 years	Low recoverability due to significant risks
Shenzhen Changchuang Electronic Technology Co., Ltd	210,000.00	210,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen Defeng Mold Co., Ltd.	197,075.43	197,075.43	Over 5 years	Low recoverability due to significant risks
Shenzhen Haolida Ultrasonic Equipment Co., Ltd.	159,999.99	159,999.99	Over 5 years	Low recoverability due to significant risks
Shenzhen Changlongxing Metal Product Co., Ltd.	150,000.00	150,000.00	Over 5 years	Low recoverability due to significant risks
Sub-total of 40 insignificant account	1,325,480.02	1,325,480.02	Over 5 years	Low recoverability due to significant risks
Total	2,920,780.57	2,920,780.57		

2015 (Expressed in Renminbi)

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

(5) Other receivables (Continued)

2. 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 RMB2,071,340.71; and the amount of write-off of the provision for bad debts during the period amounted to RMB412,547.58.

3. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	412,547.58

Details of other receivables written off:

Name	Nature of other receivables	Amounts written off	Reason for write-off	Verification Procedures fulfilled	Whether arising from connected transaction
Shanghai University of Engineering Science Zhenyuan Motor Technology Co., Ltd	Deposits	30,000.00	Uncollectible	Normal approval	No
Shanghai Liaoshenwuzhong Motor Parts Co., Ltd	Deposits	20,000.00	Uncollectible	Normal approval	No
Shenzhen Yuanzhen Fine Chemicals Co., Ltd	Deposits	137,076.40	Uncollectible	Normal approval	No
Liyang Xinhua Electrical Equipment Manufacturing Co.,Ltd	Current accounts	48,117.79	Uncollectible	Normal approval	No
Wuxi Mangjun Colddrawn Steel Pipe Co., Ltd	Current accounts	23,324.00	Uncollectible	Normal approval	No
Jiangsu Xinghua Shuanggu Construction and Decoration Materials Factory	Current accounts	20,470.84	Uncollectible	Normal approval	No
Sub-total of 13 insignificant account	Current accounts	133,558.55	Uncollectible	Normal approval	No
Total		412,547.58			

2015 (Expressed in Renminbi)

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

(5) Other receivables (Continued)

4. Other receivables by natures

Item	Ending balance	Beginning balance
Deposits	1,514,346.90	1,409,445.25
Imprest	18,185,119.13	6,832,040.62
Borrowings	13,049,650.40	22,649,650.40
Export tax refund receivables	6,917,086.63	1,851,260.56
Others	6,160,842.17	5,295,833.12
Total	45,827,045.23	38,038,229.95

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 Yuanhe Electronics Materials Co., Ltd	Borrowings	5,000,000.00	Within 1 year	10.91	250,000.00
Shenzhen Fulunda Precision Industry Technology Co., Ltd.	Borrowings	3,849,650.40	Within 1 year	8.4	192,482.52
Beijing Yunfeng Culture and Investment Co., Ltd.	Borrowings	2,300,000.00	Within 3 years	5.02	520,000.00
China Unicom Co., Ltd Shenzhen Branch	Current account	1,438,737.27	Within 1 year	3.14	71,936.86
Shenzhen Qihongwei Technology Co., Ltd	Borrowings	1,000,000.00	2-3 years	2.18	300,000.00
Total		13,588,387.67		29.65	1,334,419.38

2015 (Expressed in Renminbi)

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

(6) Inventories

1. Categories

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
Raw materials	19,529,850.05	–	19,529,850.05	24,294,004.47	707,096.95	23,586,907.52
Work-in-progress	7,968,208.34	–	7,968,208.34	11,024,247.34	824,688.64	10,199,558.70
Finished goods	74,441,406.90	–	74,441,406.90	58,454,906.48		58,454,906.48
Total	101,939,465.29	–	101,939,465.29	93,773,158.29	1,531,785.59	92,241,372.70

2. Provision for impairment of inventories

Categories	Beginning balance	Increase for the period Provision	Increase for the period Other	Decrease for the period Reversal	Decrease for the period Write-back	Decrease for the period Other	Ending balance
Raw materials	707,096.95	–	–	–	707,096.95	–	–
Work-in-progress	824,688.64	12,537.47	–	–	837,226.11	–	–
Finished goods	–	–	–	–	–	–	–
Total	1,531,785.59	12,537.47	–	–	1,544,323.06	–	–

(7) Other current assets

Item	Ending balance	Beginning balance
Input tax pending for deduction	7,886,496.93	4,196,947.70
Financial products	–	50,000,000.00
Total	7,886,496.93	54,196,947.70

2015 (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	304,600,210.89	50,403,549.87	102,636,948.80	26,919,005.65	104,809,119.43	589,368,834.64
2. Increase for the period	112,738,864.75	229,337.04	4,678,331.76	–	3,709,313.37	121,355,846.92
Purchase	22,345.00	229,337.04	4,678,331.76	–	3,709,313.37	8,639,327.17
Transfer from construction in progress	112,716,519.75	–	–	–	–	112,716,519.75
3. Decrease for the period	4,944,000.00	2,423,458.00	2,382,670.30	1,598,039.00	98,616.25	11,346,783.55
Disposal or scrapping	4,944,000.00	2,423,458.00	2,382,670.30	1,598,039.00	98,616.25	11,346,783.55
4. Ending balance	412,395,075.64	48,209,428.91	104,932,610.26	25,320,966.65	108,419,816.55	699,377,898.01

2015 (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	76,827,477.60	31,838,406.55	71,484,213.01	19,892,684.65	81,720,694.22	281,763,476.03
2. Increase for the period	13,087,439.00	3,604,025.54	10,789,382.21	2,260,179.11	7,172,137.42	36,913,163.28
Provisions	13,087,439.00	3,604,025.54	10,789,382.21	2,260,179.11	7,172,137.42	36,913,163.28
3. Decrease for the period	528,390.00	2,243,395.81	2,371,898.79	1,518,137.05	92,155.78	6,753,977.43
Disposal or scrapping	528,390.00	2,243,395.81	2,371,898.79	1,518,137.05	92,155.78	6,753,977.43
4. Ending balance	89,386,526.60	33,199,036.28	79,901,696.43	20,634,726.71	88,800,675.86	311,922,661.88
III. Provision for impairment	–	–	–	–	–	–
IV.Total Book value						
1. Book value at the end of the period	323,008,549.04	15,010,392.63	25,030,913.83	4,686,239.94	19,619,140.69	387,455,236.13
2. Book value at the beginning 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

2015 (Expressed in Renminbi)

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

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

2. Fixed assets with title certificates not properly handled at the end of the period

Item	Carrying Amount	Reasons
Buildings	112,716,519.75	Application in progress
Total	112,716,519.75	

3. Other explanations on fixed assets

The original book value of the pledged fixed assets at the end of the period was RMB217,090,995.01, see Note XII(I) for details.

(9) Construction in progress

1. Construction in progress

	Ending balance			Beginning balance		
Item	Carrying balance	Provision for impairment	Book value	Carrying balance	Provision for impairment	Book value
Research building	–	–	–	110,335,970.63		110,335,970.63
Other sporadic projects	1,718,549.29	–	1,718,549.29	433,503.81		433,503.81
Total	1,718,549.29	–	1,718,549.29	110,769,474.44		110,769,474.44

2015 (Expressed in Renminbi)

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

(9) Construction in progress (Continued)

2. Changes in significant construction in progress

Name	Beginning balance	Increase	Transfer to fixed assets during current period	Decrease	Ending balance
Research building	110,335,970.63	2,380,549.2	112,716,519.75	–	–
Total	110,335,970.63	2,380,549.2	112,716,519.75	–	–

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	100.00	100.00	–	–	–	Self-financing

2015 (Expressed in Renminbi)

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

(10) Intangible assets

1. Intangible assets

For the year 2015

Item	Land use right	Non-patent technology	Others	Total
I. Total original carrying value				
1. Beginning balance	55,745,726.09	216,719,135.88	1,177,350.41	273,642,212.38
2. Increase for the period	–	65,386,849.46	–	65,386,849.46
Purchase	–	65,386,849.46	–	65,386,849.46
3. Decrease for the period	–	–	–	–
4. Ending balance	55,745,726.09	282,105,985.34	1,177,350.41	339,029,061.84
II. Accumulated amortization				
1. Beginning balance	4,768,209.91	82,378,313.19		87,146,523.10
2. Increase for the period	1,314,554.16	43,800,807.52	–	45,115,361.68
Provisions	1,314,554.16	43,800,807.52	–	45,115,361.68
3. Decrease for the period	–	–	–	–
4. Ending balance	6,082,764.07	126,179,120.71	–	132,261,884.78

2015 (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 2015 (Continued)

Item	Land use right	Non-patent technology	Others	Total
III. Provisions for impairment				
1. Beginning balance	–	14,382,509.56	–	14,382,509.56
2. Increase for the period	–	1,353,652.81	–	1,353,652.81
Provisions	–	1,353,652.81	–	1,353,652.81
3. Decrease for the period	–	–	–	–
4. Ending balance	–	15,736,162.37	–	15,736,162.37
IV. Total Book value				
1. Book value at the end of the period	49,662,962.02	140,190,702.26	1,177,350.41	191,031,014.69
2. Book value at the beginning of the period	50,977,516.18	119,958,313.13	1,177,350.41	172,113,179.72

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

(10) Intangible assets (Continued)

2. Explanations on intangible assets

(1) 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 73.39%.

(2) 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.

(3) The original book value of the pledged intangible assets at the end of the period was RMB13,511,684.63, see Note XII(i) for details

2015 (Expressed in Renminbi)

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

(11) Development expenditure

For the year 2015

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
golo5	2,944,678.52	5,046,575.90			7,991,254.42	
golo6	4,115,692.66	4,029,794.91			8,145,487.57	
CRP Touch Pro		5,044,458.33			5,044,458.33	
X431 Pro3S		4,899,448.87				4,899,448.87
X431 PADIII		2,669,663.02				2,669,663.02
神州租車項目		3,007,869.48			3,007,869.48	
移動4G項目		5,085,953.16			5,085,953.16	
goloZ		5,123,867.62			5,123,867.62	
goloX		3,108,277.75				3,108,277.75
X431 Maxme	7,903,693.03	1,041,841.56			8,945,534.59	
X431 PRO4	5,618,668.90	1,560,290.27			7,178,959.17	
CAT-501S		3,161,602.57			3,161,602.57	
X-831M		3,515,445.62			3,515,445.62	
CRP Premium		7,069,202.52			7,069,202.52	
PDG800	492,263.07	624,951.34			1,117,214.41	
PDG500S		390,293.40				390,293.40
Total	21,074,996.18	55,379,536.32			65,386,849.46	11,067,683.04

2015 (Expressed in Renminbi)

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

(11) Development expenditure (Continued)

For the year 2014

		Increase for the period		Transferred out		
Item	Beginning balance	Internal development expenditure	Others	Included in current profit or loss	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

2015 (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 2015, 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

Item	Ending balance		Beginning balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provisions for asset impairment	46,590.37	6,988.56	38,259.80	5,738.97
Total	46,590.37	6,988.56	38,259.80	5,738.97

2015 (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	100,177,623.23	81,455,957.16
Bad debt provision – accounts receivable	78,309,216.28	56,917,198.57
Bad debt provision – other receivables	6,132,244.58	8,624,463.44
Provision for inventories impairment	–	1,531,785.59
Provision for impairment of intangible assets	15,736,162.37	14,382,509.56
(2) Deductible losses	227,924,644.10	153,348,895.83
(3) Internal unrealised profits	7,938,697.67	7,678,589.76
Total	336,040,965.00	242,521,702.55.08

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

Item	Ending balance	Beginning balance	Note
2015	–	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	55,022,524.10	
2020	88,631,292.09	–	
Total	227,924,644.10	153,348,895.83	

2015 (Expressed in Renminbi)

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

(14) Other non-current assets

Item	Ending balance	Beginning balance
Prepayment for properties	6,911,826.72	–
Total	6,911,826.72	–

(15) Short-term borrowings

1. Categories

Item	Ending balance	Beginning balance
Guaranteed	219,347,159.96	285,089,931.12
Secured + guaranteed	270,000,000.00	150,000,000.00
Banking acceptance draft financing	71,420,000.00	177,000,000.00
Total	560,767,159.96	612,089,931.12

Explanation of classification of short-term borrowings:

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

(16) Notes payable

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

2015 (Expressed in Renminbi)

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

(17) Accounts payable

Item	Ending balance	Beginning balance
Under 1 year	84,412,542.71	86,039,406.13
1-2 years	1,616,623.84	7,645,527.55
2-3 years	1,282,317.77	909,292.89
Over 3 years	1,045,811.82	1,560,462.46
Total	88,357,296.14	96,154,689.03

1. Key accounts payable with aging of over 1 year

Name	Ending balance	Reasons for no repayment or settlement
Shanghai Jingu Shaped Thread Parts Co., Ltd	867,124.67	Settlement date undue
Guangzhou Heying Mathematics Equipment Co., Ltd	370,050.02	Settlement date undue
Total	1,237,174.69	

(18) Receipts in advance

1. Receipts in advance

Item	Ending balance	Beginning balance
Under 1 year	79,364,620.11	53,064,711.56
Total	79,364,620.11	53,064,711.56

2. There is no significant receipt in advance aged over 1 year.

3. Other explanations

Increase of 49.56% in receipt in advance for this year is mainly due to the increase of customer orders near period end.

2015 (Expressed in Renminbi)

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

(19) Employee remuneration payables

1. Employee remuneration payables

Item	Beginning balance	Increase	Decrease	Ending balance
Short-term remuneration	2,930,953.03	172,193,495.94	171,194,163.56	3,930,285.41
Post-employment benefits- Defined contributions plan	–	17,824,117.07	17,824,117.07	–
Total	2,930,953.03	190,017,613.01	189,018,280.63	3,930,285.41

2. Short-term remuneration

Item	Beginning balance	Increase	Decrease	Ending balance
Salaries, bonus, allowance and subsidies	1,266,219.43	145,549,684.42	145,390,321.53	1,425,582.32
Staff welfare		8,434,731.07	8,434,731.07	
Social insurance fees		6,959,448.11	6,959,448.11	
Including: Basic medical insurance fees		5,563,002.92	5,563,002.92	
Injury insurance fees		573,563.96	573,563.96	
Maternity insurance fees		822,881.23	822,881.23	
Housing provident fund		9,401,958.53	9,401,958.53	
Union funds and employee education funds	1,664,733.60	1,847,673.81	1,007,704.32	2,804,703.09
Total	2,930,953.03	172,193,495.94	171,194,163.56	3,930,953.03

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

(19) Employee remuneration payables (Continued)

3. Defined contribution plans

Item	Beginning balance	Increase	Decrease	Ending balance
Basic pension	–	17,150,036.53	17,150,036.53	–
Unemployment insurance fees	–	674,080.54	674,080.54	–
Total	–	17,824,117.07	17,824,117.07	–

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.

2015 (Expressed in Renminbi)

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

(20) Tax payables

Item	Ending balance	Beginning balance
VAT	2,193,339.26	2,024,035.96
Business tax	156,480.71	103,074.25
EIT	–	959,516.10
Personal income tax	955,769.21	1,377,481.75
Urban maintenance and construction tax	202,623.99	116,723.35
Real estate tax	988,433.97	346,202.92
Land use tax	327,918.63	119,640.63
Education surcharge	143,643.70	84,581.33
Others	117,692.61	124,671.61
Total	5,085,902.08	5,255,927.90

(21) Other payables

1. Presentation of other payables by aging

Aging	Ending balance	Beginning balance
Under 1 year	8,855,375.96	3,747,790.70
1-2 years	492,225.17	2,306,780.19
2-3 years	1,709,705.19	2,220,725.82
Over 3 years	1,519,553.43	–
Total	12,576,859.75	8,275,296.71

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

(21) Other payables (Continued)

2. Significant other payables with aging of over 1 year

Name	Ending balance	Reason for un-repayment or settlement
Shenzhen Jinbolun Electronics Technology Co., Ltd	300,000.00	Security deposit not yet due
Shenzhen Xunshian Technology Co., Ltd.	252,260.00	Security deposit not yet due
Shenzhen Shangjia Auto Repair Tools Co., Ltd	200,000.00	Security deposit not yet due
Shenzhen Shengmeige Technology Co., Ltd	150,080.00	Security deposit not yet due
Shanghai Jiading Hongmin Recycling Appliance Co., Ltd.	350,000.00	Security deposit not yet due
Shanghai Nanhui Constructions Group Xingang Construction Co., Ltd	276,750.00	Security deposit not yet due
Total	1,529,090.00	

3. Explanations on other payables

The increase of 51.98% in other payables in this period is mainly due to the collection of deposits from certain customers during the period.

(22) Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term borrowing due within 1 year	468,152.45	139,792.50
Total	468,152.45	139,792.50

2015 (Expressed in Renminbi)

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

(23) Long-term borrowings

1. Categories

Categories	Ending balance	Beginning balance
House mortgage repayment	1,190,145.51	2,095,867.32
Total	1,190,145.51	2,095,867.32

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 2015, the balance of the loan contract was RMB1,658,297.96.

(24) Deferred income

Item	Beginning balance	Increase	Decrease	Ending balance
Asset-related government subsidies	20,000,000.00	5,500,000.00	–	25,500,000.00
Total	20,000,000.00	5,500,000.00	–	25,500,000.00

2015 (Expressed in Renminbi)

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

(24) 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
a. 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
b. Research on critical technique on remote access of Internet of vehicle under in-car environment	–	4,500,000.00	–	–	4,500,000.00	Asset-related
c. Research on critical technique on Internet of Vehicle big data obtainment and analysis platform	–	1,000,000.00	–	–	1,000,000.00	Asset-related
Total	20,000,000.00	5,500,000.00	–	–	25,500,000.00	

2. Other explanations of deferred income

a. 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 transferred to fixed assets on 31 December 2015.

2015 (Expressed in Renminbi)

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

(24) Deferred income (Continued)

2. Other explanations of deferred income (Continued)

b. Representing the amount of "Research on critical technique on remote access of Internet of vehicle under in-car environment" fund received from Science and Technology Innovation Committee of Shenzhen Municipality pursuant to document "STIC(2015)No.208" which will mainly be used for the project's research and development. The period of co-operation is from 8 October 2015 to 30 September 2017.

b. Representing the amount of "Research on critical technique on Internet of Vehicle big data obtainment and analysis platform" fund received from Science and Technology Innovation Committee of Shenzhen Municipality pursuant to document "STIC(2014)No.320" which will mainly be used for the project's research and development. The period of co-operation is from 9 January 2015 to 8 January 2017.

(25) 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	301,800,000.00	27,360,000.00	–	–	–	27,360,000.00	329,160,000.00

2015 (Expressed in Renminbi)

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

(25) Share capital (Continued)

Explanation of changes in share capital:

According to the resolution passed on the annual general meeting held on 15 June 2015 (annual general meeting of H shareholders and annual general meeting of domestic shareholders), the Articles of Association amended on 29 December 2015 and the China Securities Regulatory Commission Zhengjianxuke (2015) no.1863 "Reply on consenting to for the Additional Issuance of Overseas Listed Foreign Shares of Launch Tech Company Limited", the Company issued 27,360,000 overseas listed foreign shares. The total issued shares before this additional issue was 301,800,000 including 136,800,000 shares issued in Hong Kong will be changed from 136,800,000 to 164,160,000 and the total of 165,000,000 domestic shares remained unchange. The total proceeds inflow for this additional issue was HKD259,196,686.69. The proceeds was translated to RMB217,033,161.66 using State Administration of Foreign Exchange's middle exchange rate of HKD1 to RMB0.83733. The share capital is amounted to RMB27,360,000.00 and the share premium of capital reserve is amounted to RMB189,6773,161.66. The capital injection has been verified by Shenzhen Yongming Accounting firm and ShenYongYanZi(2016) no.003 capital verification report was issued.

(26) Capital reserve

Item	Beginning balance	Increase	Decrease	Ending balance
Capital premium (share premium)	41,748,427.20	189,673,161.66		231,421,588.86
Other capital reserve				
Total	41,748,427.20	189,673,161.66		231,421,588.86

Explanation of capital reserve:

Please see Note 25 for details of the capital reserve.

2015 (Expressed in Renminbi)

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

(27) Other comprehensive income

Item	Beginning balance	Current period: Current period before tax	Current period: After-tax income attributable to the parent company	Ending balance
Translation difference of foreign currency statements	2,523,274.66	698,023.53	698,023.53	3,221,298.19
Total of other comprehensive income	2,523,274.66	698,023.53	698,023.53	3,221,298.19

(28) 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

2015 (Expressed in Renminbi)

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

(29) Undistributed profits

Item	Amount	Provision or distribution proportion (%)
Undistributed profits at the end of last period before adjustment	214,468,933.63	–
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	214,468,933.63	–
Add: Net profits attributable to owners of parent company during this period	-93,898,654.34	–
Undistributed Profits at the end of period	120,570,279.29	

(30) Operating income and operating costs

1. Operating income and operating costs

	Current period		Previous period	
Item	Income	Cost	Income	Cost
Principal operation	683,678,245.76	427,983,171.61	722,094,905.25	482,969,007.69
Other operations	13,919,683.88	–	9,078,502.00	380,295.36
Total	697,597,929.64	427,983,171.61	731,173,407.25	483,349,303.05

2015 (Expressed in Renminbi)

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

(31) Business tax and surcharges

Item	Current period	Previous period
Business tax	850,472.03	651,855.35
City maintenance and construction tax	1,844,622.22	1,181,519.29
Education surcharges	1,418,193.51	849,139.80
Other	41,238.97	45,124.11
Total	4,154,526.73	2,727,638.55

2015 (Expressed in Renminbi)

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

(32) Selling expenses

Item	Current period	Previous period
Remuneration	57,613,366.28	38,731,123.60
Depreciation expenses	626,702.64	1,152,422.24
Rental expenses	5,219,539.36	5,043,136.98
Utilities	930,100.79	441,464.70
Office expenses	1,252,538.08	993,883.87
Packing expenses	65,676.54	31,562.20
Exhibition expenses	4,091,623.35	3,725,045.45
Advertising and printing expenses	8,858,626.74	5,625,137.46
Travelling expenses	5,221,687.24	4,300,286.81
Vehicle expenses	1,050,327.92	1,252,234.17
Repair costs	36,302.21	152,261.71
Entertainment	587,999.11	803,350.06
Postage	1,336,199.48	1,160,092.39
Storage and transportation fees	3,494,052.44	3,706,245.21
Amortization of low-cost consumables	398,526.59	360,594.63
Customs fees	1,130,544.96	1,535,970.60
Commissions	12,426,083.29	16,145,631.45
Training expenses	655,681.06	852,575.39
After-sales service costs	35,061,017.02	8,192,763.58
Cost of annual meeting	167,224.40	1,294,962.43
Insurance	234,358.36	292,989.37
Others	445,954.17	531,791.79
Total	140,904,132.03	96,325,526.09

Explanation on selling expenses:

The increase of 46.28% in selling expenses for this period is mainly due to the increase in after sale service expenses.

2015 (Expressed in Renminbi)

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

(33) Administrative expenses

Item	Current period	Previous period
Remuneration	27,584,134.21	25,022,585.60
Office expenses	6,498,544.97	3,781,938.83
Travelling expenses	3,416,770.49	2,454,599.87
Entertainment	2,742,871.39	1,487,145.19
Taxation	3,139,046.32	2,551,814.82
Inventories losses	5,910,114.11	46,762.59
Amortization of low-cost consumables	259,074.01	489,722.41
Auditing and consulting expenses	2,756,801.74	3,213,241.82
Legal consultancy expenses	2,043,031.99	1,679,162.83
Depreciation expenses	19,188,264.13	24,992,829.57
Research and development expenses	62,352,282.17	21,406,531.78
Union funds and employee education funds	3,248,756.33	1,439,257.33
Vehicles and storage and transportation costs	4,262,928.47	3,377,455.19
Repairs and maintenance expenses	1,825,013.72	1,453,633.66
Amortization of intangible assets	45,115,361.68	31,979,205.69
Patent application and inspection certification fees	2,258,612.94	911,533.35
Other expenses	3,873,359.67	2,166,538.34
Total	196,474,968.34	128,453,958.87

Explanation on administrative expenses:

The increase of 52.95% in administrative expenses for this period is mainly due to the increase in research and development staff and research and development expenses.

2015 (Expressed in Renminbi)

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

(34) Finance costs

Categories	Current period	Previous period
Interest expenses	35,309,283.96	44,180,139.00
Less: Interest income	2,932,062.12	2,502,568.37
Exchange differences	-18,513,041.82	3,838,889.04
Others	2,835,296.46	3,113,380.41
Total	16,699,476.48	48,629,840.08

Explanation on finance costs:

Financial costs reduced by 65.66% is mainly due to the increase in exchange difference resulting from relatively large fluctuations in exchange rate and reduction in interest expenses in this period.

(35) Asset impairment losses

Item	Current period	Previous period
Bad debt	21,310,252.45	24,457,156.19
Impairment loss on inventories	12,537.47	–
Impartment loss on intangible assets	1,353,652.81	14,382,509.56
Total	22,676,442.73	38,839,665.75

(36) Investment income

1. Details of investment income

Item	Current period	Previous period
Others	2,592,876.71	498.33
Total	2,592,876.71	498.33

The increase of 520,213.19% in investment income is mainly due to the increase in income from financial instruments for this period.

2015 (Expressed in Renminbi)

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

(37) Non-operating income

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Gain on disposals of non-current assets	1,387,424.43	3,068,043.64	1,387,424.43
Including: Gain on disposals of fixed assets	1,387,424.43	3,068,043.64	1,387,424.43
Government grants	12,406,578.82	17,283,434.63	3,324,600.00
Including: value-added tax refund	9,081,978.82	10,952,079.43	
Business combination involving entities not under common control			
Others	1,178,082.03	490,162.73	1,178,082.03
Total	14,972,085.28	20,841,641.00	14,972,085.28

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	33,000.00	49,800.00	Income-related grants
Shenzhen market Supervision Administration Bureau subsidy	32,000.00	99,000.00	Income-related grants
Special fund for development of strategic emerging industries of Shenzhen	–	698,855.20	Income-related grants
Shenzhen financial reward for encouraging key enterprises to fasten development	–	100,000.00	Income-related grants
Discount loans of special fund for industry development of Futian District, Shenzhen	–	500,000.00	Income-related grants
Shenzhen science and technology (patent) reward	100,000.00	592,800.00	Income-related grants
Provincial special fund subsidy for intellectual property in 2013			Income-related grants
Special subsidies for high-tech industries in Shenzhen	–	4,290,900.00	Income-related grants
Shenzhen patent and overseas trademarks subsidy	149,600.00	–	Income-related grants
Specialized subsidy for design of integrated circuit offered by Economic, Trading and Information Commission of Shenzhen Municipality	3,000,000.00	–	Income-related grants
Shenzhen Enterprises' working injury protection and safety manufacturing rewards	10,000.00	–	Income-related grants
Total	3,324,600.00	6,331,355.20	

2015 (Expressed in Renminbi)

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

(38) Non-operating expenses

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Total loss on disposals of non-current assets	273,803.90	91,351.34	273,803.90
Including: Loss on disposals of fixed assets	273,803.90	91,351.34	273,803.90
Others	853,915.18	395,664.58	853,915.18
Total	1,127,719.08	487,015.92	1,127,719.08

(39) Income tax expense

Item	Current period	Previous period
Current income tax expenses	902,451.31	70,802.81
Deferred income tax expenses	-1,249.59	-1,817.36
Total	-903,700.91	68,985.45

2015 (Expressed in Renminbi)

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

(40) Notes to in cash flow statement

1. Other cash receipts relating to operating activities

Item	Current Period	Previous period
Interest income	2,932,062.12	2,502,568.37
Government grants	8,824,600.00	6,331,355.20
Other non-operating income	1,178,082.03	490,522.73
Current accounts	13,263,413.65	9,309,660.90
Total	26,198,157.80	18,634,107.20

2. Other cash payments relating to operating activities

Item	Current Period	Previous period
Administrative expenses	47,026,046.64	29,320,789.26
Selling expenses	83,091,923.90	47,540,148.54
Bank charges and other	2,835,296.46	3,113,380.41
Non-operating expenses	853,915.18	395,664.58
Other current accounts	9,417,133.11	8,208,247.56
Increase in performance bond that is not included in cash and cash equivalents	–	123,588,050.14
Total	143,224,315.29	212,166,280.49

2015 (Expressed in Renminbi)

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

(41) 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	-93,953,844.46	-46,866,387.18
Add: Provision for impairment on assets	22,676,442.73	38,839,665.75
Depreciation of fixed assets, oil and gas assets and productive biological assets	36,913,163.28	43,630,410.74
Amortization of intangible assets	45,115,361.68	31,979,205.69
Loss on disposals of fixed assets, intangible assets and other long-term assets ("-" for gains)	-1,113,620.53	-2,976,692.30
Losses on scrapping of fixed assets ("-" for gains)		
Finance costs ("-" for gains)	35,309,283.96	44,180,139.00
Investments losses ("-" for gains)	-2,592,876.71	-498.33
Decrease in deferred tax assets ("-" for increase)	-1,249.59	-1,817.36
Decrease in inventories ("-" for increase)	-8,166,307.00	28,677,118.84
Decrease in operating receivables ("-" for increase)	-29,195,594.99	-78,736,021.18
Increase in operating payables ("-" for decrease)	-80,874,842.25	18,662,042.09
Others	–	-123,588,050.14
Net cash flows from operating activities	-75,884,083.88	-46,200,884.38
2. Investing and financing activities that do not involve cash receipts and payments		
3. Net increase in cash and cash equivalents		
Cash at the end of the period	393,985,682.34	218,098,811.22
Less: Cash at the beginning of the period	218,098,811.22	313,134,998.39
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	175,886,871.12	-95,036,187.17

2015 (Expressed in Renminbi)

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

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

2. Composition of cash and cash equivalents

Item	Ending balance	Beginning balance
1. Cash	415,464,672.34	343,796,861.36
Including: Cash deposits	2,567,187.00	1,074,276.64
Available-for-use bank deposit	391,418,495.34	195,598,534.58
Other available-for-use bank balances and cash	21,478,990.00	87,448,809.00
2. Cash equivalents		
Including: bond investment maturing within three months		
3. Cash and cash equivalents as at the end of the period	415,464,672.34	343,796,861.36
Including: Restricted cash and cash equivalent in the parent company or subsidiaries in the Group	21,478,990.00	147,124,050.14

(42) Assets with restricted ownership or use rights

Item	Balance	Reason for restriction
Bank balance and cash	21,478,990.00	Security and performance bond for issuance of acceptance draft
Fixed assets	217,090,995.01	Security for borrowings
Intangible assets	13,511,684.63	Mortgage loan
Total	252,081,669.64	

2015 (Expressed in Renminbi)

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

(43) 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	3,397,249.68	6.4936	22,060,380.51
Euro	325,303.45	7.0952	2,308,093.03
HKD	193,335,200.00	0.83778	161,972,363.86
AUD	0.38	4.7276	1.8
Accounts receivable			
Including: USD	43,772,940.02	6.4936	284,243,963.31
Euro	1,857,816.19	7.0952	13,181,577.43

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	6.9223	Annual average exchange rate
		Other items	7.0952	Year-end exchange rate

2015 (Expressed in Renminbi)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION

(1) Acquisition of subsidiaries through establishment or investment

Name	Type	Registration place	Business Nature	Registered capital	Major operation
Shenzhen Haishiwei	Wholly-owned	Shenzhen	Automobile repair and matenance equipment	10,000,000.00	Health care management consultation(not include medical treatments); Health care products development; computer software and hardware and periherals, mobile phone, communication products, electronic products development and distribution; chip development and distribution; goods and technologies inport and export.
Golo Software	Wholly-owned	Shenzhen	Automobile repair and matenance equipment	10,000,000.00	Computer software and hardware technology development and distribution; computer network projects; computer technology development, consultation and technical services; inport and export.

Continued:

Name	Shareholding (%)	Voting right (%)	Acutal invested amount at the period end	Project balance for constitution of investment to net investment in substance	Included in consolidation
Shenzhen Haishiwei	100	100	10,000,000.00		Yes
Golo Software	100	100	10,000,000.00		Yes

Continued:

Name	Enterprise type	Organisation code	Minority interest	Amount to offset minority interest	equity used to offset minority interest
Shenzhen Haishiwei	Limited Company	35877687-4			
Golo Software	Limited Company	31175119-4			

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	–	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	–	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	–	Business combination under common control
Launch Europe GmbH	Germany	Germany	Sales of computer software and hardware, consulting services of electronic products and technical.	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	–	Business combination not under common control
Shenzhen Haishiwei	Shenzhen	Shenzhen	Health care management consultation(not include medical treatments); Health care products development; computer software and hardware and periherals, mobile phone, communication products, electronic products development and distribution; chip development and distribution; goods and technologies inport and export.	100	–	Establishment
Golo Software	Shenzhen	Shenzhen	Computer software and hardware technology development and distribution; computer network projects; computer technology development, consultation and technical services; inport and export.	100	–	Establishment

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, accounts 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 state-controlled banks and other large to medium size commercial banks. The management believes that, the commercial banks have good reputation and asset status with low credit risks, and no significant credit risk and no significant losses from beach of contracts are expected.

For accounts 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 2015, receivables of top five customers of the Company accounted for 52.46% (2014: 59.40%) 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.

2015 (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 2015, 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	415,464,672.34	415,464,672.34	415,464,672.34			
Accounts receivable	241,169,471.34	319,478,687.62	219,353,543.96	100,125,143.66		
Prepayments	64,311,180.26	64,311,180.26	64,311,180.26			
Other receivables	39,648,210.28	45,827,045.23	39,162,447.63	6,664,597.60		
Sub-total	760,593,534.22	845,081,585.45	738,291,844.19	106,789,741.26		
Short-term borrowings	489,347,159.96	489,347,159.96	489,347,159.96			
Accounts payable	88,357,296.14	88,357,296.14	88,357,296.14			
Other payables	12,576,859.75	12,576,859.75	12,576,859.75			
Long-term borrowing fall due with one year	468,152.45	468,152.45	468,152.45			
Long-term borrowings	1,190,145.51	1,190,145.51		468,152.45	721,993.06	
Sub-total	102,592,453.85	102,592,453.85	101,402,308.34	468,152.45	721,993.06	

2015 (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	343,755,473.17	343,755,473.17	343,755,473.17			
Accounts receivable	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			
Accounts payable	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 borrowing fall due with one year	139,792.50	139,792.50	139,792.50			
Long-term borrowings	2,095,867.32	2,095,867.32	405,510.24	371,717.72	1,318,639.36	
Sub-total	718,755,576.88	718,755,576.88	717,065,219.60	371,717.72	1,318,639.36	

(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.

2015 (Expressed in Renminbi)

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

(III) Market risks (Continued)

1. Foreign exchange risk (Continued)

(1) No forward foreign contract has been signed by the Company during the year.

(2) as of 31 December 2015, 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	22,060,380.51	2,308,093.03	161,972,363.86	1.8		186,340,839.20
Accounts receivable	284,243,963.31	13,181,577.43				297,425,540.75
Sub-total	306,304,343.82	15,489,670.46	161,972,363.86	1.8		483,766,379.95
Foreign currency financial liabilities:						
Accounts payable	198,655.66					198,655.66
Sub-total	198,655.66					198,655.66

Continued:

	Beginning 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
Accounts receivable	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:						
Accounts payable						
Sub-total						

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

(III) Market risks (Continued)

1. Foreign exchange risk (Continued)

(3) Sensitivity analysis:

As of 31 December 2015, 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 RMB48,356,772.00 (2014: approximately RMB34,317,660.20).

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 2015, the Company's long-term interest-bearing debt is the contract with floating interest rate dominated in RMB, and the value is RMB491,005,457.92. See Note VI (14), (21) and (22) 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 RMB2,455,027.29 (2014: approximately RMB2,175,497.83).

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 2015, 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 accounts receivable, short-term borrowing, accounts payable, 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 VIII (1) "Equity interests in subsidiaries".

(3) Joint operation and associate

Details of joint operation or associate with related party and connected transactions for the period and balances resulted from related party and connected transactions in previous period are as follows:

Name	Relationship
Shenzhen Launch Guangtong Internet Finance Services Co., Ltd ("Launch GT")	Associate

Note: On 13 August 2015, Launch GT has been registered with business licence which the Company obliged to contribute 49%, Shenzhen Zhonglian Guangtong Assets Management Co., Ltd obliged to contribute 51%, as at 31 December 2015, no contribution has been made by the Company.

(4) Other related parties

Name	Relation
He Penglin	Shareholder of Peng Ao Da, a controlling subsidiary
Shenzhen Langqu Technology Development Co., Ltd.	Shareholder

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XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(5) 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.

2. Guarantee with related parties

(1) The Company as warrantor

Warrantee	Amount guaranteed	Ending balance	Date of commencement	Maturity date	Completed or not
Launch Software	30,000,000.00	30,000,000.00	2015/4/27	2018/4/26	No

Explanation of guarantee with related parties

Launch Software entered into the consolidated credit facility agreement "2015ZSC000001107" with Bank of Hangzhou Nanshan Branch, (for a complex credit facility of RMB30 million); as of 31 December 2015, the balance of borrowing under such facility was RMB30 million.

2015 (Expressed in Renminbi)

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(5) Connected Transactions (Continued)

2. Guarantee with related parties (Continued)

(2) The Company as warrantee

No.	Warrantor	Amount guaranteed	Ending balance	Date of commencement	Maturity date	Completed or not
a	Liu Xin ("LX"), Liu Jun ("LJ")	35,000,000.00	35,000,000.00	2015/2/15	2018/2/15	No
b	Launch Software Shanghai Launch LX, LJ	50,000,000.00	10,000,000.00	2015/7/9	2018/3/6	No
c	Launch Software Shanghai Launch LX, LJ	140,000,000.00	95,000,000.00	2015/2/27	2018/12/7	No
d	Shanghai Launch Shenzhen Langqu Technology Development Co., Ltd("SZLQ") LX, Hu Fang, LJ, Li XiaoXia	70,000,000.00	30,000,000.00	2015/11/25	2018/11/25	No
e	Launch Software Shanghai Launch LX, LJ	190,000,000.00	149,347,159.96	2015/4/20	2018/5/3	No
f	LX, LJ,Shanghai Launch	160,000,000.00	140,000,000.00	2015/9/28	2018/10/16	No
Total		645,000,000.00	459,347,159.96			

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(5) Connected Transactions (Continued)

2. Guarantee with related parties (Continued)

(2) The Company as warrantee (Continued)

Explanation of guarantee with related parties

a) The Company entered into the consolidated credit facility agreement “Hua Yin 2015 Shen Zong Zi Shen Ying No.002” with China Resources Bank of Zhuhai (for a consolidated credit facility of RMB 35 million), as of 31 December 2015, the balance of borrowing under such facility was RMB 35 million.

b) The Company entered into the maximum amount consolidated credit facility agreement “SX162115000263” with Shenzhen Branch of Jiangsu Bank (for a maximum credit facility of RMB 50 million), as of 31 December 2015, the balance of borrowing under such facility was RMB10 million.

c) The Company entered into the maximum amount consolidated credit facility agreement “Nong Yin Shou Zi 2015 No.1013” with Shenzhen Central District Branch of Agricultural Bank of China (for a maximum consolidated credit facility of RMB 140 million), as of 31 December 2015, the balance of borrowing under such facility was RMB 95 million.

d) The Company entereed into the consolidated credit facility agreement “10206215025” with Shenzhen Branch of Guangdong Development Bank Co., Ltd (Ceiling of facility RMB140 million, with exposure of RMB70,000), as of 31 December 2015, the balance of borrowing under such facility was RMB30 million.

e) The Company entereed into the consolidated credit facility agreement “Jie 2015 Cai 109 NanShan” with Shenzhen Huaqiaocheng Branch of China Construction Bank (for a credit facility of RMB 200 million), with borrowing limit of RMB 100 million and US dollars negotiation bills was USD7,599,353.20; as of 31 December 2015, the balance of borrowing under such facility was RMB 149,347,159.96.

f) The Company entereed into the consolidated credit facility agreement “2015 Zhen Zhong Yin She Zong Xie Zi No.0000859” with Shenzhen Shekou Branch of Bank of China (for a credit facility RMB 160 million), borrowing limit was RMB 140 million; as of 31 December 2015, the balance of borrowing under such facility was RMB140 million.

2015 (Expressed in Renminbi)

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(5) Connected Transactions (Continued)

3. Key management personnel remuneration

(1) Remunerations of Directors and supervisors

Item	Current period	Previous period
Key management personnel remunerations	2,641,939.70	2,680,145.68

Remuneration for directors and supervisors are as follows:

Name	Fees	Salaries and subsidies	Retirement benefit	Total
Executive directors				
Jiang Shiwen		527,082.00	46,994.54	574,076.54
Liu Xin		492,000.00	46,994.54	538,994.54
Liu Jun		456,000.00	46,994.54	502,994.54
Huang Zhaohuan		304,500.00	46,994.54	351,494.54
Non-executive directors				
Liu Yong	50,000.00			50,000.00
Independent non-executive directors				
Ning Bo	50,000.00			50,000.00
Liu Yuen	50,000.00			50,000.00
Zhang Yan	50,000.00			50,000.00
Supervisors				
Sun Zhong Wen	10,000.00			10,000.00
Du Xuen	10,000.00			10,000.00
Zhang Jiangbo		407,385.00	46,994.54	454,379.54
Total	220,000.00	2,186,967.00	234,972.70	2,641,939.70

2015 (Expressed in Renminbi)

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(5) Connected Transactions (Continued)

3. Key management personnel remuneration

(2) Five highest paid personnels

In the year 2015, 3 directors were included in the 5 highest paid personnels.

Name	Fees	Salaries and subsidies	Retirement benefit	Total
Executive directors				
Jiang Shiwen		527,082.00	46,994.54	527,082.00
Liu Xin		492,000.00	46,994.54	492,000.00
Liu Jun		456,000.00	46,994.54	456,000.00
Non-directors				
Lin Qiang		492,314.48	46,994.54	492,314.48
Zhang Wei		480,000.00	46,994.54	480,000.00
Total		2,447,396.48	234,972.70	2,682,369.18

XII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

(I) Significant commitments

1. Ongoing lease agreements and related financial influence

As at 31 December 2015, 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	943,590.45	3,696,885.51
2-5 years	157,230.83	1,945,057.21
Over 5 years		
Total	1,100,821.28	5,641,942.72

XII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(I) Significant commitments (Continued)

2. 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 RMB14,396,351.66 to provide mortgage guarantee for the "consolidated facility agreement" "Hua Yin 2015 Shen Zong Zi Shen Ying No.002" entered into with China Resources Bank of Zhuhai for a credit limit of RMB35 million commencing from 30 January 2015 to 30 January 2016. As at 31 December 2015, the borrowing balance under the abovementioned "maximum amount consolidated facility agreement" was RMB35 million.

Shanghai Launch pledged its properties and buildings with an original value of 148,112,900.35 and land use right with original value of 13,511,684.63 as the mortgage to provide pledge guarantee for the credit facilities agreement "2015 Zhen Zhong Yin She Zong Xie Zi No.0000859" with Shenzhen Shekou Branch of Bank of China (for a credit facility RMB 160 million from 27 August 2015 to 28 August 2018); as of 31 December 2015, the balance of borrowing under such facility wa RMB140 million.

The Company pledged its properties and buildings with an original value of 54,581,743.00 as the mortgage to provide pledge guarantee for the maximum amount consolidated credit facility agreement "Nong Yin Shou Zi 2015 No.1013" with Shenzhen Meilin sub branch of Agricultural Bank of China (for a maximum consolidated credit facility of RMB 140 million from 13 October 2015 to 12 October 2016), as of 31 December 2015, the balance of borrowing under such facility was RMB 95 million.

Besides the commitment above, the Company had no significant commitments that should be disclosed as at 31 December 2015.

(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

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

2015 (Expressed in Renminbi)

XIV. OTHER SIGNIFICANT EVENTS (Continued)

(II) Segment information (Continued)

3. Financial information of the reporting segment

Current unit: RMB

		Ending balance/Current period				
Item		Automotive diagnosis segment	Lift segment	Overseas sales segment	Write-off	Total
I.	Operating income	625,006,286.85	217,391,506.72	61,066,188.79	205,866,052.72	697,597,929.64
	Including: Revenue from external transaction	582,638,599.60	53,893,141.25	61,066,188.79		697,597,929.64
	Revenue from inter-segment transaction	42,367,687.25	163,498,365.47		205,866,052.72	
II.	Operating expenses	318,467,837.51	12,917,902.53	14,197,887.06	4,050,000.00	341,533,627.10
	Including: income from investment in associates and joint ventures					
	Impairment loss of assets	19,185,569.75	3,406,659.33	84,213.65		22,676,442.73
	Depreciation and amortization expenses	73,488,799.52	8,489,815.81	49,909.63		82,028,524.96
III.	Operating profit(loss)	-117,017,472.21	21,957,408.09	462,626.66	260,107.91	-94,857,545.37
IV.	Income tax expenses	-928,772.03		25,071.12		-903,700.91
V.	Net profits (losses)	-116,088,700.18	21,957,408.09	437,555.54	260,107.91	-93,953,844.46
VI.	Total assets	1,847,998,149.47	211,110,226.38	72,393,526.30	651,626,614.20	1,479,875,287.95
VII.	Total liabilities	1,036,298,264.06	84,525,788.47	60,450,513.67	404,034,144.80	777,240,421.40
VIII.	Other significant non-monetary items					
	1. Capital expenditure	41,554,035.62	146,581.02	96,674.83		41,797,291.47

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".

2015 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(1) Accounts receivable

1. Accounts receivable disclosed by categories

	Ending balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable that are individually significant and are subjected to provision for bad debts on individual basis					
Accounts receivable that are subjected to provision for bad debts on portfolio basis	281,175,103.19	99.52	62,499,774.12	22.23	218,675,329.07
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	1,351,522.81	0.48	1,351,522.81	100	
Total	282,526,626.00	100	63,851,296.93	22.6	218,675,329.07

Continued:

	Beginning balance				
	Carrying balance		Provision for bad debts		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable that are individually significant and are subjected to provision for bad debts on individual basis					
Accounts receivable 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
Accounts receivable 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

2015 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Accounts receivable (Continued)

1. Accounts receivable disclosed by categories (Continued)

(1) Explanation of accounts receivable:

Aging of accounts receivable within the group:

Aging	Ending balance Accounts receivable	Provision for bad debts	Proportion of provision (%)
Under 1 year	88,629,101.30	4,431,455.07	5.00
including: within 90 days	36,092,986.46	1,804,649.32	5.00
91-180 days	20,310,012.14	1,015,500.61	5.00
181-270 days	22,295,173.57	1,114,758.68	5.00
271-365 days	9,930,929.14	496,546.46	5.00
1-2 years	69,347,258.93	6,934,725.89	10.00
2-3 years	23,012,760.83	6,903,828.25	30.00
3-4 years	31,411,038.94	15,705,519.46	50.00
4-5 years	27,630,566.49	22,104,453.19	80.00
Over 5 years	6,419,792.26	6,419,792.26	100.00
Total	246,450,518.75	62,499,774.12	25.36

Explanations of the basis for determination of the portfolio:

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

The Company mainly offered credit terms from 30 to 210 days to trading customers. Customers with good and long term records or major customers, or for those the Company decided to maintain long term operation relationship, would be offered different credit terms.

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Accounts receivable (Continued)

1. Accounts receivable disclosed by categories (Continued)

(1) Explanation of accounts receivable: (Continued)

The aging of the not-past-due and overdue accounts receivable are as follows:

	Ending balance			Beginning balance		
Items	Carring balance	Provision	Book value	Carring balance	Provision	Book value
Not past due	73,211,024.96	3,660,551.25	69,550,473.71	68,767,350.45	3,438,367.52	65,328,982.93
overdue	209,315,601.04	60,190,745.68	149,124,855.36	209,962,388.92	41,954,299.01	168,008,089.91
Total	282,526,626.00	63,851,296.93	218,675,329.07	278,729,739.37	45,392,666.53	233,337,072.84

(2) Accounts receivable with provision made for bad debts by other methods within the group

	Ending balance		
Name	Accounts receivable	Provision for bad debts	Proportion of provision (%)
Related parties within the range of consolidation	34,724,584.44		No provisions are made
Total	34,724,584.44		

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Accounts receivable (Continued)

1. Accounts receivable disclosed by categories (Continued)

(3) Accounts receivable 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

	Ending balance			
Company name	Accounts receivable	Provision	Age	Reasons for provision
Shenzhen Jinnongxiang Electronic Technology Co., Ltd	1,205,174.98	1,205,174.98	Over 5 years	Low recovability due to significant risk
Hafei Automobile Co., Ltd sales branch	146,347.83	146,347.83	Over 5 years	Low recovability due to significant risk
Total	1,351,522.81	1,351,522.81		

2. 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 RMB19,876,630.78; and there is no amount of written back of the provision for bad debts during the period.

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Accounts receivable (Continued)

3. Accounts receivable actually written off during the reporting period

Item	Amount written off
Accounts receivable actually written off	1,418,000.38

Details of significant accounts receivable actually written off:

Name	Nature	Amount written off	Reason	Approval Procedure	Whether arising from connected transaction
Engecass Equipamentos Industriais Ltda.	Payment for goods	444,164.90	Uncollectible	Normal approval	No
Shanghai General Motors Wuling Co., Ltd	Payment for goods	205,660.00	Uncollectible	Normal approval	No
Wuhubangde Trading Co., Ltd	Payment for goods	144,184.00	Uncollectible	Normal approval	No
Brothers and Business Co.,Ltd	Payment for goods	144,179.78	Uncollectible	Normal approval	No
39 accounts with insignificant amounts	Payment for goods	479,811.70	Uncollectible	Normal approval	No
Total		1,418,000.38			

2015 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(1) Accounts receivable (Continued)

5. Top five accounts receivable by ending balance collection of the borrower

Name	Ending balance	Proportion in ending balance of accounts receivable (%)	Provision already made for bad debts
Launch Tech (USA), Inc.	85,791,679.86	30.37	6,566,694.83
Launch Europe GmbH	34,724,584.44	12.29	
Launch Tech Japan.Inc.	24,917,167.37	8.82	14,993,224.08
Launch Ibérica, S.L.	15,477,766.71	5.48	3,001,826.72
Matco Tools	9,936,054.90	3.52	496,802.75
Total	170,847,253.28	60.48	25,058,548.38

(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	62,563,046.45	95.68	3,135,439.72	5.01	59,427,606.73
Other receivables that are individually insignificant but are provided for bad debts on individual basis	2,821,780.57	4.32	2,821,780.57	100	
Total	65,384,827.02	100	5,957,220.29	9.11	59,427,606.73

2015 (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	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

(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	28,837,657.68	1,441,882.88	5.00
1-2 years	2,275,872.24	227,587.22	10.00
2-3 years	2,725,594.09	817,678.23	30.00
3-4 years	311,720.53	155,860.27	50.00
4-5 years	450,499.28	360,399.42	80.00
Over 5 years	132,031.70	132,031.70	100.00
Total	34,733,375.52	3,135,439.72	9.03

2015 (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

Name of portfolio	Ending balance Other receivables	Provision for bad debts	Proportion of provision (%)
Related party in the scope of consolidation	23,070,804.89		No provision
Export tax refundable	4,758,866.04		No provision
Total	27,829,670.93		

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

Name	Carrying balance Other receivables	Amount of provision for bad debts	Aging	Reason
Guangzhou Zhogngong Commercial Newspaper & Media Co., Ltd.	304,000.00	304,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen Xianglian Metal Produces Co., Ltd.	300,000.00	300,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen Shiji Hengxing Technology Co., Ltd.	274,225.13	274,225.13	Over 5 years	Low recoverability due to significant risks
Shenzhen Changchuang Electronic Technology Co., Ltd	210,000.00	210,000.00	Over 5 years	Low recoverability due to significant risks
Shenzhen Defeng Mold Co., Ltd.	197,075.43	197,075.43	Over 5 years	Low recoverability due to significant risks
Shenzhen Haolida Ultrasonic Equipment Co., Ltd.	159,999.99	159,999.99	Over 5 years	Low recoverability due to significant risks
Shenzhen Changlongxing Metal Product Co., Ltd.	150,000.00	150,000.00	Over 5 years	Low recoverability due to significant risks
Sub-total of 38 insignificant account	1,226,480.02	1,223,480.02	Over 5 years	Low recoverability due to significant risks
Total	2,821,780.57	2,821,780.57		

2015 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

2. 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 RMB2,087,476.60; and the amount of write-off of the provision for bad debts during the period amounted to RMB266,913.40.

3. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	266,913.40

Details of other receivables written off:

Name	Nature of other receivables	Amounts written off	Reason for write-off	Approval Procedure	Whether arising from connected transaction
Shenzhen Yuanzhen Fine Chemicals Co.,Ltd	Deposits	137,075.40	Uncollectible	Normal approval	No
Shenzhen Jinweifeng Motors Services Co., Ltd	Deposits	10,000.00	Uncollectible	Normal approval	No
Shanghai University of Engineering Science Zhenyuan Motor Technology Co., Ltd	Deposits	30,000.00	Uncollectible	Normal approval	No
Shanghai Liaoshenwuzhong Motor Parts Co., Ltd	Deposits	20,000.00	Uncollectible	Normal approval	No
Liu Xiang	Imprest	25,475.00	Uncollectible	Normal approval	No
Wu Hei	Imprest	19,100.00	Uncollectible	Normal approval	No
Xiang Kun	Imprest	10,363.00	Uncollectible	Normal approval	No
Pingdingshan Power Supply Company	Deposits	8,400.00	Uncollectible	Normal approval	No
Shenzhen Wenchuang Industry Co., Ltd	Deposits	6,500.00	Uncollectible	Normal approval	No
Total		266,913.40			

2015 (Expressed in Renminbi)

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(2) Other receivables (Continued)

4. Other receivables by nature

Item	Ending balance	Openning balance
Deposits	1,284,154.78	1,348,851.01
Imprest	17,517,279.25	5,973,039.79
Borrowings	36,120,455.29	42,165,127.55
Export tax refundable	4,758,866.04	
Others	5,704,071.66	7,478,217.02
Total	65,384,827.02	56,965,235.37

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 Yuenhe Electronic Materials Co., Ltd.	Borrowings	5,000,000.00	Within 1 year	7.65	250,000.00
Shenzhen Fulunda Precision Industry Technology Co., Ltd.	Borrowings	3,849,650.40	Within 1 year	5.89	192,482.52
Beijing Yunfeng Culture and Investment Co., Ltd.	Borrowings	2,300,000.00	Within 3 years	3.52	520,000.00
China Unicom Co., Ltd Shenzhen Branch	Borrowings	1,438,737.27	Within 1 year	2.2	71,936.86
Shenzhen Qihongwei Technology Co., Ltd.	Current account	1,000,000.00	2-3 years	1.53	300,000.00
Total		13,588,387.67		20.79	1,334,419.38

(3) Long-term equity investment

Nature	Ending balance			Beginning balance		
	Carrying balance	Provision for bad debts	Book value	Carrying balance	Provision for bad debts	Book value
Investment in subsidiaries	184,513,562.18		184,513,562.18	169,413,562.18		169,413,562.18
Total	184,513,562.18		184,513,562.18	169,413,562.18		169,413,562.18

2015 (Expressed in Renminbi)

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		
Shenzhen Golo	10,000,000.00		10,000,000.00		10,000,000.00		
Shenzhen Haishiwei	5,100,000.00		5,100,000.00		5,100,000.00		
Total	154,912,824.05	169,413,562.18	15,100,000.00		184,513,562.18		

2. Other explanations

The increase is in long term investment is due to the establishment of new subsidiaries and the details are shown in Note VII(1).

(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	609,090,572.81	474,474,996.27	667,537,189.36	519,493,156.72
Other business	33,975,699.00		12,869,381.48	380,295.36
Total	643,066,271.81	474,474,996.27	680,406,570.84	519,873,452.08

(5) Investment income

Item	Current period	Previous period
Others	2,592,876.71	–
Total	2,592,876.71	–

2015 (Expressed in Renminbi)

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	1,113,620.53	
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)	3,324,600.00	
Gains or losses on entrusted investment or management of assets	2,592,876.71	
Other non-operating income and expenses other than the aforementioned items	324,166.85	
Impact of income tax	8,312.39	
Impact of minority shareholders' interests (after tax)	47,103.54	
Total	4,706,971.45	

(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	-17.64	0.311	0.311
Net profit after deducting non-recurring profit and loss attributable to ordinary shareholders of the Company	-18.53	-0.3267	-0.3267

Financial Summary

RMB million

	2015	2014	2013	2012	2011
Operating revenue	698	731	678	612	793
Net Profit (loss)	-94	-47	7	-44	123
Adjusted EPS (RMB)	-0.311	-0.156	0.023	-0.146	0.407
Total Assets	1480	1482	1370	1233	1125
Total Liabilities	777	903	747	617	355
Net Assets	703	579	623	616	770
Adjusted NAV per share (RMB)	2.328	1.917	2.063	2.04	2.55

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
Mr. Ning Bo

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
Mr. Ning Bo
Mr. Liu Yuan

NOMINATION COMMITTEE

Mr. Liu Xin
Mr. Ning Bo
Mr. Liu Yuan

AUDIT COMMITTEE

Ms. Zhang Yan
Mr. Liu Yuan
Mr. Ning Bo

COMPLIANCE OFFICER

Mr. Liu Jun

AUTHORISED REPRESENTATIVES

Mr. Liu Jun
Mr. Liu Chun Ming, FCCA

AUDITOR

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INVESTOR RELATIONSHIP

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BOOK CLOSE DATE FOR ANNUAL GENERAL MEETING

– From 16 May 2016 to 15 June 2016, 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 2016.

元征 LAUNCH

深圳市元征科技股份有限公司
LAUNCH TECH COMPANY LIMITED

於中華人民共和國註冊成立之股份有限公司
A Joint Stock Limited Company Incorporated
In The People' s Republic Of China With Limited Lia Bility

股 份 代 號 ： HK2488
STOCK CODE ： HK2488

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