ANNUAL
REPORT
2017

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

年報

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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 cloud diagnosis 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. STRATEGIC DIRECTION OF THE COMPANY

In 2017, the Group insisted the development direction of "the global Internet of Vehicle core enterprise", active and in-depth exploration and practice were performed. Major core businesses have achieved good progress the Internet-based automotive diagnostic equipment continued to maintain high growth, the projects of B2B2C cooperation model of the Internet of Vehicle business were launched one after another, the vehicle maintenance technicians operating platform received much attention in the industry, and that layout plan related to intelligent automotive using advanced technology was initially set.

In 2017, being the second year of the Group's strategic transformation, the Group continued and optimized its business strategy of last year, acted firmly and steadily to speed up the promotion of Internet based diagnostic equipment business which is of high profit margins and can facilitate accumulation of Big Data. Looking forward, the Group has established an automobile after services ecology such as a core car diagnostic technology ecosystem of the owners, vehicle repair technicians, vehicle repair companies, third-party application service providers to form a good brand advantage among the industry, the Group has stabilized leading edge for the future development in the Internet of Vehicle industry.

As for results, the gross margin of automobile diagnostic equipment continued to rise slightly during this year. The shipments revealed a continuous increase, and the market share of enterprise users has increased significantly. The total market share of car users increased steadily and revenue from Internet of Vehicle business has significantly improved. The performance continued to increase as planned, with an increase in gross profit. The Group recorded nearly 200% growth in earnings, these trends were fully realized as management expected. The Group has full of confidence for the future development.

II. OPERATION ANALYSIS

The Internet-based automotive diagnostic equipment

In 2017, the Group's high market share of Internet-based diagnostic equipment market was used as an excellent entry point for post service terminal stores. It was highly recognized by the industry, and the value of entry point flow was initially significant. Cross-industry linkages have preliminarily formed. The work laid the foundation for enriching the Group's revenue.

The number of automotive diagnostic reports, being a core indicator of the Group's Big Data strategy, continued to achieve an explosive growth in 2017. The total volume of reports as of the end of this year has exceeded 150 million, an increase of over 200% as compared with the same period of the last year. In the future, with increasing popularity of Internet-based diagnostic equipment and the increasing proportion of Internet-based diagnostic equipment, the number of automotive diagnostic reports is expected to continuously maintain high growth.

(1) Full Internet, scene-oriented, all-round layout entrance, product innovation of automotive diagnostic equipment

In 2017, the Group continued to increase its R&D investment, and upgraded all its inventory equipment to networked equipment, allowing more product forms to launch in more industries and usage scenarios, filling gaps and quickly occupying the market. At the same time, the Group adopted active marketing measures to replace new networked diagnostic equipment for the old users and quickly increased the proportion of networked diagnostic equipment. In this year, the sales volume of diagnostic equipment for networked vehicles reached a record high, with more than 100,000 sets of car cloud diagnostics products sold, and provided important support for the growth of performance.

In the coming years, the Group will also launch new series of products to increase efficiency and improve the experience to meet the needs of different application scenarios in the market. It is expected that the sales volume will increase significantly, and will continue to contribute better due to its high margins.

(2) Intelligent diagnostic technology based on artificial intelligence will lead the industry again

In 2017, the Group launched artificial intelligence based vehicle diagnostic technology for the first time, and launched the intelligent diagnostic equipment AIT for the first time in the industry, and it has been applied in the fields such as insurance claims, used car testing etc. The product possesses sharing, artificial intelligence, and intelligent diagnosis on its own, and the deployment is very simple, can be used in community, park, parking lot, car wash etc., so that vehicle owner can self-test its own car, and the new technology is highly imaginative and is expected to bring more market opportunities.

After the Group's applying the mobile Internet into traditional equipment, not only developed functions such as remote diagnosis, real-time monitoring, online database, technicians mutual helping etc., and also brought great solutions to technology sharing, manual sharing and other rigid needs. The Group is the first one to deeply apply learning technology to automotive diagnostic equipment, through the use of artificial intelligence, which enhanced the efficiency, optimized the experience and increased the competitiveness, making it possible to extend the intelligent diagnostic technology to maintenance ecology.

(3) Maintenance ecology, connecting trillions of parts and components market

In 2017, the Group used diagnostic equipment as an inflow point for service terminal stores, integrated industry resources such as SaaS and parts libraries etc., and relied on advanced intelligent diagnostic technologies to actively explore scene applications and developed "smart parts and components" functions, and solved the disadvantage of opaque parts and components for terminal stores, and realized the closed-loop ecosystem of terminal stores from pick-up to billing to diagnosis to failure analysis to parts recommendation.

It is believed that the continuous precipitation of the Big Data will greatly improve the current supply model of parts and components. Precise component diversion will lead to the fission in the traditional model of the trillion parts and components market, and will also bring the Group into the trillion-scale auto parts sector.

(4) Cloud Diagnosis, a driving force for SAAS Diagnosis Service provider evolution

In the year 2017, the Group deepened core diagnostic technology, modularized and stabilized diagnostic functions, diagnosis of SAAS cloud services realised gradually. The Group will vigorously promote the application of "Cloud diagnosis" and set standards to meet the needs of customers in various industries.

With automatically upload of diagnostic reports to the cloud, now car diagnosis is no longer merely human's judgment, but a more scientific approach generated through the "Cloud diagnosis". "Cloud diagnosis" added value to the equipment services, let the Group gradually transited from equipment providers to service providers, so that more revenue can be generated by relying on business model innervation.

(5) Focus on industry, solve pain points

In 2017, the Group's strategy based on product scenarios continued to innovate. Diagnostic technologies have been brought out of the auto repair industry and solve industry pain points, police, environmental protection and other products have drawn high attention from the industry since they are launched.

The AIT, a intelligent diagnostic equipment based on artificial intelligence, is launched in two different forms, hand-held and piling, and is insured. Applications such as survey, used car identification, and self-service car wash have been implemented. Another example is the cooperation with international police organizations to launch Cube, product for finding stolen vehicles.

In 2017, the Group grasped the development trend of new energy vehicles, introduced diagnostic equipment for new energy vehicles, covered almost all new energy vehicles on the market. At the same time, the Group actively performed research and development on various detection tools suitable for new energy vehicles and embraced the coming of new energy vehicles.

(6) The use of blockchain technology

At the same time, the Group actively performed research on blockchain technology and applied it to Internet-based diagnostic equipment. Currently, it has achieved initial results and is expected to greatly promote future sales.

The Internet of Vehicle business were launched one after another

In 2017, the Group continued to increase the application planning, platform development and Big Data exploration, and accelerated upgrading and innovation of the Internet of Vehicle, and achieved good results in products, technology development and application.

(1) The projects of B2B2C cooperation model of the Internet of Vehicle business were launched one after another

In 2017, for Internet of Vehicle business, the Group used diagnostic technology as a link, through continuous cooperation and resource integration, a closed-loop automotive service ecosystem that integrates vehicle maintenance companies, vehicle maintenance technicians and vehicle owners were formed, and in cooperation with many related industries, efficiency, safety and comfortable vehicle management and user experience were achieved. By exporting core technologies to partners, the Group focused on creating value for B-type customers in the industry chain. The current cooperation is progressing smoothly. However, due to the long business cycle of B-type customers, sales revenue has not grown too much by the end of the year.

(2) Using "smart vehicles" as direction of development, software defined everything as basic strategy

In addition to the traditional car networking hardware and software products, the Group focused on artificial intelligence, blockchain and other technologies, using "smart vehicles" as its development direction, and used software defined everything as basic strategy to increase the investment in R&D of Internet of Vehicle, set up a high-level, complex technology research and development team. The Group believes that the future development of the automobile is inseparable from the application of these new technologies. The Group itself has a very obvious advantage and strives to become a leader in this field.

For example, the T-Box vehicle intelligent gateway product based on blockchain technology is different from other products on the market. Because encryption technology is used, it can greatly expand the application of automobile blockchain technology.

The vehicle maintenance technicians operating platform received much attention in the industry

In 2017, for Repair Technicians business, Golo Guqian Automotive Data Technology Co., Ltd. ("Golo Guqian"), a subsidiary of the Group, committed to making the "golo technician platform" a first-class platform for maintenance technicians.

(1) Unique maintenance technician resources

The Group taking the advantage of our unique golo technician box, continuously expanded auto-repair technicians group and society. Relying on the introduction of Internet professional team, Golo Guqian increased operational efforts to build a platform for technicians to learn, to exchange, to earn and so facilitate the formation of technician ecosystem, development of shared economy, realization of real-time remote diagnosis, achievement of collaborative repair, and sharing of resources within the technician society.

In order to increase the user's livelihood, Golo Guqian has brought together nearly 300,000 vehicle maintenance technicians on the platform, an increase of 50% over the previous year.

The Group is now increasing efforts to integrate the core technicians into the core service capabilities, and gradually to the third party service platform. Through opening of the core service capabilities, it will greatly enhance competitiveness of golo car network ecology.

(2) Continue to develop smart hardware

In terms of products and technology, in addition to continuously updating the technician's box's intelligent hardware, Golo Guqian can conveniently provide remote diagnostics and repair services for users who install golo car cloud boxes, and functions such as remote collaborative vehicle repair among technicians were optismed. At present, reputation of Golo technician box continues to rise in the technician society, while a significant spread effect is noted in the market.

Layout of smart vehicles related advanced technology

In 2017, for Future Technology business, the Group established a research institute focused on advanced technologies such as artificial intelligence, blockchain, and Big Data exploration. Combining the Company's automotive technology that has accumulated for over 20 years, on one hand, research and advance research is conducted. On the other hand, the process of commercialization that fits in the application scenarios has been rapidly promoted, and significant progress has been made.

(1) Blockchain, the super engine of change in industry

In 2017, the Group brought together dozens of top blockchain technology talents from the world and in-depth study of blockchain technology was performed. The Group applied for around hundreds of blockchain related of patents, already standing at the forefront of the new technology of blockchain. Blockchain technology is fully qualified for integration into the Group's products.

At the same time, the Group used blockchain technology to propose a complete solution, build an open platform for the automotive industry, and the ecology of the automotive industry, and also apply to all areas of the automotive industry. Peoples looking forward to the "super car chain", an un-centralized automotive industry data application platform, that we will launch soon.

Realizing Big Data for Cars

In 2017, for Big Data business, the Group accumulated automobile and related operating data as our objective. To this end, the Group continued to optimize collect data ability of equipment. With the increasing number of active networked diagnostic equipment, high-quality data reports have covered more than 10 million vehicles and continued to maintain high growth. At the same time, based on our own mass maintenance and operation data, the Group actively promoted the commercial value of Big Data mining from multi-dimensional mining and combined with industry's application, for the purpose of exploration of new business models, breakthroughs were made in police, insurance, and used cars.

Since artificial intelligence cannot be separated from Big Data, automotive data is an important source of vehicle maintenance data. In the future Blockchain technology will enable real participation in car big data, fairness and fairness, benefit sharing, and which is history retrospectable. In the past 25 years, the Group has collected a huge amount of data and is now ready to do so. We are confident that we can quickly convert this into opportunities and scale up to achieve high returns.

At the same time, the Group redeployed its planning, continuously optimized its business lines, implemented product upgrades, fulfilled the requirements of big data collection while expanding its business, and used flexible methods to conduct business with partners to achieve data sharing and data exchange, and extend the upstream and downstream data of the supplementary ecological chain.

The Group connects partners through diagnostic technology and connects the industry chain through big data. The Group committed to combining different industry application scenarios, connecting everything with big data, and focusing on the future.

Intelligent Health and Internet of Vehicle, go hand in hand

In 2017, the subsidiary of the Group continued the development of smart health product with human and environmental perception based on intelligent internet of vehicle, actively integrate advanced technologies and devices such as artificial intelligence, blockchain, and somatosensory sensors, and made positive progress in the correlation algorithms for heart rate monitoring and driving behavior analysis. We believe that it will promote automotive wearable innovation that can be applied to intelligent networked vehicles.

III. OUR PLAN

Currently, artificial intelligence, blockchain, Big Data, and the Internet of Things are closely related to our lives. In this age of rapid technological development, embracing the shared economy and achieving win-win cooperation are our expectations.

Layout industry, embracing future

In 2017, the Group and its partners set up the Yuanrui No. 1 Fund, which aims to export its core competitiveness, embrace high-quality companies in the industry chain, provide richer content for automotive after-service ecosystem, and also obtain investment income. The Group's equipment portal value, big data platform, and technician platform are highly recognized by the industry. As the core capability output, application companies that can incubate different industries realize value realization. The Group has already reserved a number of projects

Incubating and Accelerating Advanced Technology, the Future has come

In 2017, the Company continued to increase investment. The future technology research focused on artificial intelligence, blockchain, Big Data, Internet of Vehicle and Things, and life sciences. We mainly considered the topics of networking, intelligence, sharing, and cloud and new energy trends. Put our focus on advanced technologies such as blockchain, artificial intelligence, and big data, and with integration of the Company's existing business. By actively exploring the layout blockchain, V2X, Artificial intelligence, in-depth learning and other technologies are striving to blossom to take the lead in automotive industry. Accumulation of valuable experiences about future smart and unmanned vehicles is expected.

As of 2017, the Group has received 232 patents granted by the State, including 106 invention patents; 1,014 out of 1,119 patents under the current application are invention patents; nearly 129 certified software copyrights obtained and 279 PCT patents has been applied.

IV. OPERATION MANAGEMENT

In the year of 2017, the Group continued the strategic adjustment on our business strategies. Based on the core strategy of collection of Big Data, we launched more comprehensive varieties of products to fulfill different market demands to stimulate the sales. We focused high-margin operations, stabilization of cash flow, cost reduction, and constantly optimization of internal management and adjustment on business structure, and so remarkable results is noted. The major marketing efforts are: 1) to improve the market share by strengthening marketing of Internet-based automotive diagnostic equipment and accumulation of diagnostic reports; 2) to develop cooperative relationships with B-type customers of major industries, aiding them provide to quality services Internet of Vehicle end-users; 3) to focus on the promotion of high value-added diagnostic products, and meanwhile control the level of resources allocated to low-margin business.

In 2017, compared with previous year, the quantity of Internet car diagnostic equipment sold is about 170,000 units, representing an increase of over 40,000 units and, an increase of 33%; average gross margin maintained at about 44%; overseas operating income of 400 million, showing an increase of 18%; Domestic operating income of 600 million, showing an increase of 17%; total operating income of 1,000 million, showing an increase of 17%; reflecting the succeed in realization of the series of steady growth strategies implemented.

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

In view of the Finance management, in order to maintain its leading position, in 2017 the Group has been continuously and actively injecting resources for innovate new products, R&D and human resources areas. With the active and flexible market strategies, a remarkable growth of revenue and high gross margin were contributed by the new diagnostic products. Together with prudent fiscal policy by management, significant drop in financial costs was also noted. AS a result, by the end of this reporting period operating project were achieved with significant improvement in cash flow as well.

Major Financial Data for the profit growth

With improved sales figures and increased gross profit noted in 2017, together with the lower finance cost resulting from the lowered borrowing level, even though we faced a relatively large loss on foreign exchange, we successfully made a profit of 60 million in 2017, revealing a net change of 39 million.

	RMB million
Gross profit increase resulting from improved sales in 2017	63
Decrease in selling and administrative expenses	16
Increase in impairment loss	-5
Foreign Exchange impact	-35
Decrease in finance cost	7
Change in net profit compared to last year	39

Principal Sources and Usage of Fund

	RMB million
Inflow from Operations	157
Issue of shares	378
Acquisition of fixed assets and investment in R&D	(87)
Interim dividend paid	(75)
Interest paid	(15)
Repayment of loans	(96)
Others	(1)
Increase in cash	261

Total net cash inflow for the year was of 261,000,000 and the year ended balances of cash and cash equivalents was 538,000,000.

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 1,085,000,000; and total liabilities amounted to 528,000,000. Total assets amounted to 1,613,000,000. As at the end of the year, the Company's gearing ratio calculated by total liabilities divided by interests attributable to shareholders was 0.49 (2016: 0.85). Resulting from the decreased borrowings and improved profitability, the gearing ratio reveals a fall and reach our satisfactory gearing ratio level of below 0.50.

V. FUTURE PROSPECTS

Looking forward into 2018, the Group will focus on exploring the use of new technologies, will use diagnostics as an opportunity, adhere to the principle of openness, introduce industry application partners, and strive to build a global automotive after-service ecosystem and strive to be the world's first in the following areas and create better value for shareholders:

For vehicle diagnostic and equipment business, the Group will establish and operate an intelligent maintenance platform, comprehensively reconstruct the Internet of Things of traditional equipment, fully surpass all global competitors, and become the first in the application of new technologies such as blockchain and artificial intelligence in the world.

Golo Guqian will improve the technician business, as well as the realization of Big Data and launching of blockchain related services, and strive to become the first company in the application of blockchain technology in the automotive industry.

Internet of Vehicle will strive to improve the construction of smart car hardware platforms and smart driving push systems, and become the world leader in smart cars.

For smart wearing, the subsidiary will establish the establishment and operation of a smart health platform, and strive to become the world's number one smart wear 2.0.

The Institution is dedicated to the research and development of artificial intelligence and blockchain technology, as well as the establishment and operation of Big Data platforms, and strives to be a leader in the automotive industry.

DIRECTORS

Executive Directors

Mr. Liu Xin, also known as **Louis Liu**, aged 49, 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 47, 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 53, 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 45, 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 54, 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 43, 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 35, 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).

Mr. Ning Bo, aged 40, 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. Yang Yi 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 72, 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 54, 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. Yang Yi, aged 45, graduated with market marketing specialty from the Liaoning Anshan Ministry of Metallurgy Management Institute in 1995. He Joined the Company in 2006, and was responsible for the branch office and department supervisory work, and now he is the department head of automobile diagnosis division, being responsible for research and development and market supervisory works. Before joining the Company Mr. Yang worked in Vtech Group as the department head of China market division, was elected as the employee representative supervisor at the employee representative meeting of the Company held on 23 June 2016.

SENIOR MANAGEMENT

Mr. Guo Feng, aged 43, 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 46, 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. Zhang Jiangbo, aged 41, secretary of the Board, graduated from Wuhan Technical University of Surveying and Mapping with an associate degree and obtained 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.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Liu Chunming, aged 42, 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 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 2017, there were eight members on the Board, including the Chairman, three Executive Directors, one Non-Executive Director ("NED") 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 9 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 2017.

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 2017.

MEETINGS ATTENDANCE

	Board	Audit Committee
Number of Meetings	9	2
Executive Directors		
Mr. Liu Xin	9	N/A
Mr. Liu Jun	9	N/A
Mr. Jiang Shiwen	9	N/A
Ms. Huang Zhaohuan	9	N/A
Non-executive Director		
Ms. Liu Yong	9	N/A
Independent Non-executive Directors		
Mr. Liu Yuan	8	2
Mr. Ning Bo	9	2
Ms. Zhang Yan	8	2

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 2017, 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 (Special General Partnership), the Company's external auditor, are set out on the "Auditor's Report" in this annual report.

External auditor's remuneration

For the year ended 31 December 2017, the remunerations paid or payable to the external auditor in respect of its audit services and nonaudit services are approximately RMB700,000 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.

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.

COMPANY SECRETARY AND SHAREHOLDERS' RIGHTS (Continued)

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.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS (Continued)

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 Group believes that sound environmental, social and governance ("ESG") performance is vital to sustainable development of our business and community. The Group is committed, to achieving not only strong financial results, but also enhancement of environmental protection, social responsibility and effective corporate governance.

The Board is responsible for the Group's ESG strategy and reporting. The Group established an ESG working team to engage cross department management and staff to identify relevant ESG issues and so evaluate the materiality to the Group's business as well as stakeholders, through operations review and internal discussions. Disclosures relating to the material ESG issues identified have been included in this ESG Report pursuant to the requirements of Appendix 27 of the Listing Rules (the "ESG Guide").

A. ENVIRONMENTAL

The Group established environmental policies and passed measurable environmental objectives to employees. We, through training, education and communication, proactively encouraged them to protect the environment with our ultimate goal that all employees' adoption of environmentally-responsible behavior in both their workplace and daily lives.

The Group always keeps itself up-to-date on developments in local legislation and standards for environmental protection and is committed to achieving a level of environmental performance that goes beyond compliance. During the Reporting Period, the Group did not experience any cases of non-compliance relating to environmental laws and regulations in our operation places.

A1 Emissions

The Group's major carbon dioxide emissions is from energy usage. The Group has developed various energy-saving initiatives to reduce the carbon footprint. Waste generated from the Group's business activities mainly consists of paper (e.g. office paper) during the Reporting Period. No substantial hazardous waste was produced by the Group during the Reporting Period. The Group has launched a number of waste management programs, including:

- Recycling of glass, cardboard, paper materials, metal, printing cartridges and batteries, with collection facilities placed across the properties;
- to encourage staff to reduce paper consumption by double-sided printing and reusing papers printed on one side; and
- Proactively encourage recycling of old and outdated products for use in R&D department.

A2 Use of Resources

With the vision of helping to protect the planet and of incorporating environmental sustainability into our business functions and processes, the Group proactively seeks opportunities for increasing operating efficiency in order to reduce the use of resources. The Group also closely monitors the utilization of resources and reports this aspect of performance to senior management. Appropriate remedial actions for efficiency enhancement in the use of resources are taken, whenever necessary.

To achieve higher energy efficiency, the Group implemented the following key initiatives:

– Blinds for windows to reduce solar heat in air-conditioned areas and hence the strength of air-conditioning could be reduced;

– to switch off lights and air-conditioning in the work stations where not in use; and

– energy saving lights used in most parts of the Group's properties.

A2.1 Annual Usage of Electricity in 2017 is 1,100,000 KWH

A2.2 Annual Usage of water in 2017 is 4.5 thousand tons

A2.3 Management regularly review and continuously improve energy efficiency plan and perform useful evaluation with reference to Key Performance Indicator ("KPI").

A2.4 The Group did not have any problem in the source of usable water. During the year, water consumed by the Group was not material; nevertheless, we actively promotes water efficient practices.

A2.5 The total packing material used in 2017 was 524 tons representing 0.415kg of packing materials used for every RMB 1,000 sales of products. The Group will actively review, and under the condition that not affecting the safety and protection level of large equipment products in the logistic process, reduce the use of packing materials, including adopt electronic user's manual, and select light-weighted materials and recycle friendly materials and adopt other measures so as to reduce the harmful impact by the packing materials.

A3 The environment and natural resources Air quality

In order to aid to improve air quality, the Group aims to reduce air emissions generated from its properties by green initiatives.

A3.1 The Group's operation does not bring significant harmful impact on environment and natural resources; however we do control the number of vehicles of the Group, the management of logistic and goods delivery and is committed to encourage our staff to take public transportation, for the purpose of reduction of car pollutants' impact on the environment by vehicles.

B. SOCIAL

B1 Employment Labour practices

To ensure the ability of operation under professional and ethical labour practices, the Group has developed and clearly communicated to all employees clear work procedures with robust control mechanisms. Certain policies to govern employees' affairs such as payroll, attendance and termination are clearly set out in staff appointment letters in compliance with relevant labour laws in the PRC. Overseas offices are in compliance with the relevant labour laws and regulations in the place of operations respectively.

The Group also aims to promote the diversity of workforce, including in terms of age, gender and nationality, as well as a culture of equal opportunity. The management regularly reviews the Group's remuneration policy with reference to relevant market standards.

B1.1 Total workforce by gender, employment type, age group and geographical region

As at 31 December 2017, number of employees of the Group is 1,161, including:

	No. of employees
By gender:	
Male	859
Female	307
	1,166
By functions:	
Administrative	172
Selling and distribution	276
Production	176
R&D	542
	1,166
By age group:	
Under 30	462
31-50	647
51 or above	57
	1,166
By geographical:	
Domestic	1,141
Overseas	25
	1,166

B1.2 Employee turnover rate by gender, age group and geographical region

The Group has certain adjustment on the operation and resulted to the increase in turnover and continued to make to profit. The adjustment including streamline the sales department with 60 staff reduced and addition of R&D staff and administrative staff are 40 & 30 people respectively.

B2 Health and safety

The Group has established a set of policies which is focused on maintaining a healthy and safety working environment, and which includes the following requirements:

- The facilities operated by employees should meet safety and health standards;

- Expertise advice should be obtained to identify health and safety risk in the operations and the corresponding mitigating actions that should be taken; and

- relevant information and training should be provided to employees in respect of risks to their health and safety which may arise out of their work.

The Group did not violate any health and safety laws and regulations of the place of operations, where applicable, during the Reporting Period.

B2.1 there is zero fatality in 2017.

B2.2 Lost days due to work injury

In 2017, seven injured workers with average of 37 days of injury holidays approved is reported and these workers have been well recovered after receiving appropriate medical treatment and having adequate rest.

B2.3 Occupational health and safety measures

The Group has established a mechanism for monitoring occupational health and safety, as well as procedures for dealing with related risks. The Group engages employees in the determination of appropriate occupational health and safety precautionary measures. Accident reporting and investigation procedures have also been adopted for the follow-up of any health and safety incidents.

Regular inspections and management review of health and safety have been performed to ensure the effectiveness of the policies and measures.

B3 **Development and training Employee development and training**

The Group strives to promote the long-term development of its employees by providing learning opportunities that broaden their skills and make them valuable assets to the Group.

Various employee training programs and seminars are offered to employees including in the areas of production, finance, technology, rules and regulations, supervisory and managerial skills, as well as various technical training courses relating to their respective job duties.

B3.1 and 3.2 Employee Training

	No. of employees	Training Hours Completed	Average Training Hours Completed
Gender			
Male	859	58,340	67.92
Female	307	20,139	65.6
Total	1,166	78,479	
Functions			
Administrative	172	1,892	11
Selling and distribution	276	2,630	9.53
Production	176	18,550	105.4
R&D	542	55,407	102.23
Total	1,166	78,479	
Age group			
Below 30	462	31,795	68.82
31-50	647	46,290	71.55
51 or above	57	394	6.92
Total	1,166	78,479	
Geographical			
Domestic	1,141	78,021	68.38
Overseas	25	458	18.32
Total	1,166	78,479	

B4 Labour standards

The Group strictly follows the "Special protection provisions for underage workers" and Labour Contract Law of the PRC", prohibits the use of child and forced labour in the Group, and is totally committed to creating a work environment which respects human rights. During suppliers selection procedures, we also consider the factors above as critical assessment criterions.

B4.1 Regular Inspection

In addition to having well-established recruitment processes requiring background checks on candidates and formalized reporting procedures to address any exceptions found, the Group also performs regular reviews and inspections to detect the existence of any child or forced labour in the operations.

B4.2 Contingency Measures

When irregular situation discovered, immediate cessation, internal investigation and follow-up review of existing policies and improvement of prevention mechanism will be implemented.

B5 Supply chain management

The Group has a complete set of supplier eligibility and supplier process management, and all candidate suppliers are required during the supplier selection process. Qualification assessment and material assessment of the factors including dual confirmations, before being added to the group supplier list. Supplier qualification assessment is according to supplier qualification, certification of Supplier quality system, suppliers' equipment/technical capacity/production process control, supplier delivery response speed, suppliers' costing, the compliance of the supplier's environment, labor and social environmental laws and the protection of intellectual property rights, and also sample inspection and evaluation, are performed and considered in order to get a comprehensive selection of suitable suppliers.

Supplier process management is mainly supplier performance management, from supplier process quality, supplier delivery, cost, supplier customer service response system, supplier process control, change management, after-sales service, supplier social responsibility for regular occasional supplier assessment, problem tracking and supplier consultation.

The Group strictly used a material procurement authorization system: for material procurement amounted below 100 thousand, it has to be approved by the responsible person and financial manager of respective units; For amount between 101-300 thousand it has to be approved by the headquarters of the financial manager, or supply chain director; For the amount over 300 thousand CEO's approval is required.

B5.1 Number of suppliers by region

The Group currently has a total of about 300 suppliers, more than 95% of suppliers are local suppliers which are easily for us to assess and monitor and also have more stability in supply and logistic cost.

B5.2 Usual Practice in engaging Suppliers

All suppliers are managed in accordance with the above management methods and are regularly reviewed by management to improve performance.

B6 Product responsibility

The Group aims to achieve the highest possible standard with all the products sold and services provided. The Group has established relevant policies which cover products and service quality guarantee, safety, fair advertising and after-sale service in order to ensure relevant measures comply with the laws and regulations.

B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons

In 2017 no material products sold or shipped subject to recalls for safety and health reasons was reported.

B6.2 Complaints and response

The Group stepping at the front of the industry's technology, on the same time pays high attention to the quality and safety of products and services. The Group set up relevant quality and safety inspection policies for different products and services, communicate and confirm the orders and working plan with customer before the orders and project starts and actively coordinate the process of the logistics and project with customers. In 2017, the Group did not have any significant complaints or requests to withdraw the order or terminate project due to poor quality and safety problem. If a complaint should arise, the Company will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. The Group has close connection with customers. If the customers do not satisfy the quality and the safety of our products and services, the Group arranges sufficient channels and staffs for customers to communicate and provide the solutions to the problems as soon as possible.

B6.3 Intellectual property rights

The routine work of the Group always involves customers, suppliers and our own intellectual property rights ("IPR"), therefore protection of IPR is an extremely important mission to the Group. The Group adds protective clauses to the contracts entered into with customers and suppliers to safeguard the IPR. The Group's relevant department also reviews every operational contract to ensure that the contract safeguard the IPR of each other. Furthermore, The Group also requests technical specialists of product development and production to sign strict confidentiality agreements to avoid leakage of confidential information. The Group also complies with relevant legislation of data privacy. Any infringement of the Group's IPR discovered on the market might report to the relevant legal authorities and if necessary might seek indemnity from counter parties through appropriate legal channels.

B6.4 Quality assurance process and recall procedures

Prior to dispatch, products in the warehouse will be subject to strict quality inspection. For equipment received under the trade in sales arrangements, immediately safety checks will be performed to prevent any threat to plant safety. The Group has guidelines to improve the recycling rate of recycled products and prioritize the usage of recycled products in R&D areas as part of the R & D materials, and for those parts that cannot be used, staff will be disposed of in accordance with the Group's Waste Disposal Guidelines to reduce unnecessary waste.

B6.5 Consumer data protection and privacy policies

The Group strictly stipulates that employees comply with the established Consumer Data Protection and Privacy Policy and strictly limit the confidentiality of all customers only can be accessed by employees who are responsible for the project work of the relevant clients.

B7 Anti-corruption and money laundering

The Group has in place a number of policies addressing anti-corruption (such as acceptance of gifts, and conflicts of interest and money laundering), which provide guidance to employees in these areas. In the employment contract, the Group included requirement for employees to strictly maintain business ethics standards to avoid any corruption and bribery. Any conflicts of interests is required to be reported to the Group's management in a timely manner. Employees who participate in the business operations and represent the professional image of the Company are forbidden to use business opportunities or privilege to acquire personal interest or benefit.

B7.1 Legal cases

During the Reporting Period, no legal case regarding corruption was brought against the Group or its employees. Also, there were no cases of non-compliance with laws and regulations on anti-money laundering in the places of operations.

B7.2 Preventive Measures

In addition, the Group has established prevention system by setting up communication channels for faults and anti-corruption reporting. The whistle-blowing system can handle any breach of laws and regulations.

Relevant articles on anti-corruption and anti-money laundering are provided to employees for their study and reference in order to raise their awareness of the code of conduct as well as related procedures and guidelines.

B8 Community investment

As a corporate citizen, we promote the social contribution of the Group's members to the local community where we operate. We emphasize via training and education to raise the sense of social responsibility among employees and encourage them to make better contributions to our community during and after work. We would like to increase social investment to create a more favorable environment for our communities and businesses.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2017.

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 RMB115 million.

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

BUSINESS REVIEW AND PROSPECTS

A review of the financial performance and business of the Group during the year 2017 and a discussion on the Group's future business development are set out in the sections headed and "Management Discussion and Analysis" of this report.

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 *(reappointed on 23 May 2017)*
Ms. Huang Zhao Huan *(reappointed on 23 May 2017)*

DIRECTORS AND SUPERVISORS (Continued)

Non-executive director:
Ms. Liu Yong

Independent Non-executive Directors:
Mr. Liu Yuan
Ms. Zhang Yan *(reappointed on 23 May 2017)*
Mr. Ning Bo

Supervisors:
Mr. Sun Zhongwen
Mr. Du Xuan
Mr. Yang Yi

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 2017, 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	31.23%	17.58%
	Interest in a controlled company	49,432,000	23.39% (Note 1)	13.17%
	Interest in a controlled company	9,948,500	4.71% (Note 2)	2.65%
	Interest in a controlled company	29,300,000	13.87% (Note 3)	7.8%
Mr. Liu Jun	Interest in a controlled company	49,432,000	23.39% (Note 4)	13.17%
Ms. Liu Yong	Interest in a controlled company	9,948,500	4.71% (Note 5)	2.65%

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 23.39% 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 23.39% 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 4.71% 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 4.71% 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) Shenzhen Yuan Zhong Cheng You Consultancy Limited Partnership (Limited Partnership)*（深圳市元眾成有諮詢有限合夥（有限合夥））("Shenzhen Yuan Zhong") is a limited partnership established in PRC and controlled by Mr. Liu Xin for taking up the 29,300,000 new Domestic Shares subscribed by him. The general partner of Shenzhen Yuan Zhong is Mr. Liu Xin and the limited partner of Shenzhen Yuan Zhong is Shenzhen Gu Lu Yun Intelligent Technology Co., Ltd.*（深圳市軲轆雲智能科技有限公司）, which is a PRC limited company wholly owned by Mr. Liu Xin.

(4) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 23.39% 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 23.39% 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 23.39% interest in the issued domestic shares of the Company.

(5) Ms. Liu Yong holds 60.00% interest in Shenzhen De Shi Yu which holds approximately 4.71% 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 4.71% interest in the issued domestic shares of the Company.

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)**

Save as disclosed above, as at 31 December 2017, none of the Directors, chief executives or supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

(b) **Persons 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 2017, 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	49,432,000	23.39% (Note)	13.17%
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	9.47%	5.33%

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 domestic shares	Approximate percentage of the Company's issued H Shares domestic shares	Approximate percentage of the Company's total issued shares
Citigroup Inc.		14,779,500	9.00%	3.94%
	Including:			
	Person having a security interest in shares	12,747,500	7.77%	3.40%
	Interest of corporation controlled	2,032,000	1.23%	0.54%
ICBC International Asset Management Limited	Investment manager	13,256,500	8.08%	3.53%

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 2017.

MAJOR CLIENTS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest clients was approximately 19% of the Group's total turnover and the Group's largest client accounted for approximately 7% of the Group's turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 45% of the Group's total purchases and the Group's largest supplier accounted for approximately 24% 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 2017, the Group had 1,141 and 25 employees based in the PRC and overseas respectively. For the year ended 31 December 2017, the total staff cost net of the remunerations of the Directors and supervisors amounted to approximately RMB200 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 (Special General Partnership).

The accounts for the years 2016 and 2015 of the Group were audited by Da Hua Certified Public Accountants (Special General Partnership).

CLOSURE OF REGISTER

Annual general meeting and relevant information will be announced in the circular of meeting.

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

Shenzhen, the PRC
28 March 2018

DaHuaShenZi (2018) no.003256

To all shareholders of Launch Tech Company Limited:

1. OPINION

We have audited the Financial Statements of Launch Tech Company Limited ("Launch Tech"), which comprise its and consolidated balance sheets as at 31 December 2017, and its and consolidated income statements, its and consolidated cash flow statements, its and consolidated statements of change in equity for the year then ended, and notes to the financial statements.

In our opinion, the attached Financial Statements prepared in accordance with the requirements of Accounting Standards for Business Enterprises, give a true and fair view of Launch Tech's and consolidated financial position as at 31 December 2017, and of its and consolidated financial performance and cash flows for the year then ended 2017.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Launch Tech in accordance with the China Standards on Auditing's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We determine that the following are key audit matters that need to be communicated in the audit report which are:

1. Capitalization of Research and development Expenditure

2. Provision for impairment of proprietary technologies intangible assets.

(1) Capitalization of Research and development Expenditure

1. Description of the matter

Please refer to Note IV (18) and Note VI (13) to the consolidated financial statements for information on the accounting policies and the book value of the development expenditure of the Company.

3. KEY AUDIT MATTERS (CONTINUED)

(1) Capitalization of Research and development Expenditure (Continued)

1. Description of the matter (Continued)

During 2017, Launch Tech incurred research and development expenditure amounted to 122,518,600, of which the amount of 45,819,100 was subject to capitalization and the amount of 76,699,500 was charged as expenses. Since the amount of expenses incurred is material and the division of capitalization and expense has a significant impact on the current operating performance, and the capitalization which subject to review of its compliance with requirements under Accounting Standards for Business Enterprises involves significant Management judgments, this area is considered as a key audit issue.

2. Audit response

Our main audit procedures for the capitalization of R&D expenses include:

(1) Understand, evaluate, and test the internal control system related to the capitalization of the R&D expenses of Launch Tech to determine whether the internal control system related to capitalization of R&D expenses is compliant and effective;

(2) For the capitalization of development expenditures of the current period, discuss with management the assessment and analysis made by the company when it capitalized, including whether its aggregated R&D expenditures are related to the capitalization project, research phase and development phase. Whether the division is reasonable and whether the capitalization of development expenditure complies with the requirements of the enterprise accounting standards;

(3) Having obtained relevant information about the capitalized projects (including the "Project Report", "Overall Design Solutions", "Product Business Plan", "Sales Forecast and Financial Assessment Report", "Results Report", etc.), and according to the relevant information obtained, analysed and judged whether each project was consistent with relevant Launch Tech's capitalization policies.

(4) Extracting samples of R&D expenditure accounting records, checking relevant original documents, verifying the authenticity of expenditures, and the accuracy of the collection;

(5) Evaluate the appropriateness of the financial statement disclosure of the R&D expenditure of Launch Tech.

Based on the audit evidence obtained, we have reached the audit conclusion that Management's of research and development expenditure presentation and disclosure are appropriate.

3. KEY AUDIT MATTERS (CONTINUED)

(2) Provision for impairment of proprietary technologies intangible assets

1. Description of the matter

As stated in Note VI (12), As of December 31, 2017, Launch Tech owned has proprietary technologies with a book value of 100,929,500. Launch Tech's Management in accordance with the lower of the book value and recoverable amount of these proprietary technologies to evaluate its recoverability and make provision for impairment on some proprietary technologies amounted to 34,509,700. For the proprietary technologies that has not been subject to provision for impairment, since the estimation of the recoverable amount was relied on significant Management judgment, so this field is determined as a key audit matter.

2. Audit response

(1) Understand, evaluate and test the internal control system and implementation of Intangible Assets Impairment of the Launch Tech to determine whether the internal control system related to impairment of intangible assets is compliant and effective;

(2) Compare the impairment provision for intangible assets of the current year and the previous year, analyze the historical and forecast sales and economic benefits data, and assess the necessity of accruals for impairment of intangible assets;

(3) During the audit, we obtained the economic benefits and the expected future economic data information of the proprietary technology of Launch Tech, and evaluated the assumptions on the future economic benefits used by the Launch Tech's Management.

(4) Evaluate whether the method used for impairment testing of intangible assets meets the requirements of the enterprise accounting standards and recalculate;

(5) Evaluate the appropriateness of the financial statement disclosure of the impairment of the intangible assets of the Launch Tech.

Based on the audit evidence obtained, we have obtained the audit conclusion that Launch Tech's presentation and disclosure of the provision for impairment on proprietary technologies intangible assets are appropriate.

4. OTHER INFORMATION

The management of Launch Tech are responsible for the other information. The other information comprises the information included in the annual report, but does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management of Launch Tech are responsible for the preparation of the Financial Statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and to enable such internal control to be fairly reflected, designed, exercised and maintained as the Management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Launch Tech's management are responsible for assessing the Launch Tech's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate the Launch Tech or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Launch Tech's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

I. Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

II. Obtain an understanding of internal control relevant to the audit 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 internal control.

III. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

IV. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Launch Tech's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Launch Tech to cease to continue as a going concern.

V. Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Beijing, China
Chinese Certified Public Accountant:

28 March 2018

Consolidated Balance Sheet

2017 *(Expressed in Renminbi)*

	Note VI	2017	2016
Current assets:			
Bank balances and cash	1	538,008,718.76	279,285,875.90
Bills receivable	2	30,338,048.60	21,825,071.53
Accounts receivable	3	202,079,387.42	232,262,423.02
Prepayments	4	52,731,784.60	52,441,476.55
Other receivables	5	12,499,959.29	18,538,048.22
Inventories	6	155,348,922.25	112,747,368.47
Other current assets	7	6,489,785.62	4,591,043.25
Total current assets		997,496,606.54	721,691,306.94
Non-current assets:			
Investment Property	9	78,674,919.26	–
Fixed assets	10	253,206,965.97	357,858,779.08
Construction in progress	11	43,018,366.06	18,066,974.12
Intangible assets	12	149,862,090.66	174,827,700.73
Development expenditure	13	35,895,550.37	27,767,751.41
Goodwill	14	1,139,412.80	1,139,412.80
Deferred income tax assets	15	4,393,836.51	4,203,375.52
Other non-current assets	16	48,892,928.43	7,993,843.94
Total non-current assets		615,084,070.06	591,857,837.60
Total assets		1,612,580,676.60	1,313,549,144.54
Current liabilities:			
Short-term borrowings	17	288,205,200.00	384,374,000.00
Accounts payable	18	117,680,699.31	94,392,524.66
Receipts in advance	19	63,615,455.23	61,061,913.18
Employee remuneration payable	20	3,215,949.73	2,848,980.63
Tax payables	21	10,973,572.21	11,144,019.08
Other payables	22	24,234,588.07	12,832,830.76
Non-current liabilities due within one year	23	532,195.29	505,399.54
Total current liabilities		508,457,659.84	567,159,667.85
Non-current liabilities:			
Long-term borrowings	24	143,054.88	676,536.08
Deferred income	25	19,162,000.00	22,331,000.00
Total non-current liabilities		19,305,054.88	23,007,536.08
Total liabilities		527,762,714.72	590,167,203.93

Consolidated Balance Sheet

2017 *(Expressed in Renminbi)*

	Note VI	2017	2016
Shareholders' equity:			
Share capital	26	375,460,000.00	329,160,000.00
Capital reserve	27	562,481,725.91	231,020,325.76
Other comprehensive income	28	1,988,515.02	3,332,286.09
Surplus reserve	29	30,085,085.10	18,099,377.81
Undistributed profit	30	114,980,997.00	141,981,816.61
Total owners' equity attributable to parent company		1,084,996,323.03	723,593,806.27
Minority shareholders' equity		-178,361.15	-211,865.66
Total shareholders' equity		1,084,817,961.88	723,381,940.61
Total liabilities and shareholders' equity		1,612,580,676.60	1,313,549,144.54

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

2017 (Expressed in Renminbi)

	Note XV	2017	2016
Current assets:			
Bank balances and cash		510,822,363.84	256,155,073.12
Bills receivable		30,338,048.60	21,568,571.53
Accounts receivable	1	201,146,097.03	222,530,588.55
Prepayments		67,292,711.29	46,621,887.16
Other receivables	2	123,391,153.89	71,116,976.43
Inventories		95,109,282.34	71,591,403.55
Other current assets		1,492,347.49	2,411,050.54
Total current assets		1,029,592,004.48	691,995,550.88
Non-current assets:			
Long-term equity investments	3	202,555,576.68	202,555,576.68
Investment Property	3	78,674,919.26	–
Fixed assets		147,238,503.84	243,288,852.40
Intangible assets		73,319,896.65	82,835,837.49
Development expenditure		8,200,892.33	13,995,880.12
Other non-current assets		4,573,011.00	2,928,360.00
Total non-current assets		514,562,799.76	545,604,506.69
Total assets		1,544,154,804.24	1,237,600,057.57

Balance Sheet

2017 *(Expressed in Renminbi)*

	Note XV	2017	2016
Current liabilities:			
Short-term borrowings		288,205,200.00	383,374,000.00
Accounts payable		146,767,043.48	353,780,470.33
Receipts in advance		60,337,329.10	58,532,138.93
Employee benefits payables		430,871.23	232,590.88
Tax payables		8,382,033.71	4,671,942.11
Other payables		19,915,357.35	24,999,900.27
Total current liabilities		524,037,834.87	825,591,042.52
Non-current liabilities:			
Deferred income		19,162,000.00	22,331,000.00
Total liabilities		543,199,834.87	847,922,042.52
Shareholders' equity:			
Share capital		375,460,000.00	329,160,000.00
Capital reserve		562,630,518.70	231,122,518.70
Surplus reserve		30,085,085.10	18,099,377.81
Undistributed profits		32,779,365.57	-188,703,881.46
Total shareholders' equity		1,000,954,969.37	389,678,015.05
Total liabilities and shareholders' equity		1,544,154,804.24	1,237,600,057.57

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

2017 (Expressed in Renminbi)

	Note VI	2017	2016
Operating income	31	977,972,859.33	835,053,156.36
Less: Operating costs	31	540,423,800.03	460,003,587.78
Tax and surcharge	32	10,701,856.46	9,485,126.03
Selling expenses	33	98,548,007.61	107,029,197.55
Administrative expenses	34	220,950,299.78	228,042,758.15
Finance costs	35	38,679,498.59	3,270,145.98
Impairment loss on assets	36	25,213,913.50	20,467,399.80
Add: Gain on investments	37	–	-604,656.50
Gain on disposals of assets	38	1,003,681.92	2,936.75
Other revenue	39	21,242,397.76	–
Operating profit (loss "–")		65,701,563.04	6,150,284.57
Add: Non-operating income	41	1,479,958.08	20,413,851.19
Less: Non-operating expenses	42	4,122,905.15	1,382,473.06
Total profit (loss "–")		63,058,615.97	25,181,662.70
Less: Income tax expenses	43	2,994,823.63	4,144,313.44
Net profit (loss "–")		60,063,792.34	21,037,349.26
Profit from continued operation		60,063,792.34	21,037,349.26
Net profit attributable to owners of parent company		60,076,887.68	21,411,537.32
Profit or loss attributable to minority shareholders (loss "–")		-13,095.34	-374,188.06
Other comprehensive income		-1,343,771.07	110,987.90
Total comprehensive income (loss "–")		58,720,021.27	21,148,337.16
Total comprehensive income attributable to owners of parent company (loss "–")		58,733,116.61	21,522,525.22
Total comprehensive income attributable to minority shareholders (loss "–")		-13,095.34	-374,188.06
Earnings per share:			
Basic earnings per share (loss "–")		0.1743	0.0650

Income Statement

2017 *(Expressed in Renminbi)*

	Note XV	2017	2016
Total operating income	4	913,336,097.98	789,810,683.46
Less: Operating costs	4	604,169,714.64	542,822,272.52
Tax and levies		6,291,998.87	6,391,434.71
Selling expenses		69,627,498.66	70,959,147.47
Administrative expenses		147,299,891.63	147,231,039.42
Finance costs		35,020,596.75	5,031,590.17
Impairment loss on assets		20,176,414.61	12,690,546.37
Add: Investment income		270,000,000.00	–
Gain on disposals of assets		953,479.56	–
Other revenue		9,290,012.00	–
Operating profit (loss "-")		310,993,474.38	4,684,652.80
Add: Non-operating income		699,814.01	6,295,628.09
Less: Non-operating expenditure		3,132,334.07	561,290.11
Total profit (loss "-")		308,560,954.32	10,418,990.78
Less: Income tax expenses		–	–
Net profit (loss "-")		308,560,954.32	10,418,990.78
Profit from continued operation		308,560,954.32	10,418,990.78
Total comprehensive income (loss "-")		308,560,954.32	10,418,990.78

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

2017 (Expressed in Renminbi)

	Note VI	2017	2016
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		1,051,957,920.69	876,002,517.01
Refund of taxes and levies		29,166,380.36	26,610,302.47
Other cash receipts relating to operating activities	44	44,653,930.96	32,020,880.16
Sub-total of cash inflows from operating activities		1,125,778,232.01	934,633,699.64
Cash paid for goods and services		589,002,917.42	480,913,819.49
Cash paid to and on behalf of employees		171,900,303.37	184,758,243.87
Payments of taxes and levies		57,697,195.01	41,634,650.76
Other cash payments relating to operating activities	44	150,122,301.86	119,499,021.25
Sub-total of cash outflows from operating activities		968,722,717.66	826,805,735.37
Net cash flows from operating activities		157,055,514.35	107,898,502.89
Cash flows from investing activities:			
Cash received from disposals of fixed assets, intangible assets and other long-term assets		1,402,290.33	590,329.87
Sub-total of cash inflows from investing activities		1,402,290.33	590,329.87
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		88,222,964.04	49,721,744.35
Cash paid for investment		–	1,146,723.42
Sub-total of cash outflows from investing activities		88,222,964.04	50,868,467.77
Net cash flows from investing activities		-86,820,673.71	-50,278,137.90

Consolidated Cash Flow Statement

2017 *(Expressed in Renminbi)*

	Note VI	2017	2016
Cash flows from financing activities			
Cash receipts from investors		377,808,000.00	-401,263.10
Cash received from borrowings		345,954,200.00	384,374,000.00
Other cash received relating to financing activities	44	1,857,000.00	21,478,990.00
Sub-total of cash inflows from financing activities		725,619,200.00	405,451,726.90
Cash repayments of borrowings		442,123,000.00	560,767,159.96
Cash payments for interest expenses, distribution of dividend or profits		86,631,036.98	22,925,548.96
Other Cash payments for financing activities		–	1,857,000.00
Sub-total of cash outflows from financing activities		528,754,036.98	585,549,708.92
Net cash flows from financing activities		196,865,163.02	-180,097,982.02
Impact on cash by changes in foreign exchange rates		-6,520,160.80	5,920,810.59
Net increase in cash and cash equivalents		260,579,842.86	-116,556,806.44
Add: Cash and cash equivalents at beginning of the period		277,428,875.90	393,985,682.34
Cash and cash equivalents at end of the period		538,008,718.76	277,428,875.90

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

2017 (Expressed in Renminbi)

	Note XV	2017	2016
Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		1,018,983,485.14	862,035,985.04
Refund of taxes and levies		12,856,418.78	15,867,492.07
Other cash receipts relating to operating activities		7,770,687.77	11,775,332.60
Sub-total of cash inflows from operating activities		1,039,610,591.69	889,678,809.71
Cash paid for goods and services		681,983,001.88	592,020,607.51
Cash paid to and on behalf of employees		98,773,603.59	119,690,633.96
Payments of taxes and levies		26,789,994.72	18,473,271.71
Other cash payments relating to operating activities		155,633,570.59	102,902,266.93
Sub-total of cash outflows from operating activities		963,180,170.78	833,086,780.11
Net cash flows from operating activities		76,430,420.91	56,592,029.60
Cash flows from investing activities:			
Cash received from disposals of fixed assets, intangible assets and other long-term asset		1,400,490.33	63,450.32
Sub-total of cash inflows from investing activities		1,400,490.33	63,450.32
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		14,185,671.81	19,720,490.02
Cash paid for investments		–	18,042,014.50
Sub-total of cash outflows from investing activities		14,185,671.81	37,762,504.52
Net cash flows from investing activities		-12,785,181.48	-37,699,054.20

2017 (Expressed in Renminbi)

	Note XV	2017	2016
Cash flows from financing activities			
Cash receipts from investors		377,808,000.00	-401,263.10
Cash received from borrowings		345,954,200.00	383,374,000.00
Cash receipts from other financing activities		807,000.00	21,478,990.00
Sub-total of cash inflows from financing activities		724,569,200.00	404,451,726.90
Cash repayments of borrowings		441,123,000.00	530,767,159.96
Cash payments for interest expenses, distribution of dividend or profits		86,206,611.49	21,952,644.80
Other Cash repayments for financing activities		–	807,000.00
Sub-total of cash outflows from financing activities		527,329,611.49	553,526,804.76
Net cash flows from financing activities		197,239,588.51	-149,075,077.86
Impact or cash by changes in foreign exchange rates		-5,410,537.22	4,761,329.01
Net increase in cash and cash equivalents		255,474,290.72	-125,420,773.45
Add: Cash and cash equivalents at beginning of the period		255,348,073.12	380,768,846.57
Cash and cash equivalents at end of the period		510,822,363.84	255,348,073.12

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

2017 (Expressed in Renminbi)

	2017						
	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	329,160,000.00	231,020,325.76	3,332,286.09	18,099,377.81	141,981,816.61	-211,865.66	723,381,940.61
Opening balance of current year	329,160,000.00	231,020,325.76	3,332,286.09	18,099,377.81	141,981,816.61	-211,865.66	723,381,940.61
Changes for current period ("-" decrease)	46,300,000.00	331,461,400.15	-1,343,771.07	11,985,707.29	-27,000,819.61	33,504.51	361,436,021.27
Comprehensive income	–	–	-1,343,771.07	–	60,076,887.68	-13,095.34	58,720,021.27
Issue of share capital	46,300,000.00	331,508,000.00	–	–	–	–	377,808,000.00
Transfer to reserve	–	–	–	11,985,707.29	-11,985,707.29	–	–
Distribution to shareholders	–	–	–	–	-75,092,000.00	–	-75,092,000.00
Transfers	–	-46,599.85	–	–	46,599.85	–	–
Ending balance for current period	375,460,000.00	562,481,725.91	1,988,515.02	30,085,085.10	114,980,997.00	–178,361.15	1,084,817,961.88

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

Consolidated Statement of Movement on Equity

2017 *(Expressed in Renminbi)*

	2016						
	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	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
Opening balance of current year	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
Changes for current period ("-" decrease)	–	-401,263.10	110,987.90	–	21,411,537.32	-374,188.06	20,747,074.06
Comprehensive income	–	–	110,987.90	–	21,411,537.32	-374,188.06	21,148,337.16
Issue of share capital	–	-401,263.10	–	–	–	–	-401,263.10
Ending balance for current period	329,160,000.00	231,020,325.76	3,332,286.09	18,099,377.81	141,981,816.61	-211,865.66	723,381,940.61

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

2017 (Expressed in Renminbi)

	2017				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Ending balance of previous year	329,160,000.00	231,020,325.76	18,099,377.81	-188,703,881.46	389,678,015.05
Opening balance of current year	329,160,000.00	231,020,325.76	18,099,377.81	-188,703,881.46	389,678,015.05
Changes for current period ("-" decrease)	46,300,000.00	331,508,000.00	11,985,707.29	221,483,247.03	611,276,954.32
Total comprehensive income	–	–	–	308,560,954.32	308,560,954.32
Issue of hare capital	46,300,000.00	331,508,000.00	–	–	377,808,000.00
Transfer to reserve	–	–	11,985,707.29	-11,985,707.29	–
Distribution to shareholders	–	–	–	-75,092,000.00	-75,092,000.00
Ending balance for current period	375,460,000.00	562,630,518.70	30,085,085.10	32,779,365.57	1,000,954,969.37

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

Statement of Movement on Equity

2017 *(Expressed in Renminbi)*

	2016				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Ending balance of previous year	329,160,000.00	231,523,781.80	18,099,377.81	-199,122,872.24	379,660,287.37
Opening balance of current year	329,160,000.00	231,523,781.80	18,099,377.81	-199,122,872.24	379,660,287.37
Changes for current period ("-" decrease)	–	-401,263.10	–	10,418,990.78	10,017,727.68
Total comprehensive income	–	–	–	10,418,990.78	10,418,990.78
Issue of hare capital	–	-401,263.10	–	–	-401,263.10
Ending balance for current period	329,160,000.00	231,122,518.70	18,099,377.81	-188,703,881.46	389,678,015.05

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 main board of 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).

On August 1, 2017, according to the resolution of the shareholders' meeting, the Company issued capital of 46.30 million domestic shares. As verified by Shenzhen Yongming Certified Public Accountants Co., Ltd., with Capital Verification Report ShenYongYanZi [2017] 072 the total number of shares of the Company was changed from 329,160,000 shares to 375,460,000 shares.

I. GENERAL INFORMATION OF THE COMPANY (Continued)

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

Uniform Social Credit Code: 914403002794827320.

Registered address of the Company: No. 4012 North of Wuhe Road, Bangtian Street, Longgang 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 operating activities are production and sales of automotive diagnostic and testing equipment.

(IV) Approval of the financial statements

These financial statements were approved by the Board of Directors on 28 March 2018.

2017 (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 Co., Ltd. ("Golo Internet")	Wholly-owned subsidiary	One	100.00	100.00
Shenzhen PengJuShu Information Technology Co., Ltd. ("PJS")	Controlling subsidiary	One	100.00	100.00
Launch Tech International Co., Ltd. ("Launch International")	Wholly-owned subsidiary	One	100.00	100.00
Nanjing Launch Intelligent Technology Co., Ltd. ("Nanjing Launch")	Wholly-owned subsidiary	One	100.00	100.00

There were 1 additional entity included in the consolidated financial statements during the period as follows:

Inclusion of new subsidiaries, special subject, control through entrusted or leased operation, in to the scope of consolidation in this period

Name	Reasons
Nanjing Launch	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.

(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

The acquisition date refers to the date on which the Company actually obtained control over the acquired party, that is, the date when the acquired party's net assets or the control of production and business decisions were transferred to the Company. At the same time when the following conditions are met, the Company generally believes that the transfer of control rights has been achieved:

1. A business merger contract or agreement has been approved by the company's internal authority.

2. Business merger matters need to be approved by the relevant national competent authority, and approval has been obtained.

3. The necessary procedures for the transfer of property rights have been completed.

4. The Company has paid most of the combined price and has the ability and plan to pay the remaining amount.

5. The Company has actually controlled the financial and operating policies of the acquired party and enjoyed corresponding benefits and assumed corresponding risks.

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 borne 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

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.

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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Preparation of consolidated financial statements (Continued)

2. Procedures (Continued)

(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.

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 remeasurement 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

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 profit 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 remeasurement of defined benefit plan by the investor.

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.

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 (Continued)

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.

(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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

1. Classification of joint venture arrangements (Continued)

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.

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.

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 (Continued)

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.

(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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

1. Foreign currency businesses (Continued)

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

2. Translation of foreign currency statements

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments

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

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

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

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

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

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

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;

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)

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

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

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

(2) Accounts receivable

Accounts receivable refers to non-derivative assets which are without quotation, with fixed or confirmed collectible amounts.

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.

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

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

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

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

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; Quotations in active markets include quotes for related assets or liabilities, which can be easily and regularly obtained from exchanges, traders, brokers, industry groups, pricing institutions or regulators, and which represent the actual and frequently fair trade transaction are occurring in the market. for financial assets initially obtained or derived or financial liabilities assumed, fair value is determined based on market transaction prices. for financial assets and financial liabilities which no actively traded market exists, their fair values are determined using valuation techniques; 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 assets 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 equity instrument investment 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 one year (inclusive), impairment is indicated. If the fair value is less than 20% (inclusive) but not reached 50%, the Company will consider other relevant elements such as price fluctuations to determine whether impairment existed.

The costs stated in the preceding paragraph are based on the initial acquisition cost of the available-for-sale equity instrument less any recoverable amount and impaired amount. For equity investment without active resale market, current market return rate is applied in the discounted cashflow method to calculate the current value. The available-for-sale equity instrument in the active market is determined at the closing price of the stock exchange at the end of the period, unless there is a limited saleable period for that value of the available-for-sale equity. For the sale of the available-for-sale equity instrument for with limited period of sale, the market participant shall be determined at the closing price of the stock exchange after deducting the amount of compensation required by the market participant for the risk of not being able to sell the equity instrument in the open market for a specified period.

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. For impairment losses on available-for-sale equity instruments, the loss shall be reversed when its price has risen subsequently; for those which open market quotation is absent or the fair value could not be reliably measured or its settlement is there is linked to the settlement of its derivative instruments, the related losses shall not be reversed.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

(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.

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) Held for sale assets

1. Confirmation of classification as Held for sale assets

The Company recognizes non-current assets or disposal groups as held for sale that meet both of the following conditions:

(1) According to the practice of selling of such assets or disposal groups in similar transactions, they can be sold immediately under current conditions;

(2) The sale is very likely to occur, that is, the Company has already made a resolution on a sales plan, and has obtained approval from the regulatory authority (if applicable), and has obtained a certain purchase commitment. It is expected that the sale will be completed within one year.

The confirmed acquisition commitment refers to the legally binding purchase agreement signed between the company and other parties. The agreement contains important terms such as transaction price, time, and severe and severe penalties for breach of contract, making the possibility to make major adjustments or cancellations of the agreement is small.

2. Accounting method for Held for sale assets

If the Company does not make depreciation or amortization for the non-current assets or disposal group held for sale, if the book value is higher than the fair value minus the selling price, the book value shall be written down to fair value. After the sale of the net amount, the amount of write-down is recognized as impairment loss of assets, included in the current period's gains and losses, as provision for impairment of held-for-sale assets at the same time.

For the non-current assets or disposal group classified as held for sale at the acquisition date, the initial measurement is based on the assumption that it is not divided into the initial measurement amount in the case of holding the type of sale and the net amount after the fair value less the selling expenses., measured in both terms.

The above principle applies to all non-current assets, but does not include investment property that are subsequently measured using the fair value model, biological assets measured using fair value less net selling costs, assets formed from employee compensation, and deferred income tax assets. The rights arising from financial assets regulated by the relevant accounting standards of financial instruments and insurance contracts regulated by the relevant accounting standards of insurance contracts.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Long-term equity investments

1. Initial 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)

(XIII) 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)

(XIII) 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)

(XIII) 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)

(XIII) 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)

(XIII) 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)

(XIII) 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)

(XIII) 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.

(XIV) Investment property

Investment property refers to property held to earn rentals or capital appreciation, or both, including land-use rights that have been leased, land-use rights that are held and prepared for transfer after appreciation, and buildings that have been leased. In addition, for the vacant buildings that the Company holds for operating leases, if the board of directors makes a written decision that it is explicitly used for operating leases and that the holdings do not change in the short term, they are also presented as investment property.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIV) Investment property (Continued)

The Company's investment property is recorded at its cost, and the cost of an purchased investment property includes the purchase price, related taxes, and other expenses directly attributable to the asset; the cost of self-constructed investment property is included all necessary expenditures incurred during the construction and before the asset reaches its intended usable condition constitute.

The Company adopts a cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights according to their estimated useful life and net residual value. The estimated useful life, net residual value rate and annual depreciation (amortization) rate of investment real estate are listed as follows:

Category	**Estimated useful life (year)**	**Residual value %**	**Annual depreciation/ amortisation %**
Building	20-25	5	4.75-3.8

When the use of investment property is changed to self-use purpose, the Company will convert the investment property into fixed assets or intangible assets from the date of change. When the use of self-use property is changed to earn rent or capital appreciation, the company will convert fixed assets or intangible assets into investment real estate since the date of change. When the conversion occurs, the book value before the conversion is taken as the converted value.

When the investment property is disposed of or is permanently withdrawn from use and it is expected that no economic benefit can be obtained from its disposal, the recognition of the investment property shall be terminated. The amount of proceeds from disposal of investment property sold, transferred, scrapped or damaged after deducting its book value and related taxes and fees is charged to profit or loss for the current period.

(XV) 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)

(XV) Fixed assets (Continued)

2. Initial measurement of fixed assets

The fixed assets of the Company are initially measured at cost.

(1) 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.

(2) 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.

(3) 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.

(4) 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. No depreciation is provided for still in use but fully depreciated assets.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Fixed assets

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

(1) Depreciation of fixed assets (Continued)

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.

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)

(XV) 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)

(XVI) Constructions in progress

1. Initial determination of construction in progress

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.

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.

(XVII) 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)

(XVII) Borrowing expenses (Continued)

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)

(XVIII) 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)

(XVIII) 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	3-8 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)

(XVIII) 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:

Prior to the set up of the R & D project, analysis will be made in respect of market demand, product concept design, product technology, intellectual property and internal demand and other content, and then product development financial evaluation will be made. According to the reviewed "overall design plan", specific plans such as plans of testing, processing, software, hardware and structural packaging outline etc will be made and sales forecast and financial evaluation report will be prepared and so the "product business plan" will be developed. After the final decisional review done by integrated product management team, product development project team will be formed. And finally the issuer will set up a product development project group before the period and identify it as the research stage.

Development stage:

After the formation of the product development project team, the project team will start to carry out the development of the products, verify the research and development results, and then produce new or substantially improved products. the decision review team will assess and confirm the level of satisfaction of the quality and then the development project team issued a product summary report into the product release stage. The above period is identified as the development stage.

The expenditure of internal research and development project incurred during the development stage are recognised as an intangible asset in the case where it is confirmed that the asset is technically feasible for its use and that the product generated by the asset could be proved to be accepted by the market customers. Otherwise, at the time of incurrence the expenditure is charged to profit and loss for such period. The expenses in the development stage of internal research and development projects are recognized as expense in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVIII) Intangible assets and development expenses (Continued)

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)

(XIX) 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)

(XX) 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)

(XX) 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 actuarial 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.

(XXI) 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)

(XXI) 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)

(XXI) 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.

(XXII) 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.

For categories of government subsidies have not been specified in the government documents, the Company made the judgement and categorise them according to nature when subsidy received. Relevant basis of judgments are disclosed in the “deferred income/other operating income” which is Notes VI to the financial statements.

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)

(XXII) Government subsidies (Continued)

3. Accounting treatment

Government subsidies related to assets are recognized as deferred income, and are recognized under reasonable and systematic approach, in profit and loss 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.

Government grants related to daily activities of enterprises are included in other income; government grants that are not related to daily activities of enterprises are included in non-operating income and expenditure.

The government subsidy related to the discount interest received from policy-related preferential loans offsets the relevant borrowing costs; if the policy-based preferential interest rate loan provided by the lending bank is obtained, the borrowing amount actually received shall be taken as the recording value of the borrowings, and borrowing cost should be calculated using the preferential interest rate according to the loan principal and the policy.

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.

(XXIII) 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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.

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.

(XXIV) Lease

If the lease terms substantially transfer all risks and rewards related to the ownership of the leased asset to the lessee, the lease is a finance lease and the other leases are operating leases.

1. Operating lease accounting

(1) Operating lease assets

The lease fees paid for the Company's leased assets shall be apportioned on a straight-line basis over the entire lease term without deducting the rent-free period and shall be charged to current expenses. The initial direct costs related to the lease transaction paid by the company are included in current expenses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV)Lease (Continued)

1. Operating lease accounting (Continued)

(1) Operating lease assets (Continued)

When the lessor of the asset assumes the lease-related expenses that should be borne by the Company, the Company deducts the part of the expenses from the total rental amount, and the deducted rental expenses are apportioned during the lease term and included in the current period's expenses.

(2) Operating leased assets

The lease fees received by the Company for renting assets are apportioned on a straight-line basis over the entire lease term without deducting the rent-free period and are recognized as lease income. The initial direct expenses related to lease transactions paid by the Company are included in the current period's expenses; if the amount is larger, they are capitalized and are recorded in the current period in stages on the same basis as the recognition of lease income during the entire lease period.

When the Company assumes the lease-related expenses that should be borne by the lessee, the Company deducts the expenses from the total amount of rental income and allocates the deducted rental expenses during the lease period.

2. Financial lease accounting

(1) Financing leased assets: on the lease starting date, the Company takes the lower of the fair value of the leased assets and the current value of the minimum lease payments as the entry value of the leased assets, and regards the minimum lease payments as long-term payables. Entered value, the difference as unrecognized financing expenses.

For details of the basis for the identification, valuation and depreciation of the finance leased assets, see Note IV/(XV) Fixed assets.

The Company adopts the actual interest rate method to amortize the unrecognized financing expenses during the asset lease period and count it into financial expenses.

(2) Assets leased out of finance: The Company recognizes the finance lease receivables on the lease starting date. The difference between the sum of the unguaranteed residual values and its current value is recognized as unrealized financing income. It is recognized as the lease revenue in each period in the future. Lease income, the initial direct costs incurred by the company in relation to the lease transaction are included in the initial measurement of the finance lease receivable, and the amount of revenue recognized in the lease period is reduced.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXV) Discontinued Operation

The Company consider those which will meet one of the following conditions, and the components that have been disposed of or classified as held for sale and can be separately identified as part of the discontinued operating components:

(1) This component represents an independent main business or a separate main business area.

(2) This component is part of an associated plan that is intended to be disposed of in an independent main business or a separate major business area.

(3) This component is a subsidiary that is specifically acquired for resale.

The operating profit or loss and disposal profit or loss such as the impairment loss and reversal amount of the termination of the business are listed in the income statement as the profit and loss from the termination of the business.

(XXVI) Changes in key accounting policies and accounting estimates

1. Changes in accounting policies

On 10 May 2017, the Ministry of Finance announced the revised "Enterprise Accounting Standards No. 16 — Government Subsidy", which was revised and implemented since 12 June 2017. It also requires companies to implement the policy on 1 January 2017. The existing government grants are treated in accordance with the future applicable law, and the newly added government grants from 1 January 2017 to the date of implementation of the standard are adjusted according to the revised standards.

The Company adopted the revised standard on 12 June 2017. The main content of the changes in the above accounting policies is: government subsidies related to income, which are used to compensate enterprises for related expenses or losses in subsequent periods, are recognized as deferred income. Revenues are recognized in the profits and losses of the current period in the period in which the related expenses or losses are recognized; for the compensation of related expenses or losses already incurred by the Company, they are directly charged to the current period's profits and losses at the time of acquisition. Government grants related to daily activities of enterprises are included in other income; government grants that are not related to daily activities of enterprises are included in non-operating income and expenditure.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Changes in key accounting policies and accounting estimates (Continued)

1. Changes in accounting policies (Continued)

According to the requirements of the revised "Enterprise Accounting Standards No. 16—Government Grants", the company has included other government grants related to the company's daily activities starting from 1 January 2017, amounting to RMB 21,242,397.76.

On 28 April 2017, the Ministry of Finance issued the "Accounting Standard for Business Enterprises No. 42-Non-current assets held for sale, disposal groups and discontinued operations". The guidelines will come into effect on 28 May 2017. In accordance with the guidelines and the "Notice on Revising the Format of Financial Statements for General Enterprises" issued by the Ministry of Finance (Finance and Accounting [2017] No. 30), the Company added a "assets disposal proceeds" item to its income statement and the net profit is classified and presented according to the continuity of operations. The Company adjusted the comparative data of the comparable period in accordance with the relevant provisions of the "Accounting Standards for Business Enterprises No. 30-Presentation of Financial Statements", and the impact of the above changes in accounting policies on the financial statements during the comparable period In order to reduce the "non-operating income" of RMB2,936.75 in 2016, increase the "asset disposal income" by RMB 2,936.75.

2. Changes in accounting estimates

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

2017 (Expressed in Renminbi)

V. TAXATION

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

Tax type	Basis of taxation	Tax rate
Value-added tax	Sales of goods	17%
	Overseas sales; provision of processing repair and maintenance labor services (German subsidiary)	19%
	Provision of services	6%
	Property rental income	5%
Urban maintenance and construction tax	Turnover tax amount payable	5%, 7%
Education surcharges	Turnover tax amount payable	3%
Local education surcharges	Turnover tax amount payable	2%
Property tax	70% property historical cost or rental income	1.2%, 12%

Tax rates of different tax entities:

Name	Tax Rate
The Company	15.00%
Launch Software	15.00%
Shanghai Launch	25.00%
Launch Europe GmbH	19.00%
Golo Internet	25.00%
Xi'an Launch	25.00%
Peng Ao Da	15.00%
PJS	25.00%
Launch International	16.50%
Nanjing Launch	25.00%

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 2017 was 15%.

Launch Software was recognized as a new and high technology enterprise with new and high technology enterprise certificate number GR201644201968; 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 2016 was 15%.

Peng Ao Da was recognized as a new and high technology enterprise with new and high technology enterprise certificate number GF201544200122; 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 2017 was 15%.

2017 (Expressed in Renminbi)

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	927,419.28	1,239,401.42
Bank deposit	537,081,299.48	277,239,474.48
Other bank balances and cash	–	807,000.00
Total	538,008,718.76	279,285,875.90
Including: total amount of deposits overseas	2,183,478.63	1,874,166.78

Upto 31 December 2017, 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	–	807,000
Time deposits or call deposits for guarantee	–	1,050,000
Deposits for acceptance draft	–	–
Total	–	1,857,000.00

Other explanations on bank balance and cash:

The increase of 92.64% is mainly arising from the funding from issue of dementic shares during the period.

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	30,338,048.60	21,525,071.53
Commercial acceptance bill	–	300,000.00
Total	30,338,048.60	21,825,071.53

2. 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	27,605,703.21	–
Total	27,605,703.21	–

2017 (Expressed in Renminbi)

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	260,378,081.14	100.00	58,298,693.72	22.39	202,079,387.42
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	–	–	–	–	–
Total	260,378,081.14	100.00	58,298,693.72	22.39	202,079,387.42

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	314,874,345.42	99.57	82,611,922.40	26.24	232,262,423.02
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	1,351,522.81	0.43	1,351,522.81	100.00	
Total	316,225,868.23	100.00	83,963,445.21	26.55	232,262,423.02

2017 (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:

	Ending balance		
Aging	Accounts receivable	Provision for bad debts	Proportion (%)
Under 1 year	148,361,577.18	7,418,078.87	5.00
including: within 90 days	100,481,230.16	5,024,061.51	5.00
91-180 days	12,809,094.83	640,454.74	5.00
181-270 days	27,953,731.92	1,397,686.60	5.00
271-365 days	7,117,520.27	355,876.02	5.00
1-2 years	41,373,000.55	4,137,300.05	10.00
2-3 years	16,492,694.15	4,947,808.24	30.00
3-4 years	20,110,635.95	10,055,317.98	50.00
4-5 years	11,499,923.64	9,199,938.91	80.00
Over 5 years	22,540,249.67	22,540,249.67	100.00
Total	260,378,081.14	58,298,693.72	22.39

Explanations of the basis for determination of the portfolio:

The best estimates for the proportion of provision for the accounts receivable has been made 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	110,621,040.88	5,531,052.04	105,089,988.84	74,266,039.83	3,713,301.99	70,552,737.84
overdue	149,757,040.26	52,767,641.68	96,989,398.58	241,959,828.40	80,250,143.22	161,709,685.18
Total	260,378,081.14	58,298,693.72	202,079,387.42	316,225,868.23	83,963,445.21	232,262,423.02

2017 (Expressed in Renminbi)

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

(3) Accounts receivable (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 RMB2,417,669.62; and no written back of provision for bad debts during the period is noted.

3. Accounts receivable actually written off during the reporting period

Item	Amounts written off
Accounts receivable actually written off	28,082,421.11

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
Launch Tech Pty. Ltd.	Payment for goods	7,490,689.24	Uncollectible	Approved by general managers' office	No
深圳市澳德昌汽修設備有限公司	Payment for goods	2,615,409.48	Uncollectible	Approved by general managers' office	No
Launch Tech (M) SDN. BHD.	Payment for goods	2,635,954.81	Uncollectible	Approved by general managers' office	No
Launch Technology Canada Inc.	Payment for goods	1,982,062.20	Uncollectible	Approved by general managers' office	No
Stertil B.V.	Payment for goods	1,216,235.99	Uncollectible	Approved by general managers' office	No
深圳市金隆翔電子科技有限公司	Payment for goods	1,205,174.98	Uncollectible	Approved by general managers' office	No
烏魯木齊金中亞汽保設備有限公司	Payment for goods	1,175,450.00	Uncollectible	Approved by general managers' office	No
深圳市瑞益德電子有限公司	Payment for goods	1,020,838.25	Uncollectible	Approved by general managers' office	No
商丘市豐達五金工具有限公司	Payment for goods	924,100.00	Uncollectible	Approved by general managers' office	No
深圳市昌生利科技有限公司	Payment for goods	918,653.88	Uncollectible	Approved by general managers' office	No
長春市詩琴汽保設備工具商行	Payment for goods	720,716.00	Uncollectible	Approved by general managers' office	No
Disbrat Service Automotovos LTDA.	Payment for goods	710,624.20	Uncollectible	Approved by general managers' office	No
深圳市晶矽科技有限公司	Payment for goods	650,000.00	Uncollectible	Approved by general managers' office	No
深圳市怡豐汽修綜合服務有限公司	Payment for goods	600,000.00	Uncollectible	Approved by general managers' office	No
L－財務Equipment Services U	Payment for goods	555,349.01	Uncollectible	Approved by general managers' office	No
杭州永成汽保設備有限公司	Payment for goods	428,722.27	Uncollectible	Approved by general managers' office	No
北京廣達汽車維修設備有限公司	Payment for goods	389,363.00	Uncollectible	Approved by general managers' office	No
重慶凱施特汽車維修設備有限公司	Payment for goods	330,000.00	Uncollectible	Approved by general managers' office	No
漳州市龍文區元和汽車維修設備商行	Payment for goods	302,900.00	Uncollectible	Approved by general managers' office	No
滄州鑫旺機電設備有限公司	Payment for goods	302,200.00	Uncollectible	Approved by general managers' office	No
石家莊飛龍機電設備有限公司	Payment for goods	299,367.09	Uncollectible	Approved by general managers' office	No
北京市偉業騰達商貿有限公司	Payment for goods	200,000.00	Uncollectible	Approved by general managers' office	No
廣州實耐機械設備有限公司	Payment for goods	185,864.03	Uncollectible	Approved by general managers' office	No

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

(3) Accounts receivable (Continued)

3. Accounts receivable actually written off during the reporting period (Continued)

Name	Nature of accounts receivable	Amounts written off	Reason for write-off	Verification procedures fulfilled	Whether arising from connected transaction
深圳市美賽達科技股份有限公司	Payment for goods	171,300.00	Uncollectible	Approved by general managers' office	No
哈飛汽車股份有限公司銷售分公司	Payment for goods	146,347.83	Uncollectible	Approved by general managers' office	No
煙台長天機械有限公司	Payment for goods	117,200.00	Uncollectible	Approved by general managers' office	No
上海環迅電子商務有限公司	Payment for goods	116,895.32	Uncollectible	Approved by general managers' office	No
海口深昌益貿易有限公司	Payment for goods	101,998.98	Uncollectible	Approved by general managers' office	No
20 accounts with insignificant amounts	Payment for goods	569,004.55	Uncollectible	Approved by general managers' office	No
Total		28,082,421.11			

4. 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.	79,890,645.57	30.68	13,601,247.57
Launch Tech Japan. Inc.	24,603,246.00	9.45	19,260,231.09
Matco Tools	17,210,391.35	6.61	860,519.57
Launch Ibérica, S.L.	15,315,037.59	5.88	2,715,939.22
Launch Technologies SA (PTY) LTD	10,379,839.22	3.99	1,990,588.4
Total	147,399,159.73	56.61	38,428,525.66

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

(4) Prepayments

1. Classification based on aging

	Ending balance		Beginning balance	
Aging	Amount	Proportion (%)	Amount	Proportion (%)
Under 1 year	36,509,652.43	69.24	35,206,105.50	67.13
1-2 years	9,069,896.61	17.20	5,609,999.74	10.70
2-3 years	2,134,951.78	4.05	5,517,159.71	10.52
Over 3 years	5,017,283.78	9.51	6,108,211.60	11.65
Total	52,731,784.60	100.00	52,441,476.55	100.00

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

Name	Ending balance	Aging	Reasons
深圳市三木智能股份有限公司	7,090,000.00	Within 1 year and 1-2 years	Not yet delivered
深圳市佳陽電子有限公司	4,614,587.02	1-3 years and over 3 years	Not yet delivered
深圳市歐亞美華電子科技有限公司	2,508,604.02	Within 1 year and 1-2 years	Not yet delivered
Total	14,213,191.04		

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

Name	Ending balance	Proportion in total prepayment (%)	Year of prepayment	Reasons
JVD, Inc	11,946,136.83	22.65	Within 1 year	Not yet delivered
深圳元通電子有限公司	9,946,544.59	18.86	Within 1 year	Not yet delivered
深圳市三木通信技術有限公司	7,090,000.00	13.45	Within 1 year and 1-2 years	Not yet delivered
深圳市佳陽電子有限公司	4,614,587.02	8.75	1-3 years and over 3 years	Not yet delivered
深圳市歐亞美華電子科技有限公司	2,508,604.02	4.76	Within 1 year and 1-2 years	Not yet delivered
Total	36,105,872.46	68.47		

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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	16,132,644.96	69.82	3,632,685.67	22.52	12,499,959.29
Other receivables that are individually insignificant but are provided for bad debts on individual basis	6,972,183.65	30.18	6,972,183.65	100.00	
Total	23,104,828.61	100.00	10,604,869.32	45.90	12,499,959.29

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	21,455,442.34	80.58	2,917,394.12	13.60	18,538,048.22
Other receivables that are individually insignificant but are provided for bad debts on individual basis	5,172,221.34	19.42	5,172,221.34	100.00	–
Total	26,627,663.68	100.00	8,089,615.46	30.38	18,538,048.22

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

(5) Other receivables (Continued)

2. 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	4,316,686.87	215,834.34	5.00
1-2 years	1,896,909.20	189,690.92	10.00
2-3 years	3,468,014.44	1,040,404.33	30.00
3-4 years	1,075,971.39	537,985.70	50.00
4-5 years	1,546,032.85	1,236,826.28	80.00
Over 5 years	411,944.10	411,944.10	100.00
Total	12,725,558.85	3,642,685.67	28.62

Explanations of the basis for determination of the portfolio:

In best estimates for the proportion of provision for the accounts receivable has been made 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)

2. Explanations of categories of other receivables: (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	3,417,086.11		No provision
Total	3,417,086.11		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.

2017 (Expressed in Renminbi)

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

(5) Other receivables (Continued)

2. Explanations of categories of other receivables: (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:

	Carrying balance			
Name	Other receivables	Amount of provision for bad debts	Aged	Reasons
深圳市康邁科技有限公司	1,111,358.97	1,111,358.97	2-3 years and over 3 years	Low recoverability due to significant risk
深圳市中博電子有限公司	899,999.89	899,999.89	1-3 years and over 3 years	Low recoverability due to significant risk
深圳市寶利斯科技有限公司	850,000.00	850,000.00	1-2 years and over 3 years	Low recoverability due to significant risk
同向興業機械(深圳)有限公司	850,000.00	850,000.00	1-2 years and over 3 years	Low recoverability due to significant risk
深圳市廣商科技有限公司	690,000.00	690,000.00	Over 3 years	Low recoverability due to significant risk
深圳市永盛微電子有限公司	650,000.00	650,000.00	Over 3 years	Low recoverability due to significant risk
深圳市百世盈科實業有限公司	601,217.18	601,217.18	Over 3 years	Low recoverability due to significant risk
深圳市國升電子設備有限公司	562,133.61	562,133.61	Within 1 year and over 3 years	Low recoverability due to significant risk
深圳市德豐模具有限公司	320,291.00	320,291.00	1-2 years and over 3 years	Low recoverability due to significant risk
深圳市湘聯金屬製品有限公司	300,000.00	300,000.00	Over 3 years	Low recoverability due to significant risk
Sub-total of 8 insignificant account	137,183.00	137,183.00	Over 5 years	Low recoverability
Total	6,972,183.65	6,972,183.65		

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

(5) Other receivables (Continued)

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

The amount of provision for bad debts during the period amounted to RMB8,492,015.06; and written back of provision for bad debts amounted to 43,589.74 are noted during the period.

4. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	6,020,350.94

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
深圳市聯強科技有限公司	Deposit	1,100,000.00	Uncollectible	Approved by general managers' office	No
廣州中工商報傳媒有限公司	Deposit	304,000.00	Uncollectible	Approved by general managers' office	No
深圳市富來喜電子有限公司	Deposit	299,999.71	Uncollectible	Approved by general managers' office	No
深圳世紀恒興科技有限公司	Deposit	274,225.13	Uncollectible	Approved by general managers' office	No
深圳市東恩電子科技有限公司	Deposit	250,000.00	Uncollectible	Approved by general managers' office	No
上海齊豪實業有限公司	Deposit	250,000.00	Uncollectible	Approved by general managers' office	No
深圳市長創電子科技有限公司	Deposit	210,000.00	Uncollectible	Approved by general managers' office	No
無錫松枝精密機械製造有限公司	Deposit	199,999.95	Uncollectible	Approved by general managers' office	No
北京凌雲光技術有限責任公司	Deposit	167,317.00	Uncollectible	Approved by general managers' office	No
佛山市南海利事達電器有限公司	Deposit	162,414.64	Uncollectible	Approved by general managers' office	No
深圳市好利達超聲設備有限公司	Deposit	159,999.99	Uncollectible	Approved by general managers' office	No
深圳市昌隆興金屬製品有限公司	Deposit	150,000.00	Uncollectible	Approved by general managers' office	No
深圳華祥榮正電子有限公司	Deposit	145,511.25	Uncollectible	Approved by general managers' office	No
深圳市海博特置業有限公司	Other	144,564.00	Uncollectible	Approved by general managers' office	No
王岩	Imprest	138,345.00	Uncollectible	Approved by general managers' office	No
深圳市揚明精密連接器有限公司	Deposit	120,000.00	Uncollectible	Approved by general managers' office	No
福田區華強電子世界雄發電子展銷櫃	Deposit	120,000.00	Uncollectible	Approved by general managers' office	No
Sub-total of 39 insignificant account		1,823,974.27	Uncollectible	Approved by general managers' office	No
Total		6,020,350.94			

2017 (Expressed in Renminbi)

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

(5) Other receivables (Continued)

5. Other receivables by natures

Item	Ending balance	Beginning balance
Deposits	1,332,397.34	1,540,020.51
Imprest	6,963,233.52	11,109,781.23
Company borrowings	3,100,000.00	4,019,070.00
Export tax refund receivables	3,417,086.11	1,684,369.33
Others	8,292,111.64	8,274,422.61
Total	23,104,828.61	26,627,663.68

6. 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
VAT refundable	Levy refund	3,417,086.11	Within 1 years	14.79	
Beijing Yunfeng Culture Investment Co., Ltd	Temporary borrowing	2,300,000.00	Within 3-5 years	9.95	1,585,000.00
深圳市康邁科技有限公司	Temporary borrowing	1,111,358.97	2-3 years and over 3 years	4.81	1,111,358.97
深圳市中博電子有限公司	Current account	899,999.89	1-3 years and over 3 years	3.90	899,999.89
深圳市寶利斯科技有限公司	Others	850,000.00	1-2 years over 3 years	3.68	850,000.00
Total		8,578,444.97		37.13	4,446,358.86

2017 (Expressed in Renminbi)

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

(6) Inventories

1. Categories

	Ending balance			Beginning balance		
Item	Carrying balance	Provision for impairment	Book value	Carrying balance	Provision for impairment	Book value
Raw materials	18,544,876.33	–	18,544,876.33	17,113,460.95	–	17,113,460.95
Work-in-progress	127,930,495.50	–	127,930,495.50	9,157,436.72	–	9,157,436.72
Finished goods	8,873,550.42	–	8,873,550.42	86,476,470.80	–	86,476,470.80
Total	155,348,922.25	–	155,348,922.25	112,747,368.47	–	112,747,368.47

As at 31 December 2017 no provision for impairment on inventories were made with realisable value higher than book value as there was no signs of impairment noted.

(7) Other current assets

Item	Ending balance	Beginning balance
Input tax pending for deduction	5,127,231.38	2,338,215.60
Input tax pending for certification	1,362,554.24	2,252,827.65
Total	6,489,785.62	4,591,043.25

Explanations on other current assets

Increase in other current assets of 41.36% compared with last year was mainly due to the decrease in Input tax pending for offset.

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

(8) Long term equity investment

Investee	Beginning Balance	Change in current period Additions	Deductions	Profit/loss based on equity method	Other Adjustments
1. Jointly controlled company					
R & Launch Corporation	542,066.92				
Total	542,066.92				

Continued:

Investee	Other movement on equity	Change in current period Dividend declared	Impairment	Others	Ending balance	Ending balance of Impairment
1. Jointly controlled company						
R & Launch Corporation					542,066.92	542,066.92
Total					542,066.92	542,066.92

2017 (Expressed in Renminbi)

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

(9) Investment property

9.1. Investment property

Item	Building
1. Total original carrying value	
1. Beginning balance	–
2. Increase for the period	130,894,596.38
Transfer from inventory/fixed assets/construction in progress	130,894,596.38
3. Decrease for the period	–
4. Ending balance	130,894,596.38
2. Accumulated depreciation	
1. Beginning balance	–
2. Increase for the period	52,219,677.12
Provisions	3,730,495.95
Transfer from inventory/fixed assets/construction in progress	48,489,181.17
3. Decrease for the period	–
4. Ending balance	52,219,677.12
3. Provision for impairment	
1. Beginning balance	–
2. Increase for the period	–
3. Decrease for the period	–
4. Ending balance	–
4. Total Book value	
1. End of period	78,674,919.26
2. Beginning of period	–

9.2. Explanation on investment property

The investment property transferred on 1 April 2017 carried the original cost of 130,894,596.38, accumulated depreciation brought forward of 48,489,181.17, depreciation during period of 3,730,495.95 and so a net book value of 78,674,919.26.

Reasons for transfer: A tenancy agreement has been entered into between the Company and tenant which the actual commencement of tenancy is 1 April 2017. From the date of such commencement of tenancy, the property transferred to investment property accordingly.

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

(10) Fixed assets at cost and accumulated depreciation

1. Fixed asset

Item	Buildings	Machinery and equipment	Transport equipment	Electronic equipment	Other equipment	Total
I. Total original carrying value						
1. Beginning balance	412,395,075.64	47,627,353.63	25,408,908.52	107,441,252.08	108,843,069.41	701,715,659.28
2. Increase for the period	–	300,619.46	997,247.23	2,571,672.63	3,937,259.32	7,806,798.64
Purchase	–	300,619.46	997,247.23	2,571,672.63	3,937,259.32	7,806,798.64
3. Decrease for the period	131,239,949.38	5,312,630.74	268,444.13	24,886,852.11	5,345,572.50	167,053,448.86
Disposal or scrapping	345,353.00	5,312,630.74	268,444.13	24,886,852.11	5,345,572.50	36,158,852.48
Transfer to investment property	130,894,596.38	–	–	–	–	130,894,596.38
4. Ending balance	281,155,126.26	42,615,342.35	26,137,711.62	85,126,072.60	107,434,756.23	542,469,009.06

Item	Buildings	Machinery and equipment	Transport equipment	Electronic equipment	Other equipment	Total
II. Accumulated depreciation						
1. Beginning balance	103,283,861.33	40,272,740.15	20,813,134.90	87,502,106.75	91,985,037.07	343,856,880.20
2. Increase for the period	14,643,338.47	961,737.82	1,180,500.96	5,957,687.09	5,111,817.84	27,855,082.18
Provisions	14,643,338.47	961,737.82	1,180,500.96	5,957,687.09	5,111,817.84	27,855,082.18
3. Decrease for the period	48,708,437.51	5,046,114.78	255,021.91	23,377,078.62	5,063,266.47	82.449,919.29
Disposal or scrapping	219,256.34	5,046,114.78	255,021.91	23,377,078.62	5,063,266.47	33,960,738.12
Transfer to investment property	48,489,181.17	–	–	–	–	48,489,181.17
4. Ending balance	69,218,762.29	36,188,363.19	21,738,613.95	70,082,715.22	92,033,588.44	289,262,043.09
III. Provision for impairment	–	–	–	–	–	–
IV.Total Book value						
1. Book value at the end of the period	211,936,363.97	6,426,979.16	4,399,097.67	15,043,357.38	15,401,167.79	253,206,965.97
2. Book value at the beginning of the period	309,111,214.31	7,354,613.48	4,595,773.62	19,939,145.33	16,858,032.34	357,858,779.08

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

(10) 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	102,008,450.31	Application in progress
Total	102,008,450.31	

3. Other explanations on fixed assets

The original book value of the pledged fixed assets at the end of the period was RMB158,245,252.01, see Note XII(I) for details.

(11) 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
Xian Launch building	43,018,366.06	–	43,018,366.06	18,005,435.66	–	18,005,435.66
Other sporadic projects	43,018,366.06	–	43,018,366.06	61,538.46	–	61,538.46
Total	43,018,366.06	–	43,018,366.06	18,066,974.12	–	18,066,974.12

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

(11) 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
Xian Launch building	43,018,366.06	25,012,930.40	–	–	43,018,366.06
Total	43,018,366.06	25,012,930.40	–	–	43,018,366.06

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
Xian Launch building	14,064.69	30.59	30.59	–	–	–	Self-financing

3. Other Explanation on Construction in progress

The increase of 138.11% is mainly due to the increase of construction cost of Xi'an Launch Building.

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

(12) Intangible assets

1. Intangible assets

Item	Land use right	Patented technology	Others	Total
I. Total original carrying value				
1. Beginning balance	55,745,726.09	319,525,079.53	1,177,350.41	376,448,156.03
2. Increase for the period	761,353.00	37,691,261.25	–	38,452,614.25
Self developed	–	37,691,261.25	–	37,691,261.25
Purchase	761,353.00	–	–	761,353.00
3. Decrease for the period	–	–	–	–
4. Ending balance	56,507,079.09	357,216,340.78	1,177,350.41	414,900,770.28
II. Accumulated amortization				
1. Beginning balance	7,432,979.49	173,982,022.03	–	181,415,001.52
2. Increase for the period	1,318,880.04	47,795,115.46	–	49,113,995.50
Provisions	1,318,880.04	47,795,115.46	–	49,113,995.50
3. Decrease for the period				
4. Ending balance	8,751,859.53	221,777,137.49	–	230,528,997.02

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

(12) Intangible assets (Continued)

1. Intangible assets (Continued)

Item	Land use right	Patented technology	Others	Total
III. Provisions for impairment				
1. Beginning balance	–	20,205,453.78	–	20,205,453.78
2. Increase for the period	–	14,304,228.82	–	14,304,228.82
Provisions	–	14,304,228.82	–	14,304,228.82
3. Decrease for the period	–	–	–	–
4. Ending balance	–	34,509,682.60	–	34,509,682.60
IV. Total Book value				
1. Book value at the end of the period	47,755,219.56	100,929,520.69	1,177,350.41	149,862,090.66
2. Book value at the beginning of the period	48,312,746.60	125,337,603.72	1,177,350.41	174,827,700.73

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 67.35%.

(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

2017 (Expressed in Renminbi)

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

(13) Development expenditure

2017

		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
PRO Mini	3,519,807.62	4,254,092.83			7,773,900.45	
Passenger car line set	2,721,878.90	1,773,692.81			4,495,571.71	
Commercial car line set	1,235,993.94	2,645,964.82			3,881,958.76	
Passenger car module	2,846,641.08	1,600,746.62			4,447,387.70	
AIT	3,671,558.58	3,127,311.67			6,798,870.25	
CRP39 series		3,568,814.19		228,512.27	3,340,301.92	
Tire pressure TPMS		3,475,326.00		141,995.30	3,333,330.70	
Pro3S+		9,547,119.85		397,912.69	9,149,207.16	
CRP421		5,008,307.14		216,810.76		4,791,496.38
PAD V		2,134,788.53		91,395.70		2,043,392.83
Easydiag3.0		1,426,846.84		60,843.72		1,366,003.12
PAD IV-HD	3,065,353.15	969,394.88			4,034,748.03	
HTT emulsion testing	3,874,139.37	6,329,172.86				10,203,312.23
Cloud diagnosis	1,979,511.73	432,582.82				2,412,094.55
Remote laser 4 wheel aligner	1,080,914.86	4,176,132.03				5,257,046.89
ProS+		5,867,425.13		971,001.52		4,896,423.61
diagunIV		3,819,923.09		559,020.35	3,260,902.74	
H1 wristband	3,771,952.18	1,503,429.97				5,275,382.15
S3 Pro Smart wristband		4,007,520.32		1,945,027.16		2,062,493.16
Total	27,767,751.41	65,668,592.40		19,849,532.19	37,691,261.25	35,895,550.37

2017 (Expressed in Renminbi)

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

(13) Development expenditure (Continued)

2016

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
X431 Pro3S	4,899,448.87	5,508,460.42			10,407,909.29	
X431 PADIII	2,669,663.02	7,256,210.44			9,925,873.46	
goloX	3,108,277.75	2,495,021.66			5,603,299.41	
CR4-9 series		8,240,631.42		1,621,666.90	6,618,964.52	
PRO Mini		4,817,141.14		1,297,333.52		3,519,807.62
Passenger vehicle line set		3,370,545.66		648,666.76		2,721,878.90
Commercial vehicle line set		1,560,327.32		324,333.38		1,235,993.94
Passenger vehicle module		3,748,954.20		902,313.12		2,846,641.08
AIT		5,617,558.86		1,946,000.28		3,671,558.58
PAD IV-HD development		3,272,560.89		207,207.74		3,065,353.15
HTT emission inspection		4,288,554.86		414,415.49		3,874,139.37
Diagnosis Cloud		2,601,134.96		621,623.23		1,979,511.73
Handfree Laser wheel aligner		2,116,953.58		1,036,038.72		1,080,914.86
G1wristband		5,562,351.66		699,304.15	4,863,047.51	
H1wristband		4,048,011.96		276,059.78		3,771,952.18
PDG500S	390,293.40	650,579.84		1,040,873.24		
Total	11,067,683.04	65,154,998.87		11,035,836.31	37,419,094.19	27,767,751.41

2017 (Expressed in Renminbi)

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

(14) 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. Other Explanations on Goodwill

As at 31 December 2017, the Company conducted discounting calculation with a discount rate of 5.88% 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. Determination the future cash flow discount rate of 5.88%; is by consideration of macroeconomic situation, using the assumption that 20% increment on interest rate for loan with period of five-year or above for estimation on company's overall asset values of December 31, 2017, and then calculate the total value of shareholders equity, which the total value of shareholders = the value of the total assets-interest-bearing debt.

(15) Deferred tax assets and deferred tax liabilities

1. Deferred income tax assets not written off

	Ending balance		Beginning balance	
Item	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provisions for asset impairment	19,149,247.23	4,393,836.51	18,404,516.89	4,203,375.52
Total	19,149,247.23	4,393,836.51	18,404,516.89	4,203,375.52

2017 (Expressed in Renminbi)

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

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

2. Unrecognized deferred tax assets

Item	Ending balance	Beginning balance
(1) Deductible temporary differences	84,806,065.33	94,396,064.48
Bad debt provision – accounts receivable	43,117,335.76	69,678,815.77
Bad debt provision – other receivables	10,546,622.61	7,879,370.57
Provision for impairment of intangible assets	30,600,040.04	16,295,811.22
Provision for impairment of long term equity impairment	542,066.92	542,066.92
(2) Deductible losses	160,225,313.55	175,304,532.26
(3) Internal unrealised profits	5,774,653.58	4,770,289.04
Total	250,806,032.46	274,470,885.78

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

Item	Ending balance	Beginning balance	Note
2018	100,607.84	100,607.84	
2019	38,607,403.02	38,607,403.02	
2020	76,610,479.41	76,610,479.41	
2021	75,347,854.20	36,175,119.02	
2022	15,082,414.96	–	
Total	160,225,313.55	151,493,609.29	

2017 (Expressed in Renminbi)

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

(16) Other non-current assets

Item	Ending balance	Beginning balance
Prepayment for properties	9,892,928.43	7,993,843.94
Prepayment for construction	39,000,000.00	–
Total	48,892,928.43	7,993,843.94

Explanation on other non-current assets:

Increment of 511.63% during the year is mainly due to the prepayment in relation to construction projects.

(17) Short-term borrowings

1. Categories

Item	Ending balance	Beginning balance
Guaranteed	119,000,000.00	130,000,000.00
Secured + guaranteed	169,205,200.00	253,374,000.00
Pledged deposits	–	1,000,000.00
Total	288,205,200.00	384,374,000.00

Explanation of classification of short-term borrowings:

See note 42 for the details on pledged deposits. See Note XI (V) 2. Guarantee and Note XII (I) 2. relevant notes on other significant commitment for the detailed explanation of the guaranteed borrowings and the secured + guarantee borrowings.

2017 (Expressed in Renminbi)

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

(18) Accounts payable

Item	Ending balance	Beginning balance
Under 1 year	112,413,371.43	91,001,472.44
1-2 years	3,346,116.78	2,260,010.28
2-3 years	978,869.61	23,404.67
Over 3 years	942,341.49	1,107,637.27
Total	117,680,699.31	94,392,524.66

1. Key accounts payable with aging of over 1 year

Name	Ending balance	Reasons for no repayment or settlement
深圳市美拜電子有限公司	1,153,381.76	Settlement date undue
深圳市華之美電梯有限公司	387,013.00	Settlement date undue
深圳市永利實業發展有限公司	288,980.00	Settlement date undue
Total	1,829,374.76	

(19) Receipts in advance

1. Receipts in advance

Item	Ending balance	Beginning balance
Under 1 year	63,615,455.23	61,061,913.18
Total	63,615,455.23	61,061,913.18

2017 (Expressed in Renminbi)

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

(20) Employee remuneration payables

1. Employee remuneration payables

Item	Beginning balance	Increase	Decrease	Ending balance
Short-term remuneration	2,701,281.83	153,859,818.37	153,368,409.71	3,192,690.49
Post-employment benefits- Defined contributions plan	21,162.54	17,103,351.87	17,101,255.17	23,259.24
Termination benefit	126,536.26	1,608,026.46	1,734,562.72	–
Total	2,848,980.63	172,571,196.70	172,204,227.60	3,215,949.73

2. Short-term remuneration

Item	Beginning balance	Increase	Decrease	Ending balance
Salaries, bonus, allowance and subsidies	1,002,150.52	128,072,559.61	128,025,002.78	1,049,707.35
Staff welfare		9,773,557.84	9,773,557.84	
Social insurance fees	10,871.10	5,805,715.67	5,805,447.77	11,139.00
Including: Basic medical insurance fees	9,637.38	4,716,138.71	4,715,870.81	9,905.28
Supplementary insurance fees		10,098.88	10,098.88	
Injury insurance fees	391.28	462,572.01	462,572.01	391.28
Maternity insurance fees	842.44	616,906.07	616,906.07	842.44
Housing provident fund	28,717.61	8,389,215.66	8,412,838.66	5,094.61
Union funds and employee education funds	1,659,542.60	1,818,769.59	1,351,562.66	2,126,749.53
Total	2,701,281.83	153,859,818.37	153,368,409.71	3,192,690.49

2017 (Expressed in Renminbi)

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

(20) Employee remuneration payables (Continued)

3. Defined contribution plans

Item	Beginning balance	Increase	Decrease	Ending balance
Basic pension	18,554.90	16,718,010.84	16,716,994.92	19,570.82
Unemployment insurance fees	2,607.64	385,341.03	384,260.25	3,688.42
Total	21,162.54	17,103,351.87	17,101,255.17	23,259.24

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 14.00% (2016: 13%).

The calculation basis for unemployment insurance fees: employers shall pay based on 0.9% of minimum monthly salary of Shenzhen for employees that should participate in the unemployment insurance.

2017 (Expressed in Renminbi)

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

(21) Tax payables

Item	Ending balance	Beginning balance
VAT	7,049,486.24	868,557.20
Business tax	–	14,965.32
EIT	919,749.47	6,129,828.80
Personal income tax	624,240.97	1,111,950.09
Urban maintenance and construction tax	858,038.28	1,108,538.69
Real estate tax	337,769.01	1,011,464.85
Land use tax	280,324.01	119,799.62
Education surcharge	602,518.59	778,122.10
Others	301,445.64	792.41
Total	10,973,572.21	11,144,019.08

(22) Other payables

1. Presentation of other payables by aging

Aging	Ending balance	Beginning balance
Under 1 year	19,262,051.90	6,984,541.99
1-2 years	1,354,801.75	3,689,990.37
2-3 years	2,279,240.44	251,823.77
Over 3 years	1,338,493.98	1,906,474.63
Total	24,234,588.07	12,832,830.76

2017 (Expressed in Renminbi)

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

(22) Other payables (Continued)

2. Significant other payables with aging of over 1 year

Name	Ending balance	Reason for un-repayment or settlement
Shanghai Jiading Hongmin Recycled Resources Utilization Co., Ltd	350,000.00	Security deposit not yet due
Shenzhen Jinbolun Electronics Technology Co., Ltd	300,000.00	Security deposit not yet due
Shanghai Nanhui Constructions Group Xingang Construction Co., Ltd	276,750.00	Security deposit not yet due
Shenzhen Easttop Supply Chain Management Ltd	205,000.00	Security deposit not yet due
Total	1,131,750.00	

(23) Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term borrowing due within 1 year	532,195.29	505,399.54
Total	532,195.29	505,399.54

2017 (Expressed in Renminbi)

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

(24) Long-term borrowings

1. Categories

Categories	Ending balance	Beginning balance
House mortgage repayment	675,250.17	1,181,935.62
Less: Amount due within one year	532,195.29	505,399.54
Total	143,054.88	676,536.08

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 27 February 2019; the loan should be repaid with average capital plus interests; as of 31 December 2017, the balance of the loan contract was RMB675,250.17.

(25) Deferred income

Item	Beginning balance	Increase	Decrease	Ending balance
Asset-related government subsidies	22,331,000.00	–	3,169,000.00	19,162,000.00
Total	22,331,000.00	–	3,169,000.00	19,162,000.00

2017 (Expressed in Renminbi)

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

(25) 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	13,662,000.00	–	3,169,000.00	–	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	22,331,000.00	–	3,169,000.00	–	19,162,000.00	

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 amounted to 20 million 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.

2017 (Expressed in Renminbi)

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

(25) 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 amounted to 4.5 million 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. As of 31 December 2017, the project is still under development stage.

c. Representing the amount of “Research on critical technique on Internet of Vehicle big data obtainment and analysis platform” fund amounted to 1 million 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. As of 31 December 2017, the project is still under development stage.

(26) Share capital

Item	Beginning balance	Increase(+)/Decrease(-) in current period					Ending balance
		Issuance of new shares	Bonus shares	Transfer from reserve	Others	Sub-total	
Total number of shares	329,160,000.00	46,300,000.00	–	–	–	46,300,000.00	375,460,000.00

Details of change in capital see Note VI (27).

2017 (Expressed in Renminbi)

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

(27) Capital reserve

Item	Beginning balance	Increase	Decrease	Ending balance
Capital premium (share premium)	231,421,588.86	331,508,000.00	46,599.85	562,481,725.91
Other capital reserve				
Total	231,421,588.86	331,508,000.00	46,599.85	562,481,725.91

Explanation of capital reserve:

1. On August 1, 2017, the resolution passed in the shareholders' meeting approved the issue of 46.30 million domestic shares. As verified by Shenzhen Yongming Certified Public Accountants Co., Ltd., with Capital Verification Report Shen Yongyong [2017] No. 072, the total number of shares of the company was changed from 326.106 million shares to 375.406 million shares. The actual net proceed from capital increase is RMB 377,808,000.00. After the completion of the capital increase above, the Company's newly added registered capital is 46,300,000.00, and the difference between the actual net proceeds and the newly added registered capital of 331,508,000.00 was included in the capital reserve-share premium.

2. On May 20, 2016, the company's holding subsidiary, Shenzhen PJS was established. The equity structure was 97% of the Company's subscribed capital contribution, and 3% of the Company's subscription was paid by Shenzhen Huihui Chuangxiang Technology Co., Ltd.. The company actually invested 200 million. Shenzhen Huihui Creativity Technology Co., Ltd. has not actually contributed. On December 25, 2017, Shenzhen PJS completed the change of investors. The Company subscription increased to 100% of the capital contribution. Due to this change, the minority shareholders' equity was changed and the capital reserve was reduced by RMB 46,599.85.

2017 (Expressed in Renminbi)

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

(28) Other comprehensive income

Item	Beginning balance	Current period before tax	Current period After-tax income attributable to the parent company	Ending balance
Translation difference of foreign currency statements	3,332,286.09	–	1,343,771.07	1,988,515.02
Total of other comprehensive income	3,332,286.09	–	1,343,771.07	1,988,515.02

(29) Surplus reserve

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserve	18,099,377.81	11,985,707.29	–	30,085,085.10
Discretionary surplus reserve				
Total	18,099,377.81	11,985,707.29	–	30,085,085.10

2017 (Expressed in Renminbi)

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

(30) Undistributed profits

Item	Amount	Provision or distribution proportion (%)
Undistributed profits at the end of last period before adjustment	141,981,816.61	–
Adjustment of total undistributed profits at the beginning of the period ("+" for increase and "-" for decrease)	–	
Undistributed profits at the beginning of the period after adjustment	141,981,816.61	–
Add: Net profits attributable to owners of parent company during this period	21,411,537.32	–
Transfer to statutory surplus reserve	11,985,707.29	10%
Ordinary share dividend payable	75,092,000.00	
Undistributed Profits at the end of period	114,980,997.00	

Explanation on Undistributed profit

A resolution has been passed in the shareholder meeting held on 24 July 2017 relating to the interim dividend of RMB0.2(including tax). The dividend was distributed to overseas listed shareholders listed in the shareholders record as at 31 August 2017. As at 31 August 2017 the total number of shares was 375,460,000 and total amount of dividend paid was 75,092,000.

(31) Operating income and operating costs

1. Operating income and operating costs

Item	Current period		Previous period	
	Income	Cost	Income	Cost
Principal operation	960,037,276.97	535,732,084.21	818,148,347.46	459,861,117.69
Other operations	17,935,582.36	4,691,715.82	16,904,808.90	142,470.09
Total	977,972,859.33	540,423,800.03	835,053,156.36	460,003,587.78

2017 (Expressed in Renminbi)

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

(32) Business tax and surcharges

Item	Current period	Previous period
Business tax	–	292,500.88
City maintenance and construction tax	4,135,144.54	3,875,938.16
Education surcharges	2,966,821.96	2,765,628.43
Real estate	2,286,432.68	1,913,520.81
Land use tax	658,011.75	543,509.78
Other	655,445.53	94,027.97
Total	10,701,856.46	9,485,126.03

2017 (Expressed in Renminbi)

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

(33) Selling expenses

Item	Current period	Previous period
Remuneration	47,048,484.38	58,811,576.07
Depreciation expenses	433,854.98	522,092.99
Rental expenses	3,849,146.08	3,850,023.76
Office expenses	1,073,807.11	1,209,609.99
Exhibition expenses	3,968,115.56	4,287,508.52
Advertising and printing expenses	2,693,862.10	3,959,134.50
Travelling expenses	5,358,719.96	4,060,495.07
Vehicle expenses	869,999.84	902,389.97
Entertainment	549,997.21	499,639.16
Postage	1,095,377.66	1,319,080.60
Storage and transportation fees	3,334,107.22	3,295,947.39
Customs fees	1,379,295.12	1,386,806.97
Commissions	15,833,766.98	11,738,224.69
Training expenses	794,817.64	1,432,656.43
After-sales service costs	7,511,297.93	7,492,346.75
Others	2,753,357.84	2,261,664.69
Total	98,548,007.61	107,029,197.55

2017 (Expressed in Renminbi)

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

(34) Administrative expenses

Item	Current period	Previous period
Remuneration	30,211,194.80	32,040,929.99
Office expenses	4,706,831.86	5,344,384.61
Travelling expenses	6,286,810.78	4,239,144.55
Entertainment	8,624,246.26	5,021,118.13
Taxation	249,110.41	1,294,239.78
Inventories losses	4,417,118.70	4,929,459.49
Amortization of low-cost consumables	174,078.99	621,244.41
Auditing and consulting expenses	2,869,194.50	2,762,635.10
Legal consultancy expenses	4,784,797.01	3,346,822.58
Depreciation expenses	12,620,221.79	20,246,098.60
Research and development expenses	76,699,463.31	79,814,679.44
Union funds and employee education funds	4,701,119.86	3,665,392.44
Vehicles and storage and transportation costs	2,636,957.53	4,662,060.68
Repairs and maintenance expenses	3,178,622.69	5,096,584.56
Amortization of intangible assets	49,113,995.50	49,153,116.74
Patent application and inspection certification fees	4,261,906.45	2,095,366.35
Other expenses	5,414,629.34	3,709,480.70
Total	220,950,299.78	228,042,758.15

2017 (Expressed in Renminbi)

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

(35) Finance costs

Categories	Current period	Previous period
Interest expenses	15,211,704.77	22,925,548.95
Less: Interest income	994,535.93	1,065,680.25
Exchange differences	20,528,264.42	-21,389,448.39
Others	3,934,065.33	2,799,725.67
Total	38,679,498.59	3,270,145.98

Explanation on finance costs:

Financial costs increased by 1,082.81% is mainly due to the increase in exchange difference resulting from relatively large fluctuations in exchange rate in this period.

(36) Asset impairment losses

Item	Current period	Previous period
Bad debt	10,909,684.68	15,456,041.47
Loss on impairment on long term equity investment	–	542,066.92
Impartment loss on intangible assets	14,304,228.82	4,469,291.41
Total	25,213,913.50	20,467,399.80

(37) Investment income

1. Details of investment income

Item	Current period	Previous period
Gain/loss on long term equity investment	–	-604,656.50
Total	–	-604,656.50

2017 (Expressed in Renminbi)

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

(38) 資產處置收益

項目	本期發生額	上期發生額
非流動資產處置利得	1,003,681.92	2,936.75
其中：處置固定資產利得	1,003,681.92	2,936.75
合計	1,003,681.92	2,936.75

(39) Other Income

1. Other income details

Item	Current period	Previous period
Government grants	21,242,397.76	
Including: VAT refund	11,551,710.03	
Total	21,242,397.76	

2. Government grants included in other income

Item	Current period	Previous period	Asset nature/ Revenue nature
Transferred from deferred income period	3,169,000.00		Revenue nature
Shenzhen Intellectual Property Patent Funding	713,200.00		Revenue nature
Shenzhen International Operating Capabilities Enhancement and Supports	195,239.00		Revenue nature
District Industrial Development Special Fund Premium Subsidies	137,500.00		Revenue nature
Short-term Export Credit Insurance Premium Subsidiaries	137,588.00		Revenue nature
Second batch of funding for Corporate Research and Development Funding Program	3,714,000.00		Revenue nature
The first batch of patent applications for funding in 2017	1,048,775.00		Revenue nature
Special patent and software copyright awards-Futian District, Shenzhen	457,700.00		Revenue nature
Others	117,685.73		Revenue nature
Total	9,690,687.73		

2017 (Expressed in Renminbi)

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

(40) Government grants

1. Government grants by project classification

Item	Current period	Previous period	Note
Government grants included in other income	21,242,397.76		See Note 6(39)
Total	21,242,397.76		

(41) Non-operating income

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Government grants	–	19,123,427.65	–
Including: value-added tax refund	–	9,954,235.42	–
Others	1,479,958.08	1,287,486.79	1,479,958.08
Total	1,479,958.08	20,413,851.19	1,479,958.08

1. Government grants recognized in profits or losses

Item	Current period	Previous period	Asset-related/ Income-related
Transfer from deferred income	–	3,169,000.00	Asset related
Shenzhen patent and overseas trademarks subsidy	–	390,000.00	Income-related grants
Shenzhen computer software copyright registration subsidy	–	18,000.00	Income-related grants
Shenzhen Electric Energy Efficiency Subsidy	–	22,000.00	Income-related grants
Shenzhen City SME information construction funding	–	480,000.00	Income-related grants
Shenzhen Internationalisation enhancement fund	–	97,097.00	Income-related grants
Shenzhen Longgang District Labor Relations Harmony Garden Bonus	–	10,000.00	Income-related grants
Shenzhen City, unemployed insurance steady Income subsidies	–	332,282.84	Income-related grants
Shenzhen Maternity Insurance Allowance	–	23,272.39	Income-related grants
Shenzhen City 2016 annual domestic market development project funding	–	11,840.00	Income-related grants
Shenzhen City 2016 annual high-tech industry special funds	–	1,033,700.00	Income-related grants
Shenzhen Science and Technology Innovation Committee – 2016 Enterprise research and development funding	–	3,462,000.00	Income-related grants
Nanshan District Science and Technology Bureau patent grant	–	120,000.00	Income-related grants
Total	–	9,169,192.23	

2017 (Expressed in Renminbi)

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

(42) Non-operating expenses

Item	Current period	Previous period	Amount recorded in non-recurring gain or loss
Total loss on disposals of non-current assets	1,665,996.20	815,011.38	1,665,996.20
Including: Loss on disposals of fixed assets	1,665,996.20	815,011.38	1,665,996.20
Donations	16,000.00		16,000.00
Others	2,440,908.95	567,461.68	2,440,908.95
Total	4,122,905.15	1,382,473.06	4,122,905.15

Explanations:

Increase of 198.23% is mainly due to compensation paid for early termination of leased properties.

(43) Income tax expense

Item	Current period	Previous period
Current income tax expenses	3,185,284.62	8,340,700.40
Deferred income tax expenses	-190,460.99	-4,196,386.96
Total	2,994,823.63	4,144,313.44

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

(44) Notes to in cash flow statement

1. Other cash receipts relating to operating activities

Item	Current Period	Previous period
Interest income	994,535.93	1,065,680.25
Government grants	6,521,687.73	6,000,192.23
Other non-operating income	1,479,958.08	1,287,486.79
Current accounts	35,657,749.22	23,738,059.51
Total	44,653,930.96	32,091,418.78

2. Other cash payments relating to operating activities

Item	Current Period	Previous period
Administrative expenses	66,665,506.35	61,405,777.76
Selling expenses	51,314,091.52	47,291,715.31
Bank charges and other	3,934,065.33	2,799,725.67
Non-operating expenses	2,456,908.95	567,461.68
Other current accounts	25,751,729.71	7,434,340.83
Total	150,122,301.86	119,499,021.25

3. Cash received from other financing activities

Item	Current period	Previous period
Decrease in restricted monetary item	1,857,000.00	21,478,990.00
Total	1,857,000.00	21,478,990.00

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

(45) 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	60,063,792.34	21,037,349.26
Add: Provision for impairment on assets	25,213,913.50	20,467,399.80
Depreciation of fixed assets, oil and gas assets and productive biological assets	31,585,578.13	37,721,802.60
Amortization of intangible assets	49,113,995.50	49,153,116.74
Loss on disposals of fixed assets, intangible assets and other long-term assets ("-" for gains)	662,314.28	812,074.63
Losses on scrapping of fixed assets ("-" for gains)		
Finance costs ("-" for gains)	15,211,704.77	22,925,548.95
Investments losses ("-" for gains)	–	604,656.50
Decrease in deferred tax assets ("-" for increase)	-190,460.99	-4,196,386.96
Decrease in inventories ("-" for increase)	-42,601,553.78	-10,807,903.18
Decrease in operating receivables ("-" for increase)	-20,505,897.61	-14,090,043.54
Increase in operating payables ("-" for decrease)	38,502,128.21	-15,729,111.91
Net cash flows from operating activities	157,055,514.35	107,898,502.89
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	538,008,718.76	277,428,875.90
Less: Cash at the beginning of the period	277,428,875.90	393,985,682.34
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	260,579,842.86	-116,556,806.44

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

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

2. Composition of cash and cash equivalents

Item	Ending balance	Beginning balance
1. Cash	538,008,718.76	277,428,875.90
Including: Cash deposits	927,419.28	1,239,401.42
Available-for-use bank deposit	537,081,299.48	276,189,474.48
2. Cash equivalents		
Including: bond investment maturing within three months	–	–
3. Cash and cash equivalents as at the end of the period	538,008,718.76	277,428,875.90
Including: Restricted cash and cash equivalent in the parent company or subsidiaries in the Group	–	–

(46) Assets with restricted ownership or use rights

Item	Balance	Reason for restriction
Fixed assets	158,245,252.01	Security for borrowings
Intangible assets	13,511,684.63	Security for borrowings
Total	171,756,936.64	

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

(47) Foreign currency items

1. Foreign currency items

Item	Ending balance in foreign currency	Exchange rate	Ending balance converted in RMB
Bank balances and cash			91,016,146.59
Including: USD	13,630,327.82	6.5342	89,063,288.04
Euro	225,904.31	7.8023	1,762,573.20
HKD	227,638.56	0.83591	190,285.35
Accounts receivable			194,331,000.01
Including: USD	27,797,234.75	6.5342	181,632,691.30
Euro	1,627,508.39	7.8023	12,698,308.71
Short-term borrowings			39,205,200.00
Including: USD	6,000,000.00	6.5342	39,205,200.00
Accounts payable			864,270.81
Including: USD	132,268.80	6.5342	864,270.81

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	7.6216	Annual average exchange rate
		Other items	7.8023	Year-end exchange rate
Launch International	HKD	Long term investment	0.84029	historical rate
		Revenue items	0.86691	Annual average rate
		Other items	0.83591	Year end rate

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
Nanjing Launch	Limited Liability Company	Nanjing	Technology Development	50,000,000.00	Intelligent technology research and development, computer hardware and software development, production and sales

Continued:

Name	Shareholding (%)	Voting right (%)	Actual invested amount at the period end	Project balance for constitution of investment to net investment in substance	Included in consolidation
Nanjing Launch	100	100	–		Yes

Continued:

Name	Enterprise type	Unified Social code	Minority interest	Amount to offset minority interest	equity used to offset minority interest
Nanjing Launch	Limited Liability Company	91320114 MA1P40 AT42	–		

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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 aligner, 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 peripherals, mobile phone, communication products, electronic products development and distribution; chip development and distribution; goods and technologies import and export.	100	–	Establishment
Golo Internet	Shenzhen	Shenzhen	Computer software and hardware technology development and distribution; computer network projects; computer technology development, consultation and technical services; import and export.	100	–	Establishment
PJS	Shenzhen	Shenzhen	Computer hardware and software, communications equipment, technology development and sales, computer graphic design, graphic design, corporate image planning, Internet information consultation.	100	–	Establishment
Launch International	Hong Kong	Hong Kong	Car diagnosis, testing, maintenance equipment sales, information network services.	100	–	Establishment
Nanjing Launch	Nanjing	Nanjing	Intelligent technology research and development, computer hardware and software development, production and sales, self-operation and agent services for import and export of various commodities and technologies.	100	–	Establishment

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VIII. EQUITY INTERESTS IN OTHER ENTITIES (Continued)

(2) Joint operation and associate

Details of joint operation or associate are as follows:

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

Note 1: 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 2017, no contribution has been made by the Company.

Note 2: R & LAUNCH Corporation is a jointly controlled company invested by the Group through Launch International. On 17 June 2016, Launch International, the Company's subsidiary, invested USD 174,287.32 (translated as 200,000,000KRW, translated to RMB1,146,723.42) for holding of 50.00% interest, and TAI-HWAN RHEE invested 200,000,000 KRW for holding of 50.00% interest.

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.

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

(I) Credit risks (Continued)

As of 31 December 2017, receivables of top five customers of the Company accounted for 56.61% (2016: 52.46%) 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.

(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 2017, 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	538,008,718.76	538,008,718.76	538,008,718.76			
Bills receivable	30,338,048.60	30,338,048.60	30,338,048.60			
Accounts receivable	202,079,387.42	260,378,081.14	189,734,577.73	70,643,503.41		
Other receivables	12,499,959.29	23,104,828.61	12,630,682.18	10,474,146.43		
Sub-total	782,926,114.07	851,829,677.11	770,712,027.27	81,117,649.84		
Short-term borrowings	288,205,200.00	288,205,200.00	288,205,200.00			
Accounts payable	117,680,699.31	117,680,699.31	112,413,371.43	5,267,327.88		
Other payables	24,234,588.07	24,234,588.07	21,262,051.90	2,972,536.17		
Long-term borrowing fall due with one year	532,195.29	532,195.29	532,195.29			
Long-term borrowings	143,054.88	143,054.88		143,054.88		
Sub-total	430,795,737.55	430,795,737.55	422,412,818.62	8,382,918.93		

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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	279,285,875.90	279,285,875.90	279,285,875.90			
Bills receivable	21,825,071.53	21,825,071.53	21,825,071.53			
Accounts receivable	232,262,423.02	316,225,868.23	216,748,990.16	98,125,355.26	1,351,522.81	
Other receivables	18,538,048.22	26,627,663.68	19,155,442.34	2,300,000.00	5,172,221.34	
Sub-total	551,911,418.67	643,964,479.34	537,015,379.93	100,425,355.26	6,523,744.15	
Short-term borrowings	384,374,000.00	384,374,000.00	384,374,000.00			
Accounts payable	94,392,524.66	94,392,524.66	94,392,524.6			
Other payables	12,832,830.76	12,832,830.76	11,501,080.76	1,331,750.00		
Long-term borrowing fall due with one year	505,399.54	505,399.54	505,399.54			
Long-term borrowings	676,536.08	676,536.08		545,610.05	130,926.03	
Sub-total	492,781,291.04	492,781,291.04	490,773,004.96	1,877,360.05	130,926.03	

(III) Market risks

1. Exchange rate 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 exchange rate 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 exchange rate risks.

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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 2017, 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	89,063,288.04	1,762,573.20	190,285.35			91,016,146.59
Accounts receivable	181,632,691.30	12,698,308.71				194,331,000.01
Sub-total	270,695,979.34	14,460,881.91	190,285.35			285,347,146.60
Foreign currency financial liabilities:						
Short-term borrowings	39,205,200.00					39,205,200.00
Accounts payable	864,270.81					864,270.81
Sub-total	40,069,470.81					40,069,470.81

Continued:

	Beginning balance					
Item	USD	Euro	HKD	AUD	JPY	Total
Foreign currency financial assets:						
Bank balance and cash	42,375,091.19	2,163,846.57	133,648.18			44,672,585.94
Accounts receivable	275,100,065.28	12,859,465.15				287,959,530.43
Sub-total	317,475,156.47	15,023,311.72	133,648.18			332,632,116.37

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 2017, 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 RMB24,527,767.58 (2016: approximately RMB33,263,211.64).

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 2017, the Company's long-term interest-bearing debt is the contract with floating interest rate dominated in RMB, and the value is RMB288,880,450.17. See Note VI (17), (23) and (24) for details.

(3) Sensitivity analysis:

As of 31 December 2017, 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 RMB1,444,402.25 (2016: approximately RMB1,927,779.68).

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 2017, 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".

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XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(3) Other related parties

Name	Relation
Shenzhen Langqu Technology Development Co., Ltd.	Shareholder
Liu Xin	Beneficial controlling person
Liu Jun	Brother of beneficial controlling person
Jiang Shiwen	Executive director of the Company
Shenzhen Huidong Creative Technology Co., Ltd	Shareholder of PJS, the Company's subsidiary.
深圳市五德嘉垣餐飲管理公司	Held by beneficial controlling person

(4) Connected Transactions

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

2. **Related party transactions for procurement of goods, to accept the labor services**

Related parties	Nature of related transactions	Current period	Previous period
Shenzhen Huidong Creative Technology Co., Ltd	Technical services	–	1,550,000.00
Liu Jun	Purchase of vehicle	–	700,000.00
深圳五德嘉恒餐飲管理公司		2,465,722.00	1,993,644.15
Total		2,465,722.00	4,243,644.15

3. **Related party transactions for sale of goods and provision of services**

Related parties	Nature of related transactions	Current period	Previous period
R & Launch Corporation	Sales of goods	1,098,516.88	1,406,765.71
Total		1,098,516.88	1,406,765.71

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XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

4. Guarantee with related parties

(1) The Company as warrantee

Details of guarantee are as follows:

No.	Warrantor	Amount guaranteed	Ending balance	Date of commencement	Maturity date	Completed or not
a	Launch Software,	160,000,000.00	20,000,000.00	2017/3/21	2020/3/21	No
	Shanghai Launch,		30,000,000.00	2017/4/1	2020/4/1	No
	Xian Launch,		40,000,000.00	2017/5/3	2020/5/10	No
	Liu Xin, Liu Jun		39,205,200.00	2017/7/11	2020/7/10	No
b	Shanghai Launch,	80,000,000.00	40,000,000.00	2017/1/3	2020/1/3	No
	Liu Xin, Liu Jun					
c	Shanghai Launch,	140,000,000.00	37,000,000.00	2017/3/3	2020/3/3	No
	Shenzhen Langqu,		32,000,000.00	2017/3/6	2020/3/6	No
	Liu Xin, LiuJun					
d	Launch Software,					
	Shanghai Launch,					
	Liu Xin, Liu Jun	160,000,000.00	50,000,000.00	2017/12/18	2020/12/18	No
Total		540,000,000.00	288,205,200.00			

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

4. Guarantee with related parties (Continued)

(1) The Company as warrantee (Continued)

Explanation of guarantee with related parties

a) The Company entered into the consolidated credit facility agreement "2017 Zhen Zhong Yin She Zong Xie Zi No.00003" with Shenzhen Shekou Branch of Bank of China (for a credit facility RMB160 million), borrowing limit was RMB160 million; as of 31 December 2017, the balance of borrowing under such facility was RMB160 million.

b) The 2016 ShenYinYan No. 0022 "Comprehensive Credit Line" signed by the Company and Shenzhen Branch of CITIC Bank Co., Ltd. (credit line amount is RMB 80 million), and the amount of RMB borrowings under the line is RMB 40 million.. Under the credit agreement, the balance of borrowings at the end of the period amounted to RMB 40 million.

c) The Company entered into the consolidated credit facility agreement with Shenzhen Branch of Guangdong Development Bank Co., Ltd (Ceiling of facility RMB140 million, with exposure of RMB69 million), as of 31 December 2017, the balance of borrowing under such facility was RMB69 million.

d) The Company entered into the consolidated credit facility agreement "Jie 2017 Zong 18410 NanShan" with Shenzhen Branch of China Construction Bank (for a credit facility of RMB160 million), with borrowing limit of RMB50 million as of 31 December 2017, the balance of borrowing under such facility was RMB50 million.

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

5. Provision of fund to Related parties

Provisional fund to Related Parties

Related parties	Beginning balance	Provision of fund	Repayment	Ending balance
Jiang Shiwen	1,632,745.00	170,000.00	1,261,488.00	541,257.00
Total	1,632,745.00	170,000.00	1,261,488.00	541,257.00

2017 (Expressed in Renminbi)

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

6. Key management personnel remuneration

(1) Remunerations of Directors and supervisors

Item	Current period	Previous period
Key management personnel remunerations	2,675,821.91	3,642,330.63

Remuneration for directors and supervisors in 2017 are as follows:

Name	Fees	Salaries and subsidies	Retirement benefit	Total
Executive directors				
Liu Xin		591,200.00	59,394.50	650,594.50
Liu Jun		456,000.00	59,394.50	515,394.50
Huang Zhaohuan		380,000.00	53,526.10	433,526.10
Jiang Shiwen		522,400.00	59,394.50	581,794.50
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
Yang Yi		217,924.31	56,588.00	274,512.31
Total	220,000.00	2,167,524.31	288,297.60	2,675,821.91

2017 (Expressed in Renminbi)

XI. RELATED PARTIES AND CONNECTED TRANSACTIONS (Continued)

(4) Connected Transactions (Continued)

6. Key management personnel remuneration (Continued)

(2) Five highest paid personnels

2017, 2 directors were included in the 5 highest paid personnels.

Name	Fees	Salaries and subsidies	Retirement benefit	Total
Executive directors				
Liu Xin		591,200.00	59,394.50	650,594.50
Jiang Shiwen		522,400.00	59,394.50	581,794.50
Liu Jun		456,000.00	59,394.50	515,394.50
Non-directors				
Xu XiangMin		460,000.00	58,966.10	518,966.10
Lu Zhen Bo		431,559.28	23,840.01	455,399.29
Total		2,461,159.28	260,989.61	2,722,148.89

7. Amount due from/to related parties

(1) Amount due from related parties

Item	Related parties	Ending balance		Beginning balance	
		Book value	Provision	Book value	Provision
Other receivables	Jiang Shiwen	541,257.00	54,125.70	1,632,745.00	81,637.25

2017 (Expressed in Renminbi)

XII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

(I) Significant commitments

1. Ongoing lease agreements and related financial influence

As at 31 December 2017, 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	2,308,515.72	1,620,706.33
2-5 years	601,022.61	240,000.00
Over 5 years	–	–
Total	2,909,538.33	1,860,706.33

2. Other significant finance commitments

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

Shanghai Launch the company's subsidiary 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 RMB160 million from 27 August 2015 to 28 August 2018); as of 31 December 2015, the balance of borrowing under such facility was RMB129.2052 million.

The Company pledged its properties and buildings with an original value of 10,132,351.66 as the mortgage to provide pledge guarantee for the maximum amount consolidated credit facility agreement "Shen Yin Yan Zi 2016 No.1022" with CITIC Bank of China (for a maximum consolidated credit facility of RMB80 million from 26 December 2016 to 3 January 2018), as of 31 December 2017, the balance of borrowing under such facility was RMB40 million.

Besides the commitment above, the Company had no significant commitments that should be disclosed as at 31 December 2017.

(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.

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

(II) Segment information

1. Determination criterion and accounting policies for reporting segment

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

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

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

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

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

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

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

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

(II) Segment information (Continued)

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

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

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

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

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

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

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

2017 (Expressed in Renminbi)

XIV. OTHER SIGNIFICANT EVENTS (Continued)

(II) Segment information (Continued)

3. Financial information of the reporting segment

Current unit: RMB

Item		Ending balance/Current period				
		Automotive diagnosis segment	Lift segment	Overseas sales segment	Write-off	Total
I.	Operating income	1,045,033,599.62	233,587,951.94	85,802,862.71	386,451,554.94	977,972,859.33
	Including: Revenue from external transaction	825,203,595.02	66,966,401.60	85,802,862.71		977,972,859.33
	Revenue from inter-segment transaction	219,830,004.60	166,621,550.34		386,451,554.94	
II.	Operating expenses	1,009,459,886.38	232,067,949.60	78,436,730.39	385,447,190.40	934,517,375.97
	Including: income from investment in associates and joint ventures	–	–	–	–	–
	Impairment loss of assets	20,255,492.67	4,877,589.93	80,830.90	–	25,213,913.50
	Depreciation and amortization expenses	72,788,215.74	7,877,652.75	78,392.27	44,687.13	80,699,573.63
III.	Operating profit (loss)	324,981,830.47	31,635,354.70	7,445,795.34	301,004,364.54	63,058,615.97
IV.	Income tax expenses	-106,274.36	209,610.20	2,891,487.79	–	2,994,823.63
V.	Net profits (losses)	325,088,104.83	31,425,744.50	4,554,307.55	301,004,364.54	60,063,792.34
VI.	Total assets	1,829,001,460.58	241,147,948.80	82,399,801.34	539,968,534.12	1,612,580,676.60
VII.	Total liabilities	663,790,335.69	75,418,311.64	65,052,161.70	276,498,094.31	527,762,714.72
VIII.	Other significant non-monetary items					
	1. Capital expenditure	87,772,254.08	335,825.47	114,884.49	–	88,222,964.04

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”.

2017 (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	243,124,016.98	100.00	41,977,919.95	17.27	201,146,097.03
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	–	–	–	–	–
Total	243,124,016.98	100.00	41,977,919.95	17.27	201,146,097.03

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	289,795,743.69	99.54	67,265,155.14	23.21	222,530,588.55
Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis	1,351,522.81	0.46	1,351,522.81	100.00	–
Total	291,147,266.50	100.00	68,616,677.95	23.57	222,530,588.55

2017 (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	124,721,761.61	6,236,088.08	5.00
including: within 90 days	77,047,302.65	3,852,365.13	5.00
91-180 days	11,667,011.74	583,350.59	5.00
181-270 days	28,564,870.58	1,428,243.53	5.00
271-365 days	7,442,576.64	372,128.83	5.00
1-2 years	37,059,729.94	3,705,972.99	10.00
2-3 years	7,347,235.34	2,204,170.60	30.00
3-4 years	9,952,269.04	4,976,134.52	50.00
4-5 years	5,927,275.02	4,741,820.02	80.00
Over 5 years	20,113,733.74	20,113,733.74	100.00
Total	205,122,004.69	41,977,919.95	20.46

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:

Items	Ending balance Carring balance	Provision	Book value	Beginning balance Carring balance	Provision	Book value
Not past due	125,467,015.34	4,373,250.15	121,093,765.19	84,161,308.96	4,208,065.45	79,953,243.51
overdue	117,657,001.64	37,604,669.80	80,052,331.84	206,985,957.54	64,408,612.50	142,577,345.04
Total	243,124,016.98	41,977,919.95	201,146,097.03	291,147,266.50	68,616,677.95	222,530,588.55

2017 (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)

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

Name	Ending balance Accounts receivable	Provision for bad debts	Proportion of provision (%)
Related parties within the range of consolidation	38,002,012.29		No provisions are made
Total	38,002,012.29		

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 RMB-2,547,412.40; and there is no amount of written back of the provision for bad debts during the period.

3. Accounts receivable actually written off during the reporting period

Item	Amount written off
Accounts receivable actually written off	24,091,345.60

Details of significant accounts receivable actually written off:

Name	Nature	Amount written off	Reason	Approval Procedure	Whether arising from connected transaction
Launch Tech Pty. Ltd.	Prepayment	7,490,689.24	Uncollectible	Approved by General managers' office	No
深圳市澳德昌汽修設備有限公司	Prepayment	2,615,409.48	Uncollectible	Approved by General managers' office	No
Launch Tech (M) SDN. BHD.	Prepayment	2,559,298.92	Uncollectible	Approved by General managers' office	No
深圳市金隆翔電子科技有限公司	Prepayment	1,205,174.98	Uncollectible	Approved by General managers' office	No
烏魯木齊金中亞汽保設備有限公司	Prepayment	1,175,450.00	Uncollectible	Approved by General managers' office	No
深圳市瑞益德電子有限公司	Prepayment	1,020,838.25	Uncollectible	Approved by General managers' office	No
商丘市豐達五金工具有限公司	Prepayment	924,100.00	Uncollectible	Approved by General managers' office	No
深圳市昌生利科技有限公司	Prepayment	918,653.88	Uncollectible	Approved by General managers' office	No
長春市詩琴汽保設備工具商行	Prepayment	720,716.00	Uncollectible	Approved by General managers' office	No

2017 (Expressed in Renminbi)

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 (Continued)

Name	Nature	Amount written off	Reason	Approval Procedure	Whether arising from connected transaction
深圳市晶矽科技有限公司	Prepayment	650,000.00	Uncollectible	Approved by General managers' office	No
深圳市怡豐汽修綜合服務有限公司	Prepayment	600,000.00	Uncollectible	Approved by General managers' office	No
L－財務Equipment Services U	Prepayment	555,349.01	Uncollectible	Approved by General managers' office	No
杭州永成汽保設備有限公司	Prepayment	428,722.27	Uncollectible	Approved by General managers' office	No
北京廣達汽車維修設備有限公司	Prepayment	389,363.00	Uncollectible	Approved by General managers' office	No
重慶凱施特汽車維修設備有限公司	Prepayment	330,000.00	Uncollectible	Approved by General managers' office	No
漳州市龍文區元和汽車維修設備商行	Prepayment	302,900.00	Uncollectible	Approved by General managers' office	No
滄州鑫旺機電設備有限公司	Prepayment	302,200.00	Uncollectible	Approved by General managers' office	No
石家莊飛龍機電設備有限公司	Prepayment	299,367.09	Uncollectible	Approved by General managers' office	No
北京市偉業騰達商貿有限公司	Prepayment	200,000.00	Uncollectible	Approved by General managers' office	No
廣州實耐機械設備有限公司	Prepayment	185,864.03	Uncollectible	Approved by General managers' office	No
深圳市美賽達科技股份有限公司	Prepayment	171,300.00	Uncollectible	Approved by General managers' office	No
哈飛汽車股份有限公司銷售分公司	Prepayment	146,347.83	Uncollectible	Approved by General managers' office	No
煙台長天機械有限公司	Prepayment	117,200.00	Uncollectible	Approved by General managers' office	No
上海環迅電子商務有限公司	Prepayment	116,895.32	Uncollectible	Approved by General managers' office	No
海口深昌益貿易有限公司	Prepayment	101,998.98	Uncollectible	Approved by General managers' office	No
38 accounts with insignificant amounts	Prepayment	563,507.32	Uncollectible	Approved by General managers' office	No
Total		24,091,345.60			

2017 (Expressed in Renminbi)

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

(1) Accounts receivable (Continued)

4. 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.	58,678,452.75	24.14	3,770,095.32
Launch Europe GmbH	24,603,071.87	10.12	19,260,181.22
Launch Tech Japan. Inc.	17,210,391.35	7.08	860,519.57
Launch Ibérica, S.L.	15,315,037.59	6.30	2,715,939.22
Matco Tools	7,664,822.86	3.15	1,462,816.48
Total	123,471,776.42	50.79	28,069,551.81

(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	126,826,218.24	94.79	3,435,064.35	2.71	123,391,153.89
Other receivables that are individually insignificant but are provided for bad debts on individual basis	6,972,183.65	5.21	6,972,183.65	100.00	–
Total	133,798,401.89	100.00	10,407,248.00	7.78	123,391,153.8

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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	73,847,016.10	93.57	2,730,039.67	3.70	71,116,976.43
Other receivables that are individually insignificant but are provided for bad debts on individual basis	5,073,221.34	6.43	5,073,221.34	100.00	–
Total	78,920,237.44	100.00	7,803,261.01	9.89	71,116,976.43

(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	3,102,974.62	155,148.73	5.00
1-2 years	1,614,029.20	161,402.92	10.00
2-3 years	3,312,012.44	993,603.73	30.00
3-4 years	982,277.17	491,138.59	50.00
4-5 years	1,546,032.85	1,236,826.28	80.00
Over 5 years	396,944.10	396,944.10	100.00
Total	10,954,270.38	3,435,064.35	31.36

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

(2) Other receivables (Continued)

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

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

	Ending balance		
Name of portfolio	Other receivables	Provision for bad debts	Proportion of provision (%)
Related party in the scope of consolidation	115,871,947.86		No provision
Total	115,871,947.86		

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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)

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

	Carrying balance			
Name	Other receivables	Amount of provision for bad debts	Aging	Reason
深圳市康邁科技有限公司	1,111,358.97	1,111,358.97	2-3 years and over 3 years	Low recoverability due to significant risks
深圳市中博電子有限公司	899,999.89	899,999.89	1-3 years and over 3 years	Low recoverability due to significant risks
深圳市寶利斯科技有限公司	850,000.00	850,000.00	1-2 years and over 3 years	Low recoverability due to significant risks
同向興業機械(深圳)有限公司	850,000.00	850,000.00	1-2 years and over 3 years	Low recoverability due to significant risks
深圳市廣商科技有限公司	690,000.00	690,000.00	Over 3 years	Low recoverability due to significant risks
深圳市永盛微電子有限公司	650,000.00	650,000.00	Over 3 years	Low recoverability due to significant risks
深圳市百世盈科實業有限公司	601,217.18	601,217.18	Over 3 years	Low recoverability due to significant risks
深圳市國升電子設備有限公司	562,133.61	562,133.61	Within 1 year and over 3 years	Low recoverability due to significant risks
深圳市德豐模具有限公司	320,291.00	320,291.00	1-2 years and over 3 years	Low recoverability due to significant risks
深圳市湘聯金屬製品有限公司	300,000.00	300,000.00	Over 3 years	Low recoverability due to significant risks
Sub-total of 8 insignificant account	137,183.00	137,183.00	Over 5 years	Low recoverability due to significant risks
Total	6,972,183.65	6,972,183.65		

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 RMB8,419,598.19; and the amount of write-off of the provision for bad debts during the period amounted to RMB43,589.74.

3. Other receivables actually written off during the reporting period

Item	Amounts written off
Other receivables actually written off	5,859,200.94

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

(2) Other receivables (Continued)

3. Other receivables actually written off during the reporting period (Continued)

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
深圳市聯強科技有限公司	Prepayment	1,100,000.00	Uncollectible	Approved by General managers' office	No
廣州中工商報傳媒有限公司	Prepayment	304,000.00	Uncollectible	Approved by General managers' office	No
深圳市富來喜電子有限公司	Prepayment	299,999.71	Uncollectible	Approved by General managers' office	No
深圳世紀恒興科技有限公司	Prepayment	274,225.13	Uncollectible	Approved by General managers' office	No
深圳市東恩電子科技有限公司	Prepayment	250,000.00	Uncollectible	Approved by General managers' office	No
上海齊豪實業有限公司	Prepayment	250,000.00	Uncollectible	Approved by General managers' office	No
深圳市長創電子科技有限公司	Prepayment	210,000.00	Uncollectible	Approved by General managers' office	No
無錫松枝精密機械製造有限公司	Prepayment	199,999.95	Uncollectible	Approved by General managers' office	No
北京淩雲光技術有限責任公司	Prepayment	167,317.00	Uncollectible	Approved by General managers' office	No
佛山市男孩利事達電器有限公司	Prepayment	162,414.64	Uncollectible	Approved by General managers' office	No
深圳市好利達超聲設備有限公司	Prepayment	159,999.99	Uncollectible	Approved by General managers' office	No
深圳市昌隆興金屬製品有限公司	Prepayment	150,000.00	Uncollectible	Approved by General managers' office	No
深圳華祥榮正電子有限公司	Prepayment	145,511.25	Uncollectible	Approved by General managers' office	No
深圳市海博特置業有限公司	Prepayment	144,564.00	Uncollectible	Approved by General managers' office	No
王岩	Imprest	138,345.00	Uncollectible	Approved by General managers' office	No
深圳市揚明精密連接器有限公司	Prepayment	120,000.00	Uncollectible	Approved by General managers' office	No
福田區華強電子世界雄發電子展銷櫃	Prepayment	120,000.00	Uncollectible	Approved by General managers' office	No
37 accounts with insignificant amounts		1,662,824.27	Uncollectible	Approved by General managers' office	No
Total		5,859,200.94			

2017 (Expressed in Renminbi)

(2) Other receivables (Continued)

4. Other receivables by nature

Item	Ending balance	Opening balance
Deposits	718,517.34	1,136,820.51
Imprest	6,215,013.22	10,445,961.53
Borrowings	118,971,947.86	59,913,806.15
Others	7,892,923.47	7,423,649.25
Total	133,798,401.89	78,920,237.44

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
Xian Launch	Borrowings	53,124,133.00	Within 1 year	39.70	–
Haishiwei	Borrowings	30,462,706.37	Within 2 year	22.77	–
LAUNCH EUROPE	Borrowings	18,674,985.83	3-4 years	13.96	–
Golo Internet	Borrowings	7,241,836.88	Within 2 year	5.41	–
Beijing Yunfeng Culture and Investment Co., Ltd.	Borrowings	2,300,000.00	3-5 years	1.72	–
Total		111,803,662.08		83.56	–

(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	202,555,576.68		202,555,576.68	202,555,576.68		202,555,576.68
Total	202,555,576.68		202,555,576.68	202,555,576.68		202,555,576.68

2017 (Expressed in Renminbi)

XVI. 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		
Golo Internet	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		
PJS	2,000,000.00	2,000,000.00			2,000,000.00		
Launch International	42,014.50	42,014.50			42,014.50		
Total	156,954,838.55	202,555,576.68			202,555,576.68		

(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	861,194,600.82	599,477,998.82	748,385,673.54	542,822,272.52
Other business	52,141,497.16	4,691,715.82	41,425,009.92	–
Total	913,336,097.98	604,169,714.64	789,810,683.46	542,822,272.52

2017 (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	-662,314.28	
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)	9,690,687.73	
Other non-operating income and expenses other than the aforementioned items	-976,950.87	
Impact of income tax	28,838.09	
Impact of minority shareholders' interests (after tax)	-6.00	
Total	8,022,590.49	

(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	6.99	0.1743	0.1743
Net profit after deducting non-recurring profit and loss attributable to ordinary shareholders of the Company	6.05	0.1511	0.1511

Financial Summary

RMB million

	2017	2016	2015	2014	2013
Operating revenue	978	835	698	731	678
Net Profit (loss)	60	21	-94	-47	7
Adjusted EPS (RMB)	0.174	0.065	-0.311	-0.156	0.023
Total Assets	1,613	1,314	1,480	1,482	1,370
Total Liabilities	528	590	777	903	747
Net Assets	1,085	724	703	579	623
Adjusted NAV per share (RMB)	2.890	2.200	2.135	1.917	2.063

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. Yang Yi

QUALIFIED ACCOUNTANT

Mr. Liu Chun Ming, FCCA

COMPANY SECRETARY

Mr. Liu Chun Ming, FCCA

BOARD SECRETARY

Mr. Zhang Jiangbo

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

– Annual general meeting and relevant information will be announced in the circular of meeting.

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 Liability

股份代號：HK2488
STOCK CODE：HK2488

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