**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in LAUNCH TECH COMPANY LIMITED you should at once hand this circular to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

LAUNCH

深圳市元征科技股份有限公司

# LAUNCH TECH COMPANY LIMITED*

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

# (1) CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES
# (2) APPLICATION FOR WHITEWASH WAIVER
# (3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND
# (4) NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and The Independent Shareholders**

TC CAPITAL

A letter from the Board is set out on pages 6 to 27 of this circular. A letter from TC Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 56 of this circular and a letter from the Independent Board Committee is set out on page 28 of this circular.

The notices dated 12 May 2017 convening the SGM and the H Share Class Meeting and the Domestic Share Class Meeting ("**Class Meetings**") of the Company to be held at 10th Floor, R&D Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC on Saturday, 27 May 2017 at 11:00 a.m., 11:20 a.m. (or immediately after the SGM), and 11:40 a.m. (or immediately after the H Share Class Meeting) respectively, are set out on page SGM-1, HCM-1, and DCM-1 of this circular.

Whether or not you intend to attend such meetings, you are reminded to complete the proxy form enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for the holders of the H Shares only) or the Company's principal place of business at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding such meetings or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the meetings or at any adjourned meetings if you so wish. Reply slips for such meetings is also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the meetings) and return the signed slip in accordance with the instructions printed thereon.

* *for identification purpose only*

12 May 2017

# CONTENTS


*Page*

**Definitions** . . . . . . . . . . 1

**Letter from the Board** . . . . . . . . . . 6

**Letter from the Independent Board Committee** . . . . . . . . . . 28

**Letter from the Independent Financial Adviser** . . . . . . . . . . 30

**Appendix I – Financial Information of the Group** . . . . . . . . . . I-1

**Appendix II – Property Valuation Report** . . . . . . . . . . II-1

**Appendix III – General Information** . . . . . . . . . . III-1

**Notice of Special General Meeting** . . . . . . . . . . SGM-1

**Notice of the H Share Class Meeting** . . . . . . . . . . HCM-1

**Notice of the Domestic Share Class Meeting** . . . . . . . . . . DCM-1

*Unless the context requires otherwise, capitalised terms used in this circular shall have the meanings as follow:*

| | |
|---|---|
| "Articles" | the articles of association of the Company as revised from time to time |
| "Announcement" | the announcement of the Company dated 28 March 2017 in relation to the Domestic Share Subscription, the Specific Mandate, the Proposed Amendments to the Articles and the Whitewash Waiver |
| "Board" | the board of Directors of the Company |
| "Class Meetings" | the H Share Class Meeting and the Domestic Share Class Meeting |
| "Company" | 深圳市元征科技股份有限公司 (Launch Tech Company Limited*), a joint stock limited company incorporated in the PRC with limited liability |
| "Completion" | the completion of the Domestic Share Subscription |
| "concert party(ies)" | party or parties acting in concert as defined under the Takeovers Code |
| "Connected Person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Directors" | the directors of the Company |
| "Domestic Shareholder(s)" | holder(s) of the Domestic Shares |
| "Domestic Shares" | ordinary domestic share(s) with par value of RMB1.00 each in the share capital of the Company |
| "Domestic Share Class Meeting" | the class meeting of the Domestic Shareholders and Non-H Foreign Shareholders to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver |
| "Domestic Share Subscription" | the Domestic Share Subscription of new Domestic Shares by the Subscribers pursuant to the Domestic Share Subscription Agreements |

| | |
|---|---|
| "Domestic Share Subscription Agreements" | the conditional share subscription agreements entered into between each of the Subscribers and the Company on 20 March 2017 respectively, under which, the Subscribers conditionally agree to subscribe for, and the Company conditionally agrees to issue, 56,500,000 new Domestic Shares in total at the subscription price of RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share. (Collectively the "Domestic Share Subscription Agreements" and each is a "Domestic Share Subscription Agreement") |
| "Executive" | the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of its delegates |
| "Group" | the Company and its subsidiaries |
| "H Shares" | overseas listed foreign share(s) with a par value of RMB1.00 each in the share capital of the Company, listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars |
| "H Shareholder(s)" | holder(s) of the H Shares |
| "H Share Class Meeting" | the class meeting of the H Shareholders to be held to consider and, if thought fit, approve other things, the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate, the proposed amendments to the Articles and the Whitewash Waiver |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "Independent Board Committee" | the independent board committee of the Board comprising all independent non-executive Directors of the Company |
| "Independent Financial Adviser" or "TC Capital" | TC Capital International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Domestic Share Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver |

| | |
|---|---|
| "Independent Shareholders" | Shareholders other than: (i) the Subscribers; (ii) their respective concert parties (including, among others, Shenzhen Langqu, Shenzhen De Shi Yu and Xizang Ruidong); and (iii) all other persons who are involved or interested in the Domestic Share Subscription, the Domestic Share Subscription Agreements and/or the Whitewash Waiver |
| "Independent Third Party(ies)" | person(s) who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is a third party independent of the Company and its Connected Persons under the Listing Rules |
| "Latest Practicable Date" | 9 May 2017, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein |
| "Last Trading Day" | 20 March 2017, being the last full trading day immediately prior to the entering into of the Domestic Share Subscription Agreements |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange, as amended and modified from time to time |
| "Long Stop Date" | 31 May 2017 or such other date as may be agreed by the parties to the Domestic Share Subscription Agreements from time to time in writing |
| "Non-H Foreign Shareholder(s)" | holder(s) of the Non-H Foreign Shares |
| "Non-H Foreign Shares" | ordinary non-H foreign shares with par value of RMB1.00 each in the share capital of the Company |
| "PRC" | the People's Republic of China but excluding, for the purposes of this circular, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| "Price Determination Period" | the period of 10 trading days including the Last Trading Day, i.e., from 7 March 2017 to 20 March 2017, and for this purpose, "trading day" means a day on which Hong Kong Stock Exchange is open for dealing or trading in securities |
| "RMB" | Renminbi, the lawful currency of the PRC |

| | |
|---|---|
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time |
| "SGM" | special general meeting of the Shareholders to be held to consider and, if thought fit, approve, among other things, the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate, the Whitewash Waiver and the proposed amendments to the Articles |
| "Shareholder(s)" | holder(s) of the Shares of the Company |
| "Share(s)" | Domestic Share(s), Non-H Foreign Share(s) and/or H Share(s) |
| "Specific Mandate" | the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the SGM and Class Meetings to issue the new Domestic Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscribers" | Liu Xin, Rui Dong Hairun, Rui Dong Qicai, Guo Shanling, Jiang Quanhong, and Zhuhai Muyang, each is a Subscriber |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "Whitewash Waiver" | a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, in respect of the obligations of Liu Xin to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Liu Xin and his concert parties which would otherwise arise as a result of the allotment and issue of the new Domestic Shares under the Domestic Share Subscription Agreement |
| "%" | per cent. |

*In this circular, unless the context otherwise requires, the terms "connected person(s)", "connected transaction(s)", "controlling shareholder(s)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.*

*For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK$1 to RMB0.889 as at the Last Trading Day. Such exchange rate is for the purpose of illustration* *only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.*

*Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*

*References to the singular number include references to the plural and vice versa and references to one gender include every gender.*

*The English names of Chinese entities marked with "*" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

LAUNCH

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED***

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

*Executive Directors:*
Liu Xin *(Chairman)*
Liu Jun
Huang Zhao Huan
Jiang Shiwen

*Non-executive Director:*
Liu Yong

*Independent non-executive Directors:*
Liu Yuan
Zhang Yan
Ning Bo

*Registered address:*
2-8 Floors, Xin Yang Building,
Bagua Number Four Road,
Futian District,
Shenzhen, the PRC

*Place of business in the PRC:*
Launch Industrial Park,
North of Wuhe Road,
Banxuegang, Longgang District,
Shenzhen, the PRC

Launch Shanghai Base
No. 661 Baian Road, Angtin Zhen,
Jiading District,
Shanghai, the PRC

*Place of business in Hong Kong:*
Unit 1104, Crawford House,
70 Queen's Road Central,
Hong Kong

12 May 2017

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES**
**(2) APPLICATION FOR WHITEWASH WAIVER**
**(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
**AND**
**(4) NOTICE OF SPECIAL GENERAL MEETING**

## INTRODUCTION

Reference is made to the Announcement. On 20 March 2017, the Company entered into the Domestic Share Subscription Agreements with each of the Subscribers respectively. According to the terms of the Domestic Share Subscription Agreements, the Company has

* *for identification purpose only*

conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe in cash for an aggregate of 56,500,000 new Domestic Shares at the subscription price of approximately RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share, raising gross proceeds of approximately RMB461 million (equivalent to approximately HK$518.6 million). Net proceeds from the issue of the new Domestic Shares are expected to be approximately RMB454.1 million (equivalent to approximately HK$510.8 million) and are intended to be used as (a) development fee of new technology (development of vehicles diagnosis cloud technology and development of vehicle big data) of the Company; (b) marketing development fee which are mainly applied to promote new products (including artificial intelligence vehicles diagnosis products and comprehensive hand-held vehicles diagnosis products) and to improve the market share of diagnostic facilities of internet for obtaining big data faster; and (c) reserve fund for the working capital of the Group. The 56,500,000 new Domestic Shares will be issued under a specific mandate to be sought at the SGM and the Class Meetings. Details of use of proceeds are set out in the section headed "Use of Proceeds" of this circular.

The purpose of this circular is (i) to provide you further information relating to the Domestic Share Subscription, the Domestic Share Subscription Agreements, the Whitewash Waiver, the Specific Mandate and the proposed amendments to the Articles; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Domestic Share Subscription, the Domestic Share Subscription Agreements, the Specific Mandate and Whitewash Waiver; (iii) a letter of advice by Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Domestic Share Subscription, the Domestic Share Subscription Agreements, the Specific Mandate and the Whitewash Waiver; and (iv) to give notice of the SGM and the Class Meetings.

## A. DOMESTIC SHARE SUBSCRIPTION OF NEW DOMESTIC SHARES

### 1. Domestic Share Subscription Agreement

The major terms and conditions of the Domestic Share Subscription Agreements are set out as follows:

**Date**

20 March 2017

**Parties**

(1) The Company as the issuer; and

(2) The Subscribers as the subscribers, namely, Liu Xin, Rui Dong Hairun, Rui Dong Qicai, Guo Shanling (郭善苓), Jiang Quanhong (姜全紅), and Zhuhai Muyang.

**Number of new Domestic Shares to be subscribed for**

The Subscribers will subscribe for an aggregate of 56,500,000 new Domestic Shares. The details of the number of new Domestic Shares to be subscribed for by each Subscriber are set out below:–

| Name of the Subscriber | No. of new Domestic Shares to be issued | Percentage of the existing share capital | Percentage of the enlarged share capital upon Completion |
|---|---|---|---|
| Liu Xin *(Note 3)* | 33,500,000 | 10.17% | 8.68% |
| Rui Dong Hairun *(Note 1)* | 5,500,000 | 1.67% | 1.42% |
| Rui Dong Qicai *(Note 1)* | 5,500,000 | 1.67% | 1.42% |
| Guo Shanling（郭善苓） | 4,000,000 | 1.21% | 1.03% |
| Jiang Quanhong（姜全紅） | 2,000,000 | 0.60% | 0.51% |
| Zhuhai Muyang *(Note 2)* | 6,000,000 | 1.82% | 1.55% |
| Total | 56,500,000 | 15.49% | 13.22% |

*Note 1:* Rui Dong Hairun and Rui Dong Qicai are limited partnership enterprises incorporated in PRC and Xizang Ruidong is the general partner of Rui Dong Hairun and Rui Dong Qicai.

*Note 2:* The partners of Zhuhai Muyang are six individual limited partners and an individual general partner who are all Independent Third Parties (the details are set out under the section of "*B. INFORMATION OF THE PARTIES*" of this circular.

*Note 3:* Under Mr. Liu's Subscription Agreement, Mr. Liu has the right either to subscribe the 33,500,000 Domestic Shares himself or to nominate a limited company (or a limited partnership) controlled by him to subscribe the said Domestic Shares.

The Subscribers intend to fund the consideration payable for the subscription of new Domestic Shares from their own resources. As the subscription of new Domestic Shares will be financed from the resources of the Subscribers, no payment of interest on, repayment of or security for any liability (contingent or otherwise) relating to any facility granted for the financing of the consideration payable under the subscription of new Domestic Shares will depend to any significant extent on the business of the Company.

Such new Domestic Shares represent approximately 17.16% of the existing issued share capital of the Company as at the Latest Practicable Date and represent approximately 14.65% of the enlarged share capital of the Company after Completion. Assuming there is no change to the issued share capital of the Company other than the issue of the new Domestic Shares pursuant to the Domestic Share Subscription Agreements prior to Completion, the Subscribers (together with their respective concert parties) will directly hold an aggregate of 201,880,500 Domestic Shares, representing approximately 52.35% of the enlarged total issued share capital of the Company immediately after Completion. Such 56,500,000 new Domestic Shares will be issued under the Specific Mandate. Same with the existing Domestic Shares in issue, the transfer and subsequent sale of the new Domestic Shares to be issued can be made in accordance with the relevant provisions of the Articles, subject to the applicable PRC laws.

**Subscription Price**

RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share under each Domestic Share Subscription Agreement. For the purpose of this circular, all figures in HK$ are calculated based on the exchange rate of approximately HK$1 to RMB0.889 for illustration purpose.

The new Domestic Shares will be subscribed for by the Subscribers at the subscription price of RMB8.16 per Share (equivalent to approximately HK$9.18). The subscription price of HK$9.18 represents:

(1) a discount of approximately 24.75% to the price of approximately HK$12.2 per H Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;

(2) a discount of approximately 5.34% to the average closing price of approximately HK$9.698 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;

(3) equal to the average closing price of approximately HK$9.18 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(4) a discount of approximately 15.93% to the closing price of HK10.92 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(5) a premium of approximately 271% to the audited net assets value attributable to owners of the Company of approximately RMB2.2 (equivalent to approximately HK$2.47) per Share as at 31 December 2016; and

(6) a premium of approximately 247% over the audited net assets value attributable to owners of the Company adjusting for the fair value gain on the property interests of the Group (representing the excess of market value of the property interests as at 31 March 2017 over the corresponding carrying amount as at 31 December 2016 *(Note)* of approximately RMB2.35 (equivalent to approximately HK$2.64) per Share as at 31 December 2016.

*Note:* The difference between the market value of the property interests as at 31 March 2017 (approximately RMB$421.7 million) and the book value of the property interests as at 31 December 2016 (approximately RMB371 million) is approximately RMB50.7 million. The market value of the property interests is based on the valuation as prepared by the independent property valuer and details of which are set out in Appendix II of this Circular.

The subscription price was negotiated and arrived at after arm's length negotiation basis and is considered fair and reasonable with reference to the trading performance of the H Shares.

The subscription price for the Domestic Shares Subscription is not determined by reference to the closing price of per H Share on the Last Trading Date because the price per H Share has drastically increased by 32.18 % on the Last Trading Date from HKD9.23 to HKD 12.20 and the Board considers that such closing price does not reflect the true trading performance of the H Shares. The subscription price for the Domestic Shares Subscription is determined with reference to the average closing price of approximately HK$9.18 per H Share (equivalent to approximately RMB8.16) during the Price Determination Period which is the average closing price of each H Share over a period of 10 trading days including the Last Trading Day. The Board considers that such average closing price is more reflective of the trading performance of the Shares and is thus fair and reasonable as far as the Independent Shareholders are concerned. No liquidity discount has been taken into account although the Domestic Shares are not listed and therefore there is no publicly available transfer price. If liquidity discount has been allowed in the determination of the Subscription Price, the Subscription Price shall represent a premium to the average closing price per H Share during the Price Determination Period. The resulting HK$ per Domestic Share is then converted into RMB at the exchange rate of HK$1 to RMB 0.889.

**Conditions precedent to the Domestic Share Subscription Agreements**

Completion of the Domestic Share Subscription under each of the Domestic Share Subscription Agreements is conditional upon:

(1) the Independent Shareholders approving (a) such Domestic Share Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate by way of special resolutions and (b) the Whitewash Waiver by way of an ordinary resolution, both by way of poll at the SGM and the Class Meetings;

(2) the Executive granting the Whitewash Waiver to Mr. Liu Xin and the satisfaction of all conditions (if any) attached to the Whitewash Waiver; and

(3) the obtaining of all necessary approvals for the transactions and application comtemplated under this circular by the Company and the Subscriber under such Domestic Share Subscription Agreement from and completion of necessary filing in relevant government and/or regulatory authorities (including relevant Hong Kong and PRC departments and authorities such as applicable vetting authority from the SFC and the Stock Exchange, and relevant department of Commerce and Industry of the PRC, i.e. Market and Quality

Supervision Commission of Shenzhen Municipality（深圳市市場監督管理委員會）) which are required for the Domestic Share Subscription and the same are not revoked or refused prior to Completion.

As at the Latest Practicable Date, the outstanding approval to be obtained for the Domestic Share Subscription are the Whitewash Waiver from the Executive, the Market and Quality Supervision Commission of Shenzhen Municipality and the Independent Shareholders.

None of the conditions can be waived under each of the Domestic Share Subscription Agreements.

As advised by the Company's legal adviser as to the PRC laws (i.e. Beijing Dacheng (Shenzhen) Law Office), the Domestic Shares Subscription is not subject to the approval of the China Securities Regulatory Commission.

If any of the conditions precedent under the Domestic Share Subscription Agreement between Mr. Liu Xin and the Company ("**Mr. Liu's Subscription Agreement**") is not satisfied because of failing to obtain the necessary approval or consent on or before the Long Stop Date, all the Domestic Share Subscription Agreements shall lapse and neither party shall have any claims against the other save for any antecedent breaches.

If any of the conditions precedent under any Domestic Share Subscription Agreement other than Mr. Liu's Subscription Agreement as set out above is not satisfied on or before the Long Stop Date, such Domestic Share Subscription Agreement shall lapse and neither party shall have any claims against the other save for any antecedent breaches. However, such lapse will not affect the Completion under other Domestic Share Subscription Agreements.

As the number of New Domestic Shares subscribed by Mr. Liu Xin represents approximately 59% of the total number of the New Domestic Shares, the subscription amount under Mr. Liu's Subscription Agreement forms a substantial part of the proceeds from the Domestic Share Subscription. As such, the Company is of the view that, if the subscription under Mr. Liu's Subscription Agreement is not completed, the proceeds generated from the Subscribers other than Mr. Liu Xin are substantially insufficient for the intended use of proceeds of the Company and the entire development plan of the Company will not be able to be implemented. In addition, the subscription by Mr. Liu under Mr. Liu's Subscription Agreement is regarded as an act of confidence in the Company by the substantial shareholder of the Company. If Mr. Liu does not complete his subscription under Mr. Liu's Subscription Agreement, the other Subscribers (other than Mr. Liu) may or will not be willing to complete their respective subscription of the New Domestic Shares. Therefore, the Company reaches the arrangement with the Subscribers that if any of the conditions precedent under Mr. Liu's Subscription Agreement is not satisfied and thereby completion of the Mr. Liu's Subscription Agreement does not take place, the other Domestic Share Subscription Agreements shall lapse accordingly. Each of the other Subscribers has confirmed with the Company that it/he is not co-operating with Mr. Liu to obtain Mr. Liu's voting rights in the Company under such arrangements. The Directors are of the view that such arrangements are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

**Specific Mandate**

The 56,500,000 new Domestic Shares will be issued under a specific mandate to be sought at the SGM and the Class Meetings.

Shareholders and potential investors should be aware that the Domestic Share Subscription is subject to the satisfaction of the conditions precedent under the Domestic Share Subscription Agreements as set out in the section headed "Conditions precedent to the Domestic Share Subscription Agreements" in this circular, and accordingly, the proposed Domestic Share Subscription may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

**2. Ranking of New Domestic Shares to be issued**

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreements will rank, upon issue, *pari passu* in all respects with the existing Domestic Shares in issue at the time of allotment and issue of such new Domestic Shares.

### 3. Shareholding Structure of the Company

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Domestic Share Subscription (assuming no other changes to the issued share capital of the Company prior to Completion):

| | | As at the Latest Practicable Date | | Immediately after the completion of the Domestic Share Subscription | |
|---|---|---|---|---|---|
| | Share Class | No. of Shares held | Percentage of total issued Shares | Number of Shares held | Percentage of total issued Shares |
| **The Subscribers and their respective concert parties** | Domestic | | | | |
| Liu Xin and parties acting in concert with it | Domestic | 125,380,500 | 38.09% | 158,880,500 | 41.20% |
| ● Liu Xin | | 66,000,000 | 20.05% | 99,500,000 | 25.80% |
| ● Shenzhen Langqu *(Note 2)* | | 49,432,000 | 15.02% | 49,432,000 | 12.82% |
| ● Shenzhen De Shi Yu *(Note 3)* | | 9,948,500 | 3.02% | 9,948,500 | 2.58% |
| Xizang Ruidong and parties acting in concert with it | Domestic | 20,000,000 | 6.08% | 31,000,000 | 8.03% |
| ● Xizang Ruidong *(Note 1)* | | 20,000,000 | 6.08% | 20,000,000 | 5.19% |
| ● Rui Dong Hairun | | 0 | 0% | 5,500,000 | 1.42% |
| ● Rui Dong Qicai | | 0 | 0% | 5,500,000 | 1.42% |
| Guo Shanling (郭善苓) *(Note 1)* | Domestic | 0 | 0% | 4,000,000 | 1.04% |
| Zhuhai Muyang | Domestic | 0 | 0% | 6,000,000 | 1.56% |
| Jiang Quanhong (姜全紅) | Domestic | 0 | 0% | 2,000,000 | 0.52% |
| **Subtotal for the Subscribers and their respective concert parties** | Domestic | 145,380,500 | 44.17% | 201,880,500 | 52.35% |
| Other Non-H Foreign Shareholders | Non-H Foreign | 19,619,500 | 5.96% | 19,619,500 | 5.08% |
| **Total Domestic and Non-H Foreign Shares** | Domestic & Non-H Foreign | 165,000,000 | 50.13% | 221,500,000 | 57.43% |
| **H Shareholders** | | | | | |
| Guo Shanling | H | 4,402,250 | 1.34% | 4,402,250 | 1.14% |
| Jiang Quanhong | H | 362,000 | 0.11% | 362,000 | 0.10% |
| Other public H Shareholders | | 159,395,750 | 48.42% | 159,395,750 | 41.33% |
| Total H Shares | H | 164,160,000 | 49.87% | 164,160,000 | 42.57% |
| Total issued Shares | | 329,160,000 | 100% | 385,660,000 | 100% |

*Note 1:* Xizang Ruidong holds 20,000,000 Domestic Shares on trust for and on behalf of Rui Feng Fund. The partners of Rui Feng Fund are Li Yan (李艷) (36%), Yu Nan (余楠) (59%) and Guo Shanling (郭善苓) (5%) (one of the Subscribers) who are all Independent Third Parties.

*Note 2:* 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 (an executive Director of the Company) as to 40% respectively. Mr. Liu Xin is therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

*Note 3:* The legal and beneficial interests in the shares of Shenzhen De Shi Yu are owned by Mr. Liu Xin as to 40% and by Ms. Liu Yong (a non-executive Director of the Company) as to 60%. Mr. Liu Xin is therefore deemed to be interested in all domestic shares registered in the name of Shenzhen De Shi Yu under Part XV of the SFO.

The total Share interest (Domestic Shares and H Shares) held by each of the Subscribers are as follows:

1. Mr. Liu Xin is interested in 125,380,500 Domestic Shares as at the date of the Announcement (representing 38.09% of the total issued share capital of the Company as at the Latest Practicable Date), and will be interested in 158,880,500 Domestic Shares upon Completion, representing 48.3% of the total issued share capital of the Company as at the Latest Practicable Date and 41.20% of the enlarged issued share capital of the Company;

2. Rui Dong Hairun is not interested in any Shares as at the Latest Practicable Date, and will be interested in 5,500,000 Domestic Shares upon Completion (representing 1.67% of the total issued share capital of the Company as at the Latest Practicable Date and 1.42% of the enlarged issued share capital of the Company upon Completion);

3. Rui Dong Qicai is not interested in any Shares as at the Latest Practicable Date, and will be interested in 5,500,000 Domestic Shares (representing 1.67% of the total issued share capital of the Company as at the Latest Practicable Date and 1.42% of the enlarged issued share capital of the Company) upon Completion;

4. Guo Shanling（郭善苓）is interested in 4,402,250 H Shares as at the Latest Practicable Date (representing 1.34% of the total issued share capital of the Company as at the Latest Practicable Date), and will be interested in 8,402,250 Shares in total (4,402,250 H Shares and 4,000,000 Domestic Shares) upon Completion, representing approximately 2.55% of the total issued share capital of the Company as at the Latest Practicable Date and 2.18% of the enlarged issued shares capital of the Company upon Completion;

5. Jiang Quanhong（姜全紅）is interested in 362,000 H Shares as at the Latest Practicable Date (representing 0.11% of the total issued share capital of the Company as at the Latest Practicable Date), and will be interested in 2,362,000 Shares (362,000 H Shares and 2,000,000 Domestic Shares) in total upon Completion, representing approximately 0.72% of the total issued share capital of the Company as at the Latest Practicable Date and 0.62% of the enlarged issued shares capital of the Company upon Completion; and

6. Zhuhai Muyang is not interested in any Shares as at the Latest Practicable Date, and will be interested in 6,000,000 Domestic Shares (representing 1.82% of the total issued share capital of the Company as at the Latest Practicable Date and 1.56% of the enlarged issued share capital of the Company) upon Completion.

**4. Proposed Amendments to the Articles**

The Board proposed to make the following amendments to the Articles, to take effect subject to and upon completion of the Domestic Shares Subscription, in order to reflect the latest registered capital and shareholding structure of the Company as a result of the issue of the new Domestic Shares:

(1) Current provisions in the Articles state that:–

Article 18 Having been approved by the China Securities Regulatory Commission, after the registration and establishment, the Company has issued 27,360,000 ordinary shares which are all listed foreign shares representing 45.32% of the registered capital (ordinary shares). At the moment of establishment of the Company, the par value of each share is RMB1.00. Having been approved by the China Securities Regulatory Department of State Council, the share capital spilt to RMB0.10 and then merged to RMB1.00 again.

In 3 August 2015, having been approved by the China Securities Regulatory Commission, the Company issued not more than 27,360,000 new H Shares. After the new issue of H Shares, the present equity structure of the Company representing 329,160,000 ordinary shares (the par value of each share is RMB1.00) with Shareholders of domestic capital shares together hold 145,380,500 shares representing 44.17% of the Company's issued share capital; Shareholders of foreign capital shares not listed on stock exchange together hold 19,619,500 shares representing 5.96% of the Company's issued share capital; Shareholders of foreign capital shares listed outside China together hold 164,160,000 shares representing 49.87% of the Company's issued share capital.

Article 21 The registered capital of the Company shall be RMB329,160,000.

(2) Modified provisions in the Articles state that:–

Article 18 Having been approved by the China Securities Regulatory Commission, after the registration and establishment, the Company has issued 27,360,000 ordinary shares which are all listed foreign shares representing 45.32% of the registered capital (ordinary shares). At the moment of establishment of the Company, the par value of each share is RMB1.00. Having been approved by the China Securities Regulatory Department of State Council, the share capital spilt to RMB0.10 and then merged to RMB1.00 again. In 3 August 2015, having been approved by the China Securities Regulatory Commission, the Company issued not more than 27,360,000 new H Shares. After the new issue of H Shares, the present equity structure of the Company representing 329,160,000 ordinary shares (the par value of each share is RMB1.00) with Shareholders of domestic capital shares together hold 145,380,500 shares representing 44.17% of the Company's issued share capital; Shareholders of foreign capital shares not listed on stock exchange together hold 19,619,500 shares representing 5.96% of the Company's issued share capital; Shareholders of foreign capital shares listed outside China together hold 164,160,000 shares representing 49.87% of the Company's issued share capital.

On 20 May 2017, having been approved by the special general meeting of the Shareholders, the Company issued 56,500,000 new domestic capital shares. After the new issue of domestic capital shares, the present equity structure of the Company representing 385,660,000 ordinary shares (the par value of each share is RMB1.00) with Shareholders of domestic capital shares together hold 201,880,500 shares representing 52.35% of the Company's issued share capital; Shareholders of foreign capital shares not listed on stock exchange together hold 19,619,500 shares representing 5.08% of the Company's issued share capital; Shareholders of foreign capital shares listed outside China together hold 164,160,000 shares representing 42.7% of the Company's issued share capital.

Article 21 The registered capital of the Company shall be RMB385,660,000.

The Board would like to state clearly that the proposed amendments to the Articles above are subject to (i) the approvals of the Independent Shareholders of the Company in EGM and the Class Meetings; (ii) completion of Domestic Shares Subscription; and (iii) approval of and registration or filing with the relevant PRC government authorities. As such, the above proposed amendments to the Articles may be subject to further modifications to the extent as necessary to reflect the actual registered capital structure of the Company as may be required by the relevant PRC regulatory authorities.

**5. Use of Proceeds**

The Company expects to raise gross proceeds of approximately RMB461 million (equivalent to approximately HK$518.6 million) from the Domestic Share Subscription. The net proceeds from the Domestic Share Subscription is expected to be approximately RMB454.1 million (equivalent to approximately HK$510.8 million). It is the intention of the Company to use the net proceeds from the Domestic Share Subscription for the following purposes:–

(a) as to approximately RMB136.2 million among the net proceeds will be used as development fee of new technology (development of vehicles diagnosis cloud technology and development of vehicle big data) of the Company, including the positive introduction of a large number of professional vehicle technology engineers, cloud computing senior engineers, large data mining and application engineers, while setting up the corresponding cloud and large data operating environment and the supportive experimental environment, which demand huge investment in the computer equipment, cloud storage, and IDC resources etc.;

(b) as to approximately RMB272.5 million among the net proceeds will be used as marketing development fee which are mainly applied to promote new products (including artificial intelligence vehicles diagnosis products and comprehensive hand-held vehicles diagnosis products) and to improve the market share of diagnostic facilities of Internet for obtaining big data faster. During this year, to cooperate with the large data strategy, the Company will mainly promote the real-time upload diagnostic reports of network equipment and other major large data collection terminal. Also, the Company will introduce a series of products, including artificial intelligence-vehicle diagnostic products X-431 AIT, integrated hand-held vehicle diagnostic products X-431 HTT, EV17 car discharge handheld detection terminal, e-VIN police vehicle inspection terminal. The funds will be used to invest in the promotional strategies, including precision advertising sales, various entities and network sales platform, and cooperation with the different sectors in different ways with post-sale market to increase the acquisition of data; and

(c) as to RMB45.4 million as the reserve fund for working capital of the Group mainly for staff salaries and benefits, and spending on supply chain etc..

**6. Reasons for the Benefits of the Domestic Share Subscription**

**Optimizing the Company's capital structure**

The Company is of the view that the Domestic Share Subscription can further optimize the capital structure and enhance competitive strengths of the Company by lowering its gearing ratio and reducing its financial risk. Meanwhile, the issue of Domestic Shares is not subject to the approval of China Securities Regulatory Commission. The Board has been proactively considering various capital operation strategies. Before resorting to the Domestic Share Subscription, the Board had considered other relevant strategies such as H Shares new issue and placement, rights issue of Domestic Shares and H Shares and debt financing. An analysis of each alternative strategy is as follow:

**(1) Placement of new H Shares:**

The Board considers that such option involves uncertainties as to the timing in obtaining approvals from relevant PRC authorities including China Securities Regulatory Commission. The uncertainty may consequently impact the Company's strategy implementation on timely basis. Aside from the required regulatory approvals, any placement of new H Shares will also be subject to the ability to attract quality investors.

**(2) Rights issue of Domestic Shares and H Shares:**

For similar reasons as set out in (1) above, there are uncertainties as to the timing in obtaining approvals from the relevant PRC authorities including China Securities Regulatory Commission for a rights issue of Domestic Shares and H Shares and the uncertainty may consequently impact the Company's strategy implementation on timely basis. Rights issue will also involve transaction costs such as underwriting fees, and pressure on the Company's share price may result due to the common market practice of discounting of the issue price.

Having carefully weighed the above alternatives, the Board believes that a subscription of new Domestic Shares by the Subscribers is the most efficient and economical approach to raise funds at the current market circumstances and satisfy the proposed uses of proceeds stated in the paragraph headed "5. USE OF PROCEEDS" in this circular. The Domestic Share Subscription demonstrates a strong vote of confidence in the Company by its controlling shareholder. Furthermore, the Company believes that such injection of new equity by its controlling shareholder together with other subscribers will optimize its capital structure, enhance its potential for sustainable debt financing and allow flexibility to further tap into the PRC bond market if and when considered appropriate by the Board, where the size of any potential bond issuance by any issuer is determined based on, inter alia, its equity capital.

**(3) Debt financing:**

The Group has been utilising bank borrowings to cover its cash requirements in investment activities and as at 31 December 2016, the Group had approximately RMB384,374,000 in both short term and long term bank borrowings. The Group expects to repay short term borrowing of approximately RMB322,000,000 within 12 months from 1 April 2017. Although the current ratio is approximately 1.3 times and cash made up of about 38.7% of all current assets, such high cash balance is required to meet repayment of both long and short term debts and the high cash requirement of the Group's daily operation. The going average interest rate on the Group's short term bank borrowings in the financial year ended 31 December 2016 was 5% or above. The Directors believe that it will be in the best interest of the Company and its Shareholders as a whole to utilise bank borrowing moderately but further bank borrowings in the magnitude of the Domestic Shares Subscription will not only significantly increase the financial obligation but also the related interest payment will also erode the operating result and the operating cashflow of the Company, hence the valuation of the Group will be adversely affected. Furthermore, as the Group's bank borrowing surges, banks will become more credit risk-averse when considering the Group's new loan application, making it more difficult to raise funds through bank borrowings.

Having considered the pros and cons of the above alternatives, the Directors believe that a subscription of new Domestic Shares is not only the most efficient and cost-effective way of raising the required funds but it also serves as a vote of confidence in the Company by the substantial Shareholder. As such, the Directors (other than the members of the Independent Board Committee whose view will be contained in this circular having considered the advice from the Independent Financial Adviser) believe that the Domestic Share Subscription by the Subscribers is fair and reasonable and on normal commercial terms, and is in the interests of the Group and the Shareholders as a whole.

**7. Recent Fund Raising Activities**

The Company has not conducted any fund raising activities through any issue of equity securities within the 12 months immediately prior to the date of the Announcement.

## 8. Implications under the Listing Rules

As at the Latest Practicable Date, Mr. Liu Xin directly hold 66,000,000 Domestic Shares in the Company, representing approximately 20.05% of the Company's total issued share capital. Pursuant to the Listing Rules, as a substantial shareholder and director of the Company, Mr. Liu Xin is a connected person of the Company. Accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company and is subject to reporting, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Liu Xin, the executive Director and Chairman of the Board, has abstained from voting in the board meeting approving the Domestic Share Subscription, the Specific Mandate, and the Whitewash Waiver in accordance with the Listing Rules.

As Mr. Liu Xin holds 60% and 40% interests in Shenzhen Langqu and Shenzhen De Shi Yu respectivley, Shenzhen Langqu and Shenzhen De Shi Yu are the concert parties of Mr. Liu Xin. Mr. Liu Jun holds 40% interest in Shenzhen Langqu and Ms. Liu Yong holds 60% interest in Shenzhen De Shi Yu. Therefore, as directors, Mr. Liu Jun and Ms. Liu Yong has also abstained from voting in the board meeting approving the Domestic Share Subscription, the Specific Mandate, and the Whitewash Waiver in accordance with the Listing Rules.

Save as disclosed above, no other directors have any material interests in the Domestic Share Subscription and are required to abstain from voting in the board meeting approving the Domestic Share Subscription.

The Domestic Share Subscription Agreements and the Specific Mandate will be proposed by way of special resolutions and the Whitewash Waiver will be proposed by way of an ordinary resolution at the SGM and the Class Meetings to be approved by the Independent Shareholders. The Subscribers and their respective concert parties (including Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (including but not limited to Rui Dong Hairun and Rui Dong Qicai)) will (and any other shareholder who is involved or interested in the Domestic Share Subscription, the Specific Mandate and the Whitewash Waiver (including Mr. Zhang Jiangbo (assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the Latest Practicable Date)) will be required to abstain from voting on the resolutions to be proposed at the SGM and the Class Meetings for approving the proposed Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the SGM and the Class Meetings.

## 9. Implications under the Takeovers Code and Application for Whitewash Waiver

As at the Latest Practicable Date, Mr. Liu Xin, Shengzhen Langqu and Shenzhen De Shi Yu hold 125,380,500 Domestic Shares in total in the Company, representing approximately 38.09% of the total issued share capital of the Company as at the Latest Practicable Date. After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Mr. Liu Xin and his concert parties will hold approximately 41.2% of the Company's enlarged issued share capital. As the shareholding held by Mr. Liu Xin and his concert parties will increase from 38.09% to 41.2% as a result of the issue of the new Domestic Shares, pursuant to Rule 26.1 of the Takeovers Code, Mr. Liu Xin will be required to make a mandatory general offer for all the issued shares in the share capital of the Company not already owned or agreed to be acquired by him and his concert parties in the absence of the Whitewash Waiver.

Completion of the Domestic Share Subscription is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. An application has been made to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the issue of the new Domestic Shares to Mr. Liu Xin pursuant to Mr. Liu's Subscription Agreement. The Whitewash Waiver, if granted by the Executive, would be subject to the approval of the Independent Shareholders by way of poll at the SGM and the Class Meetings.

The Executive may or may not grant the Whitewash Waiver and in the event that it is not granted, the Domestic Share Subscription Agreements shall lapse and the Domestic Share Subscription will not proceed. The Subscribers and their respective concert parties (including Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (including but not limited to Rui Dong Hairun and Rui Dong Qicai)) will, and any other shareholder who is involved or interested in the Domestic Share Subscription, the Specific Mandate and the Whitewash Waiver (including Mr. Zhang Jiangbo (assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the Latest Practicable Date) will be required to abstain from voting in respect of the resolution(s) to approve the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the SGM and the Class Meetings.

As at the Latest Practicable Date the Company does not believe that the Domestic Share Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Domestic Share Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver do not comply with other applicable rules and regulations.

It is one of the conditions under the Domestic Share Subscription Agreements that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders by way of poll at the SGM and the Class Meetings. If the Whitewash

Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Domestic Share Subscription Agreements will not become unconditional and the Domestic Share Subscription will not proceed.

As at the Latest Practicable Date, save as (1) the 38.09% interest in the total existing issued share capital of the Company owned or controlled by Mr. Liu Xin and his concert parties; (2) 6.08% interest in the total existing issued share capital of the Company owned by Xizang Ruidong; (3) 1.34% interest in the total existing issued share capital of the Company owned by Guo Shanling; (4) 0.11% interest in the total existing issued share capital of the Company owned by Jiang Quanhong (details of the above are set out in the section headed "Shareholding Structure of the Company" in this circular) and (5) all the transactions contemplated under the proposed Domestic Share Subscription, neither the Subscribers nor any of their respective concert parties:

(i) hold, own, control or direct any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company nor have entered into any outstanding derivatives in respect of the securities in the Company;

(ii) have secured any irrevocable commitment from any Independent Shareholders to vote in favour of or against the resolutions approving the transactions contemplated under the Domestic Share Subscription Agreement and/or the Whitewash Waiver;

(iii) have any arrangement as referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) or contract with any other parties in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Subscribers which might be material to the Domestic Share Subscription and/or the Whitewash Waiver;

(iv) have any agreement or arrangement to which the Subscribers or any of their respective concert parties are parties which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Domestic Share Subscription and/or the Whitewash Waiver; and

(v) have borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

***The transaction of Shares by the Subscribers or their respective concert parties during the 6 months prior to the date of the Announcement***

Set out below is the relevant information regarding transaction of Shares by the Subscribers or their respective concert parties during the 6 months prior to the date of the Announcement:

**1. Guo Shanling**

| Date | Number of Shares | Price per share |
|---|---|---|
| 28 December 2016 | Acquisition of 4,473,750 H Shares | HK$8.65 |
| 30 December 2016 | Disposal of 20,500 H Shares | HK$8.94 |
| 3 January 2017 | Disposal of 51,000 H Shares | HK$8.9 |

**2. Shenzhen De Shi Yu**

Shenzhen De Shi Yu has acquired 4,818,000 Domestic Shares of the Company (representing approximately 1.46% of the existing issued share capital of the Company) on 16 December 2016.

**3. Jiang Quanhong**

| Date | Number of Shares | Price per share |
|---|---|---|
| 28 November 2016 | Acquisition of 45,000 H Shares | HK$7.98 |
| 7 December 2016 | Acquisition of 30,000 H Shares | HK$8.00 |
| 9 December 2016 | Acquisition of 42,000 H Shares | HK$8.16 |
| 14 December 2016 | Acquisition of 18,000 H Shares | HK$8.40 |

The above mentioned share transaction was taken place in the 6 months prior to the Announcement but all prior to the negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Domestic Share Subscription (commenced on 5 February 2017).

Save for the entering into of the Domestic Share Subscription Agreements, neither the Subscribers nor any of their respective concert parties have acquired any voting rights of the Company or have dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the securities of the Company in the six-month period prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Domestic Share Subscription (commenced on 5 February 2017). The Subscribers and their respective concert parties will not acquire or dispose of any voting rights of the Company after the date of the Announcement until Completion.

The Company has no outstanding warrants, options or securities convertible into shares of the Company as at the date of the Announcement.

## B. INFORMATION OF THE PARTIES

The Company is a company incorporated in the PRC with limited liability, whose H Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2488).

The Group is principally engaged in provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

The Subscribers' information are set out below:

(1) Mr. Liu Xin is a substantial shareholder of the Company, the executive Director and chairman of the Board. As at the Latest Practicable Date, Mr. Liu Xin directly holds 66,000,000 Domestic Shares of the Company. Mr. Liu Xin has no intention to discontinue the employment of or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

(2) Ruidong Hairun and Ruidong Qicai are limited partnership enterprises established in PRC whose general partner is Xizang Ruidong. Ruidong Hairun and Ruidong Qicai are principally engaged in investments business. Xizang Ruidong is a registered Domestic Shareholder holding 20,000,000 Domestic Shares for and on behalf of Rui Feng Fund as at the date of the Announcement. The ultimate shareholders of Xizang Ruidong are Cao Guanye, Xu Xiaodong and Li Yan, all of them are Independent Third Parties, and the partners of Rui Feng Fund are Li Yan, (36%), Yu Nan, (59%) and Guo Shanling, (5%) (one of the Subscribers) who are all Independent Third Parties.

(3) Guo Shanling is an Independent Third Party.

(4) Jiang Quanhong is an Independent Third Party.

(5) Zhuhai Muyang is a limited partnership enterprise established in PRC principally engaged in investment and management business. Zhuhai Muyang is an Independent Third Party. The partners of Zhuhai Muyang are six individual limited partners (namely, Huang Le, Xiong Zhixin, Peng Han,Wu Weiqiang, Yang Jinzhi, and Meng Linhua, and an individual general partner (Huang Wei who are all Independent Third Parties.

Save as disclosed above that Guo Shan Ling is a partner holding 5% interest in Rui Feng Fund (details are set out in the Section B. INFORMATION OF THE PARTIES of this circular), there is no other relationships (financial, business or otherwise) past, present or contemplated between each of the Subscribers. Save as disclosed in this circular that Ruidong Hairun and Ruidong Qicai are Limited partnership enterprises whose general partner is Xizang Ruidong and therefore Ruidong Hairun and Ruidong Qicai are acting in concert with each other, each of the Subscribers is not acting in concert or presumed to be acting in concert with the other Subscribers.

## C. INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. The non-executive Director, Ms. Liu Yong will not offer herself as a member of the Independent Board Committee as she is holding 60% share equity interest in Shenzhen De Shi Yu. In this connection, TC Capital International Limited has been approved and appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders and concerned and make recommendation on voting.

## D. SGM AND CLASS MEETINGS

The SGM and the Class Meetings, will be held to consider and, if thought fit, pass resolutions to approve the (i) proposed Domestic Share Subscription Agreements and the transactions contemplated thereunder; (ii) the grant of the specific mandate for the issue of the new Domestic Shares; (iii) the Whitewash Waiver and (iv) the proposed amendments to the Articles (as the case may be). The voting in relation to the Domestic Share Subscription Agreements, the Specific andate, the Whitewash Waiver and proposed amendments to the Articles at the SGM and the Class Meetings (as the case may be) will be conducted by way of poll. The Domestic Share Subscription Agreements and the Specific Mandate will be proposed by way of special resolutions and the Whitewash Waiver will be proposed by way of an ordinary resolution at the SGM and the Class Meetings to be approved by the Independent Shareholders. The amendments to the Articles will be proposed by way of special resolutions at the SGM to be approved by the Shareholders. One class meeting (being the Domestic Share Class Meeting) for the Domestic Shareholders and the Non-H Foreign Shareholder and one class meeting (being the H Share Class Meeting) for the H Shareholders will be convened to consider the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver.

The Domestic Share Subscription, the Specific Mandate and the Whitewash Waiver are subject to, among other things, the approval by the Independent Shareholders at the SGM to be taken by way of a poll. As mentioned above, the Subscribers and their respective concert parties (including Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (Rui Dong Hairun and Rui Dong Qicai)) will (and any other shareholder who is involved or interested in the Domestic Share Subscription, the Specific Mandate and the Whitewash Waiver (including Mr. Zhang Jiangbo (assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the Latest Practicable

Date)) will be required to) abstain from voting in respect of the resolution(s) to approve the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the SGM and the Class Meetings. As at the Latest Practicable Date, the Subscribers and their respective concert parties and Mr. Zhang Jiangbo are, in aggregate, entitled to voting rights of 150,215,750 Shares (representing approximately 45.64% of the total voting rights of the holders of the Shares). There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon the Subscribers; and (ii) no obligation or entitlement of the Subscribers as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

The details regarding the abstaining from voting at the SGM and Class Meetings are enlisted below:

(1) Liu Xin and his concert parties (Shenzhen Langqu and Shenzhen De Shi Yu) are holding 125,380,500 Domestic Shares, representing 38.09% of total issued shares as at the Latest Practicable Date. They will be required to abstain from voting on the resolutions at the SGM and Domestic Share Class Meeting;

(2) Xizang Ruidong and its concert parties (Rui Dong Hairun and Rui Dong Qicai)) are holding 20,000,000 Domestic Shares, representing 6.08% of total issued shares as at the Latest Practicable Date. They will be required to abstain from voting on the resolutions at the SGM and Domestic Share Class Meeting;

(3) Guo Shanling is holding 4,402,250 H Shares, representing 1.34% of total issued shares as at the Latest Practicable Date and will be required to abstain from voting on the resolutions at the SGM and H Class Meeting;

(4) Jiang Quanhong is holding 362,000 H Shares, representing 0.11% of total issued shares as at the Latest Practicable Date and will be required to abstain from voting on the resolutions at the SGM and H Class Meeting; and

(5) Mr. Zhang Jiangbo is holding 71,000 H Shares, representing 0.02% of total issued shares as at the Latest Practicable Date and will be required to abstain from voting on the resolutions at the SGM and H Class Meeting.

Save as disclosed above, none of other Shareholders are required to abstain from voting at the SGM and Class Meetings.

The notices dated 12 May 2017 convening the SGM, H Share Class Meeting and the Domestic Share Class Meeting of the Company to be held at 10th Floor, R&D Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC on Saturday, 27 May 2017 at 11:00 a.m., 11:20 a.m. (or immediately after the conclusion of the SGM), and 11:40 a.m. (or immediately after the conclusion of H Share Class Meeting) respectively, are set out on page SGM-1, HCM-1 and DCM-1 of this circular. Whether or not you intend to attend such meetings, you are reminded to complete the proxy form enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for the holders of the H Shares only) or the Company's principal place of business at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding such meetings or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the meetings or at any adjourned meetings if you so wish. Reply slips for such meetings are also enclosed. You are reminded to complete and sign the reply slips (if you are entitled to attend the meetings) and return the signed slip in accordance with the instructions printed thereon.

## E. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 30 to 56 of this circular, consider that the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver are in the interests of the Company and are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolution(s) to be proposed at the SGM and the Class Meetings to approve the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver.

The Directors (including the independent non-executive Directors) consider that the proposed amendments to the Articles as described in this circular are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolution to be proposed at the SGM and the Class Meetings to approve the proposed amendments to the Articles.

## ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully
By Order of the Board
**Launch Tech Company Limited**
**Liu Chun Ming**
*Company Secretary*

# LAUNCH

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED***

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

12 May 2017

*To the Independent Shareholders*

Dear Sir or Madam,

## (1) CONNECTED TRANSACTION IN RESPECT OF PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES
## (2) APPLICATION FOR WHITEWASH WAIVER
## (3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND
## (4) NOTICE OF SPECIAL GENERAL MEETING

We refer to the circular issued by the Company to the Shareholders dated 12 May 2017 (the "**Circular**") which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Domestic Share Subscription and the Whitewash Waiver and to advise the Independent Shareholders in respect of the Domestic Share Subscription and the Whitewash Waiver. TC Capital has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the "Letter from the Board" and the "Letter from Independent Financial Adviser" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of TC Capital as set out in their letter of advice, we are of the opinion that the Domestic Share Subscription and the Whitewash Waiver, although are not conducted in the ordinary and usual course of business of the Company, is on normal commercial terms and are in the interests of the Company and are

* *for identification purpose only*

fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the special resolution approving the Domestic Share Subscription and the Whitewash Waiver at the SGM.

Yours faithfully
For and on behalf of the Independent Board Committee of
**Launch Tech Company Limited**

| **Liu Yuan** | **Zhang Yan** | **Ning Bo** |
|---|---|---|
| *Independent Non-executive Director* | *Independent Non-executive Director* | *Independent Non-executive Director* |

TC CAPITAL
天財資本

12 May 2017

*The Independent Board Committee and the Independent Shareholders of*
*Launch Tech Company Limited*

Dear Sir/Madam,

## CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES AND APPLICATION FOR WHITEWASH WAIVER

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular of Launch Tech Company Limited dated 12 May 2017 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 20 March 2017, the Company entered into the Domestic Share Subscription Agreements with each of the Subscribers respectively. According to the terms of the Domestic Share Subscription Agreements, the Company has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe in cash for an aggregate of 56,500,000 new Domestic Shares at the subscription price of approximately RMB8.16 (equivalent to approximately HK$9.18*) per new Domestic Share, raising gross proceeds of approximately RMB461 million (equivalent to approximately HK$518.6 million*). Net proceeds from the issue of the new Domestic Shares are expected to be approximately RMB454.1 million (equivalent to approximately HK$510.8 million*). The 56,500,000 new Domestic Shares will be issued under the Specific Mandate to be sought at the SGM and the Class Meetings.

As at the Latest Practicable Date, Mr. Liu Xin directly holds 66,000,000 Domestic Shares in the Company, representing approximately 20.05% of the Company's total issued share capital. Meanwhile, Mr. Liu Xin is the executive Director and Chairman of the Board. Pursuant to Chapter 14A of the Listing Rules, Mr. Liu Xin is considered as a connected person of the Company and the Domestic Share Subscription constitutes a connected transaction of the Company, which is subject to reporting, announcement and independent shareholders' approval requirements. Moreover, as at the Latest Practicable Date, Mr. Liu Xin and parties acting in concert with him, namely Shengzhen Langqu and Shenzhen De Shi Yu, hold in aggregate 125,380,500 Domestic Shares, representing approximately 38.09% of the total issued share capital of the Company. After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Mr. Liu Xin and his concert parties will hold approximately 41.2% of the Company's enlarged issued share capital. As the shareholding held by Mr. Liu Xin and his concert parties will increase from approximately 38.09% to 41.2% as a result of the issue of the new Domestic Shares, pursuant to Rule 26.1 of the Takeovers Code, Mr. Liu Xin will be required to make a mandatory general offer for all the issued shares in the share capital of the Company not already owned or agreed to be acquired by him and his concert parties in the absence of the Whitewash Waiver.

The Subscribers and their respective concert parties (including Mr. Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (including but not limited to Rui Dong Hairun and Rui Dong Qicai)) and any other shareholder who is involved or interested in the Domestic Share Subscription, the Specific Mandate and the Whitewash Waiver (including Mr. Zhang Jiangbo (assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the Latest Practicable Date) will be required to abstain from voting in respect of the resolution(s) to approve the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the SGM and the Class Meetings. Further, as Mr. Liu Xin holds 60% and 40% interests in Shenzhen Langqu and Shenzhen De Shi Yu respectively, Shenzhen Langqu and Shenzhen De Shi Yu are the concert parties of Mr. Liu Xin. Mr. Liu Jun holds 40% interest in Shenzhen Langqu and Ms. Liu Yong holds 60% interest in Shenzhen De Shi Yu. Therefore, as directors, Mr. Liu Jun and Ms. Liu Yong have also abstained from voting in the board meeting approving the Domestic Share Subscription, the Specific Mandate, and the Whitewash Waiver in accordance with the Listing Rules. Save as disclosed above, no other directors have any material interests in the Domestic Share Subscription and are required to abstain from voting in the board meeting approving the Domestic Share Subscription.

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. The non-executive Director, Ms. Liu Yong will not offer herself as a member of the Independent Board Committee as she is holding 60% share equity interest in Shenzhen De Shi Yu. In this connection, we have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned and make recommendation on voting.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties involved in the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver that could reasonably be regarded as relevant to our independence.

## BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Circular; (ii) the Domestic Share Subscription Agreements; (iii) the annual reports of the Company for the years ended 31 December 2014 (the "**2014 Annual Report**"), 2015 (the "**2015 Annual Report**") and 2016 (the "**2016 Annual Report**"); (iv) the valuation report issued by the independent property valuer, the text of which is set out in the section headed "Appendix II – Property Valuation Report" of the Circular; and (v) relevant market data and information available from public sources and the website of the Stock Exchange. We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as at the date thereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. The Company will notify the Shareholders of any material changes (as defined under the Takeovers Code) as soon as possible subsequent to the Latest Practicable Date and prior to the date of SGM in accordance with Rule 9.1 of the Takeovers Code. If we shall become aware of any such material change, we will notify the Independent Shareholders of the potential impact on our opinion and/or recommendation set out in this letter as soon as possible.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, the Subscribers, and any of their respective subsidiaries and associates and parties acting in concert with them.

We, TC Capital International Limited, are independent of and not connected with any members of the Group or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver and we did not act as independent financial adviser to the Company's other transactions nor provided other services to the Company in the last two years.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Domestic Share Subscription, we have taken into consideration the following principal factors and reasons:

## THE DOMESTIC SHARE SUBSCRIPTION AGREEMENTS

### I. Background to and reasons for entering into of the Domestic Share Subscription Agreements

#### *a) Information on the Company*

As stated in the Letter from the Board, the Group is principally engaged in provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

The tables below are the financial highlights of the Group for the three years ended 31 December 2016 ("**FY2014**", "**FY2015**" and "**FY2016**", respectively) as extracted from the 2014 Annual Report, 2015 Annual Report and the 2016 Annual Report:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| | *(audited)* | *(audited)* | *(audited)* |
| Operating income | 731,173 | 697,598 | 835,053 |
| Finance costs | 48,630 | 16,699 | 3,270 |
| Profit/(loss) for the year attributable to Shareholders | (46,943) | (93,899) | 21,412 |

| | **As at 31 December** | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| | *(audited)* | *(audited)* | *(audited)* |
| Cash and cash equivalents | 343,797 | 415,465 | 279,286 |
| Total assets | 1,482,285 | 1,479,875 | 1,313,549 |
| Bank borrowings | 614,186 | 561,957 | 385,051 |
| Total liabilities | 903,427 | 777,240 | 590,167 |
| Net asset value attributable to Shareholders | 578,640 | 702,473 | 723,594 |

*Source:* the 2016 Annual Report, the 2015 Annual Report and the 2014 Annual Report

We note from the table above that the operating income of the Group decreased by approximately 4.6% from approximately RMB731.2 million for FY2014 to approximately RMB697.6 million for FY2015 mainly as a result of the decrease in the operating income of its lift segment (which covers research and development, production and sales of machinery products in the automotive aftermarket) due to intense competition in this relatively low-tech traditional machinery product sector. The operating income of the Group increased by approximately 19.7% from approximately RMB697.6 million for FY2015 to approximately RMB835.1 million for FY2016 mainly due to the improvement in the quantity of Internet car diagnostic equipment sold as a result of the strengthened marketing of Internet-based automotive diagnostic equipment, and generate a gross profit due to the Group's strategy of focusing on the promotion of high value-added diagnostic products.

Finance costs of the Group decreased by approximately 65.7% from approximately RMB48.6 million for FY2014 to approximately RMB16.7 million for FY2015, and then further decreased by approximately 80.4% to approximately RMB3.3 million for FY2016. Such decrease from FY2014 to FY2015 was mainly due to the decrease in the level of borrowings, while for the decrease from FY2015 to FY2016 approximately RMB12 million out of the approximately RMB13.4 million difference in finance costs was attributable to the decrease in borrowing, and the remaining was due to exchange fluctuations but was not significant.

The Group recorded a loss of approximately RMB93.9 million for FY2015, representing an increase of approximately 100% as compared with the loss of RMB46.9 million for FY2014. The deepening of the loss can be ascribed to the increase in selling expenses associated with marketing strategies and promotions to boost the sales of new products, the large amount of expenses incurred by the Group's continuous investment in R&D, as well as the increase in administration expenses caused by the rapid rise of the overall cost of operation. However, the Group generated a profit of approximately RMB21.4 million for FY2016, which was mainly due to the Group was able to generate a gross profit due to an increase in revenue and a decrease in selling expenses as a result of the reduction of 400 marketing team staff during the year, and lowered finance costs through reducing the borrowing level.

The cash and cash equivalents of the Group increased by approximately 20.8% from approximately RMB343.8 million as at 31 December 2014 to approximately RMB415.5 million as at 31 December 2015 mainly due to the placing carried out at the end of FY2015. It then decreased by approximately 32.8% to RMB279.3 million as at 31 December 2016 mainly due to the repayment of bank loans and interest.

The total assets of the Group decreased by approximately 0.2% from approximately RMB1,482.3 million as at 31 December 2014 to approximately RMB1,479.9 million as at 31 December 2015 mainly due to the decrease in non-current assets due to the depreciation of fixed assets, which was offset by an increase in cash and cash equivalents from financing and investing activities. The total assets of the Group then decreased by approximately RMB166.3 million to approximately RMB1,313.5 million as at 31 December 2016 mainly due to the repayment of bank borrowings, depreciation of fixed assets and a decrease in intangible assets as amortisation was larger than additions during FY2016, since many new products patents were registered in FY2013, FY2014 and FY2015, and when the technology became mature, the additions decreased in FY2016.

The Group's borrowings decreased by 8.5% from approximately RMB614.2 million for FY2014 to approximately RMB562.0 million for FY2015 as a result of the management's endeavor to reduce indebtedness level, and further decreased by 31.5% to RMB385.1 million which can be attributable to the Group having received proceeds from the placing in December 2015 and wanted to further lower borrowing level to seek a room for turn to profit in FY2016.

The total liabilities of the Group decreased by approximately 14.0% from approximately RMB903.4 million as at 31 December 2014 to approximately RMB777.2 million as at 31 December 2015 mainly due to a decrease in short-term borrowings and bills payable. It further dropped by approximately RMB187.1 million to approximately RMB590.2 million as at 31 December 2016 mainly due to a decrease in short-term borrowings.

***b) Information on the Subscribers***

The Subscribers' information are set out below:

(1) Mr. Liu Xin is a substantial shareholder of the Company, the executive Director and Chairman of the Board. As at the Latest Practicable Date, Mr. Liu Xin directly holds 66,000,000 Domestic Shares of the Company (representing approximately 20.05% of the total issued shares capital of the Company). Mr. Liu Xin and parties acting in concert with him are interested in 125,380,500 Domestic Shares as at the Latest Practicable Date (representing 38.09% of the total issued share capital of the Company as at the Latest Practicable Date).

Mr. Liu Xin has no intention to discontinue the employment of or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

(2) Ruidong Hairun and Ruidong Qicai are limited partnership enterprises established in PRC whose general partner is Xizang Ruidong. Ruidong Hairun and Ruidong Qicai are principally engaged in the investments business. Xizang Ruidong is a registered Domestic Shareholder holding 20,000,000 Domestic Shares for and on behalf of Rui Feng Fund as at the Latest Practicable Date (representing approximately 6.08% of the total issued Shares capital of the Company). The ultimate shareholders of Xizang Ruidong are Cao Guanye（曹冠業）, Xu Xiaodong（徐曉東）and Li Yan（李艷）, all of them are Independent Third Parties, and the partners of Rui Feng Fund are Li Yan（李艷）(36%), Yu Nan（余楠）(59%) and Guo Shanling（郭善苓）(5%) (one of the Subscribers) who are all Independent Third Parties.

(3) Ms. Guo Shanling（郭善苓）is an Independent Third Party and is interested in 4,402,250 H Shares as at the Latest Practicable Date (representing 1.34% of the total issued share capital of the Company as at the Latest Practicable Date).

(4) Mr. Jiang Quanhong（姜全紅）is an Independent Third Party and is interested in 362,000 H Shares as at the Latest Practicable Date (representing 0.11% of the total issued share capital of the Company as at the Latest Practicable Date).

(5) Zhuhai Muyang is a limited partnership enterprise established in PRC principally engaged in the investment and management business. Zhuhai Muyang is an Independent Third Party and is not interested in any Shares as at the Latest Practicable Date. The partners of Zhuhai Muyang are six individual limited partners (namely, Huang Le（黃樂）, Xiong Zhixin（熊志新）, Peng Han（彭涵）, Wu Weiqiang（伍巍強）, Yang Jinzhi（楊金芝）, and Meng Linhua（孟林華）and an individual general partner (Huang Wei（黃微）) who are all Independent Third Parties.

Save as disclosed above that Ms. Guo Shan Ling（郭善苓）is a Subscriber and a partner holding 5% interest in Rui Feng Fund, there is no other relationships (financial, business or otherwise) past, present or contemplated between each of the Subscribers. Save as disclosed in the Letter from the Board that Ruidong Hairun and Ruidong Qicai are limited partnership enterprises whose general partner is Xizang Ruidong and therefore Ruidong Hairun and Ruidong Qicai are acting in concert with each other, each of the Subscribers is not acting in concert or presumed to be acting in concert with the other Subscribers.

***c) Reasons for and benefits of the Domestic Share Subscription***

*(i) Use of net proceeds*

As stated in the Letter from the Board, among the net proceeds of approximately RMB454.1 million (equivalent to approximately HK$510.8 million*) from the issue of the new Domestic Shares. The Company intended to use:

(a) approximately RMB136.2 million (representing approximately 30.0% of the total net proceeds from the Domestic Share Subscription) on development fee of new technology (development of vehicles diagnosis cloud technology and development of vehicle big data) of the Company, including the positive introduction of a large number of professional vehicle technology engineers, cloud computing senior engineers, large data mining and application engineers, while setting up the corresponding cloud and large data operating environment and the supportive experimental environment, which demand a huge investment in the computer equipment, cloud storage, and IDC resources etc.

As stated in the 2016 Annual Report, as an internet of vehicle big data service provider, the Group used their automotive diagnostic technology as the core of their Internet of Vehicle business. As advised by the Directors, it is their intention to continue allocating resources to strengthen the research and development of their core business. We consider the aforementioned use of proceeds to be in line with the said business strategy as stated in the 2016 Annual Report;

(b) approximately RMB272.5 million (representing approximately 60.0% of the total net proceeds from the Domestic Share Subscription) on marketing development fee which are mainly applied to promote new products (including artificial intelligence vehicles diagnosis products and comprehensive hand-held vehicles diagnosis products) and to improve the market share of diagnostic facilities of Internet for obtaining big data faster. During this year, to cooperate with the large data strategy, the Company will mainly promote the real-time upload diagnostic reports of network equipment and other major large data collection terminal. Also, the Company will introduce a series of products, including artificial intelligence-vehicle diagnostic products X-431 AIT, integrated hand-held vehicle diagnostic products X-431 HTT, EV17 car discharge handheld detection terminal, e-VIN police vehicle inspection terminal. The funds will be used to invest in the promotional strategies, including precision advertising sales, various entities and network sales platform, and cooperation with the different sectors in different ways with post-sale market to increase the acquisition of data.

As stated in the 2016 Annual Report, the Group committed to upgrading all non-networked diagnostic equipment to Internet-based diagnostic equipment, to create a sharp increase in market space. The next two years, compared with the originally relatively stable traditional diagnostic equipment market, there will be a significant increase in sales of high-margin equipment, with an expected profit. The upcoming launch of the new artificial intelligence diagnostic equipment AIT also bring imaginative spaces to the market. As advised by the Directors, a substantial amount of capital will be allocated to marketing the new products. We consider the aforementioned use of proceeds to be in line with the said business strategy as stated in the 2016 Annual Report; and

(c) approximately RMB45.4 million (representing approximately 10.0% of the total net proceeds from the Domestic Share Subscription) on reserve fund for the working capital of the Group mainly for staff salaries and benefits, and spending on supply chain, etc.

We consider the allocation of 10% of net proceeds for working capital to be reasonable in light of the decrease in cash and cash equivalents of the Group by approximately 32.8% from 31 December 2015 to 31 December 2016 mainly due to the repayment of bank loans and interest.

As such, we consider the use of proceeds from the issue of the new Domestic Shares are in line with the business strategies and future plan of the Company. As advised by the Directors, being able to bring new technologies into the market can lead to a competitive advantage. The net proceeds will provide the funds to implement the business strategies mentioned in the 2016 Annual Report immediately which we consider to be crucial in order for the Group to enhance its overall competitive advantage in the market as it would be allow the Group to bring these new technological advances into the market earlier to capture and maintain market share.

As stated in 2016 Annual Report, cash and cash equivalents decreased by 32.8% from RMB415.5 million as at 31 December 2015 to RMB279.3 million as at 31 December 2016 mainly due to the repayment of bank borrowings. As advised by the Directors, the Domestic Share Subscription will optimise the capital of the Company and fulfill the capital needs of its future planning of research and development and marketing new products which will allow the Group to achieve its immediate future plans to enhance the Group's overall competitive advantage.

*(ii) Optimising the Company's capital structure*

As stated in the Letter from the Board, the Company is of the view that the Domestic Share Subscription can further optimise the capital structure and enhance the competitive strengths of the Company, by lowering its gearing ratio and reducing its financial risk. Meanwhile, the issue of Domestic Shares is not subject to the approval of China Securities Regulatory Commission. The Board has been proactively considering various capital operation strategies. Before resorting to the Domestic Share Subscription, the Board had considered other relevant strategies such as H Shares new issue and placement, rights issue of Domestic Shares and H Shares and debt financing. An analysis of each alternative strategy is as follow:

(1) Placement of new H Shares:

The Board considers that such option involves uncertainties as to the timing in obtaining approvals from relevant PRC authorities including China Securities Regulatory Commission. The uncertainty may consequently impact the Company's strategy implementation on a timely basis. Aside from the required regulatory approvals, any placement of new H Shares will also be subject to the ability to attract quality investors.

(2) Rights issue of Domestic Shares and H Shares:

The Board considers that for similar reasons as set out in (1) above, there are uncertainties as to the timing in obtaining approvals from the relevant PRC authorities including China Securities Regulatory Commission for a rights issue of Domestic Shares and H Shares and the uncertainty may consequently impact the Company's strategy implementation on a timely basis. Rights issue will also involve transaction costs such as underwriting fees, and pressure on the Company's share price may result due to the common market practice of discounting of the issue price.

(3) Debt financing

The Group has been utilising bank borrowings to cover its cash requirements in investment activities and as at 31 December 2016, the Group had approximately RMB384,374,000 in both short term and long term bank borrowings. The Group expects to repay short term borrowing of approximately RMB322,000,000 within 12 months from 1 April 2017. Although, as at 31 December 2016, the current ratio (being current assets over current liabilities) is approximately 1.3 times and cash made up of about 38.7% of all current assets, such high cash balance is required to meet repayment of both long and short term debts and the high cash requirement of the Group's daily operation. The going average interest rate on the Group's short term bank borrowings in the financial year ended 31 December 2016 was 5% or above. The Directors believe that it will be in the best interest of the Company and its Shareholders as a whole to utilise bank borrowing moderately but further bank borrowings in the magnitude of the Domestic Shares Subscription will not only significantly increase the financial obligation but also the related interest payment will also erode the operating result and the operating cashflow of the Company, hence the valuation of the Group will be adversely affected. Furthermore, as the Group's bank borrowing surges, banks will become more credit risk-averse when considering the Group's new loan application, making it more difficult to raise funds through bank borrowings.

Having considered the pros and cons of the above alternatives, the Directors believe that a subscription of new Domestic Shares is not only the most efficient and cost-effective way of raising the required funds but it also serves as a vote of confidence in the Company by the substantial Shareholder, and that such injection of new equity by its controlling shareholder together with other subscribers will optimise its capital structure, enhance its potential for sustainable debt financing and allow flexibility to further tap into the PRC bond market if and when considered appropriate by the Board. As such, the Directors (other than the members of the Independent Board Committee whose view will be contained in the Circular having considered the advice from the Independent Financial Adviser) believe that the Domestic Share Subscription by the Subscribers is fair and reasonable and on normal commercial terms, and is in the interests of the Group and the Shareholders as a whole.

We have conducted a trading volume analysis as discussed under the section headed "IV. Trading liquidity of Shares" below and we noted that given the thin trade volume of the Shares, the Company may face difficulties in sourcing an underwriter for a reasonable underwriting fee. Furthermore, due to the thin trading volume of the Shares, certain Shareholders may not be interested in participating in a rights issue unless the Company offers a substantial discount to the market price.

We noted that the Company's gearing ratio, which is calculated by total liabilities divided by total owners' interests attributable to shareholders, decreased from approximately 1.56 times as at 31 December 2014 to approximately 1.11 times as at 31 December 2015 and further decreased to approximately 0.82 times as at 31 December 2016 which is mainly due to the decrease of bank borrowings, details of which are set out in the paragraph headed "a) Information on the Company" above. As stated in the 2016 Annual Report, it is the intention of the Company to reduce the gearing ratio to a satisfactory level. As a result, raising the funds by using banking facilities may not be the most feasible option for the Company as it would not meet the expected financial structure of the Company.

Therefore, after considering (i) the use of proceeds from the issue of the new Domestic Shares to be in line with the business strategies of the Company; (ii) the need for cash to fund the future plan (without taking into account funds reserved for working capital) of approximately RMB408.7 million exceeding the cash and cash equivalents balance as at 31 December 2016 of approximately RMB279.3 million; and (iii) issue of the new Domestic Shares is the most feasible option compared to the other sources of funding based on the alternatives explored by the Company, which we consider to be common financing alternatives considering the amount of funds required to be raised, and the requirements/concerns on each of the alternatives (i.e. thin trading volume of the Shares and the intention of the Company to reduce the gearing ratio) as stated above, we concur with the Company that the Domestic Share Subscription is fair and reasonable, as far as the Independent Shareholders are concerned, and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

## II. Principal terms of the Domestic Share Subscription Agreements

On 20 March 2017, the Company entered into the Domestic Share Subscription Agreements with each of the Subscribers respectively. According to the terms of the Domestic Share Subscription Agreements, the Company has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe in cash for an aggregate of 56,500,000 new Domestic Shares at the subscription price of approximately RMB8.16 (equivalent to approximately HK$9.18*) per new Domestic Share, raising gross proceeds of approximately RMB461 million (equivalent to approximately HK$518.6 million*). Net proceeds from the issue of the new Domestic Shares are expected to be approximately RMB454.1 million (equivalent to approximately HK$510.8 million*).

The details of the number of new Domestic Shares to be subscribed for by each Subscriber are set out below:

| Name of the Subscriber | No. of new Domestic shares to be issued | Percentage of the existing share capital | Percentage of the enlarged share capital upon Completion |
|---|---|---|---|
| Mr. Liu Xin *(Note 3)* | 33,500,000 | 10.17% | 8.68% |
| Rui Dong Hairun *(Note 1)* | 5,500,000 | 1.67% | 1.42% |
| Rui Dong Qicai *(Note 1)* | 5,500,000 | 1.67% | 1.42% |
| Ms. Guo Shanling(郭善苓) | 4,000,000 | 1.21% | 1.03% |
| Mr. Jiang Quanhong(姜全紅) | 2,000,000 | 0.60% | 0.51% |
| Zhuhai Muyang *(Note 2)* | 6,000,000 | 1.82% | 1.55% |
| **Total** | 56,500,000 | 15.49% | 13.22% |

*Note 1:* Rui Dong Hairun and Rui Dong Qicai are limited partnership enterprises incorporated in PRC and Xizang Ruidong is the general partner of Rui Dong Hairun and Rui Dong Qicai.

*Note 2:* The partners of Zhuhai Muyang are six individual limited partners and an individual general partner who are all Independent Third Parties.

*Note 3:* Under Mr. Liu's Subscription Agreement, Mr. Liu has the right either to subscribe the 33,500,000 Domestic Shares himself or to nominate a limited company (or a limited partnership) controlled by him to subscribe the said Domestic Shares.

The Subscribers intend to fund the consideration payable for the subscription of new Domestic Shares from their own resources. As the subscription of new Domestic Shares will be financed from the resources of the Subscribers, no payment of interest on, repayment of or security for any liability (contingent or otherwise) relating to any facility granted for the financing of the consideration payable under the subscription of new Domestic Shares will depend to any significant extent on the business of the Company.

The major terms and conditions of the Domestic Share Subscription under each of the Domestic Share Subscription Agreements have been set out in the Letter from the Board and is conditional upon:

(1) the Independent Shareholders approving (a) such Domestic Share Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate by way of special resolutions and (b) the Whitewash Waiver by way of an ordinary resolution, both by way of poll at the SGM and the Class Meetings;

(2) the Executive granting the Whitewash Waiver to Mr. Liu Xin and the satisfaction of all conditions (if any) attached to the Whitewash Waiver; and

(3) the obtaining of all necessary approvals for the transactions and application contemplated under the Circular by the Company and the Subscriber under such Domestic Share Subscription Agreement from and completion of necessary filing in relevant government and/or regulatory authorities (including relevant Hong Kong and PRC departments and authorities such as applicable vetting authority from the SFC and the Stock Exchange, and relevant department of Commerce and Industry of the PRC, i.e. Market and Quality Supervision Commission of Shenzhen Municipality(深圳市市場監督管理委員會))which are required for the Domestic Share Subscription and the same are not revoked or refused prior to Completion.

As at the Latest Practicable Date, the outstanding approval to be obtained for the Domestic Share Subscription are the Whitewash Waiver from the Executive, the Market and Quality Supervision Commission of Shenzhen Municipality and the Independent Shareholders.

None of the conditions can be waived under each of the Domestic Share Subscription Agreements. As advised by the Company's legal adviser as to the PRC laws (i.e. Beijing Dacheng (Shenzhen) Law Office), the Domestic Shares Subscription is not subject to the approval of the China Securities Regulatory Commission.

If any of the conditions precedent under the Domestic Share Subscription Agreement between Mr. Liu Xin and the Company ("**Mr. Liu's Subscription Agreement**") is not satisfied because of failing to obtain the necessary approval or consent on or before the Long Stop Date, all the Domestic Share Subscription Agreements shall lapse and neither party shall have any claims against the other save for any antecedent breaches. However, if any of the conditions precedent under any Domestic Share Subscription Agreement other than Mr. Liu's Subscription Agreement as set out above is not satisfied on or before the Long Stop Date, such Domestic Share Subscription Agreement shall lapse and neither party shall have any claims against the other save for any antecedent breaches. However, such lapse will not affect the Completion under other Domestic Share Subscription Agreements.

As the number of New Domestic Shares subscribed by Mr. Liu Xin represents approximately 59% of the total number of the New Domestic Shares, the subscription amount under Mr. Liu's Subscription Agreement forms a substantial part of the proceeds from the Domestic Share Subscription. As such, the Company is of the view that, if the subscription under Mr. Liu's Subscription Agreement is not completed, the proceeds generated from the Subscribers other than Mr. Liu Xin are substantially insufficient for the intended use of proceeds of the Company and the entire development plan of the Company will not be able to be implemented. In addition, the subscription by Mr. Liu under Mr. Liu's Subscription Agreement is regarded as an act of confidence in the Company by the substantial shareholder of the Company. If Mr. Liu does not complete his subscription under Mr. Liu's Subscription Agreement, the other Subscribers (other than Mr. Liu) may or will not be willing to complete their respective subscription of the New Domestic Shares. Therefore, the Company reaches the arrangement with the Subscribers that if any of the conditions precedent under Mr. Liu's Subscription Agreement is not satisfied and thereby completion of the Mr. Liu's Subscription Agreement does not take place, the other Domestic Share Subscription Agreements shall lapse accordingly. Since the New Domestic Shares subscribed by Mr. Liu Xin represent a substantial number of the New Domestic Share, the Domestic Share Subscription may not be meaningful without Mr. Liu's subscription due to the substantial decrease on the amount of fund raised. Moreover, such arrangement was agreed by all the Subscribers. Each of the other Subscribers has confirmed with the Company that it/he is not co-operating with Mr. Liu to obtain Mr. Liu's voting rights in the Company under such arrangements. The Directors are of the view that such arrangements are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In view that the gross proceeds to be raised from the Subscribers other than Mr. Liu would amount to approximately RMB187.7 million, which would not be sufficient for the implementation plan for the net proceeds and the other Subscribers (other than Mr. Liu) may or will not be willing to complete their respective subscription of the New Domestic Shares if Mr. Liu does not complete his subscription under Mr. Liu's Subscription Agreement, we consider this to be a common and normal commercial term (i) to ensure that the Group would be able to secure the funds to implement its plans for the net proceeds; and (ii) for the other Subscribers that they would only subscribe for New Domestic Shares if their collective funds are sufficient for the Group to properly implement its development plan. As a result, we concur with the Company that such arrangements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The 56,500,000 new Domestic Shares will be issued under the Specific Mandate to be sought at the SGM and the Class Meetings.

**III. Evaluation of the Subscription Price**

The new Domestic Shares will be subscribed for by the Subscribers at the subscription price of RMB8.16 per Share (equivalent to approximately HK$9.18*). The subscription price of HK$9.18 per new Domestic Share represents:

(1) a discount of approximately 15.93% to the closing price of approximately HK$10.92 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(2) a discount of approximately 24.75% to the price of approximately HK$12.2 per H Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;

(3) a discount of approximately 5.34% to the average closing price of approximately HK$9.698 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;

(4) equal to the average closing price of approximately HK$9.18 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(5) a premium of approximately 7.62% over the average closing price of approximately HK$8.53 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(6) a premium of approximately 8.0% over the average closing price of approximately HK$8.50 per H Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day; and

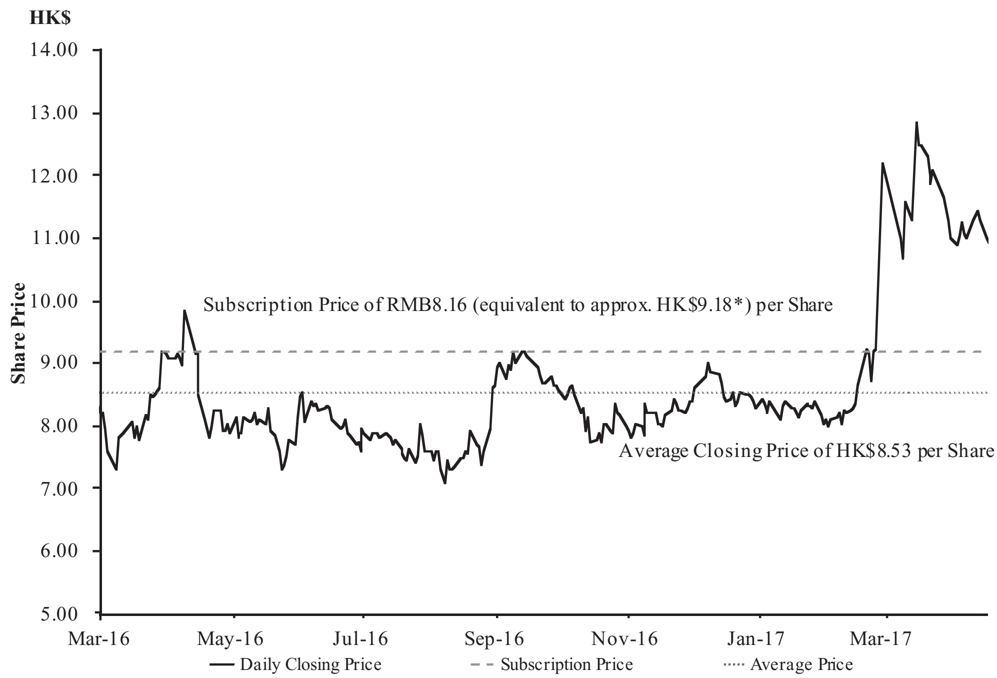
(7) a premium of approximately 271% over the audited net assets value attributable to owners of the Company of approximately RMB2.2 (equivalent to approximately HK$2.47*) per Share as at 31 December 2016.

(8) a premium of approximately 247% over the audited net assets value attributable to owners of the Company adjusting for the fair value gain on the property interests of the Group (representing the excess of market value of the property interests as at 31 March 2017 over the corresponding carrying amount as at 31 December 2016, the market value of the property interests is based on the valuation prepared by the independent property valuer, the text of which is set out in the section headed "Appendix II – Property Valuation Report" of the Circular) of approximately RMB2.35 (equivalent to approximately HK$2.64*) per Share as at 31 December 2016.

The subscription price was negotiated and arrived at after arm's length negotiation basis and is considered fair and reasonable by the Board with reference to the trading performance of the H Shares.

The subscription price for the Domestic Shares Subscription is not determined by reference to the closing price of per H Share on the Last Trading Day because the price per H Share has drastically increased by 32.18 % on the Last Trading Day from HKD9.23 to HKD 12.20 and the Board considers that such closing price does not reflect the true trading performance of the H Shares. The subscription price for the Domestic Shares Subscription is determined with reference to the average closing price of approximately HK$9.18 per H Share (equivalent to approximately RMB8.16*) during the Price Determination Period, which is the average closing price of each H Share over a period of 10 trading days including the Last Trading Day. The Board considers that such average closing price is more reflective of the trading performance of the Shares and is thus fair and reasonable as far as the Independent Shareholders are concerned.

We have analysed the movement of the daily closing price of the Shares as quoted on Stock Exchange and Hang Seng Index during the last twelve months preceding the date of the Domestic Share Subscription Agreements and up to the Latest Practicable Date (the "**Review Period**"). We consider that such twelve month period would be sufficient to smooth out the effects of any short-term fluctuations in the stock market for our analysis and therefore can serve as a benchmark for assessing the Subscription Price. The historical price chart is illustrated as follows:




*Source:* Website of the Stock Exchange

As shown in the above chart, we note that on 20 March 2017, following the release of the annual results announcement for the year ended 31 December 2016 on 17 March 2017, which disclosed a net profit of approximately RMB21.0 million for the year ended 31 December 2016 (2015: net loss of approximately RMB94.0 million), the day before the trading halt of the Shares, the daily closing price had increased by 32.2% from HK$9.23 per Share to HK$12.2 per Share. Such daily price increase resulted in the biggest daily growth recorded by the Company during the Review Period. After the trading of the Share resumed, the daily closing price decreased by 10.5% to HK$10.92 per Share as at the Latest Practicable Date. We noted that the daily closing price of the Shares ranged from HK$7.1 per Share to HK$12.84 per Share during the Review Period (the "**Historical Price Range**"). The average daily closing price of the Shares is HK$8.53 per Share during the Review Period (the "**Average Closing Price**"). Among the 271 trading days during the Review Period, the daily closing price was higher than the subscription price of the Domestic Share Subscription of HK$9.18 per Share (the "**Subscription Price**") for only 36 trading days.

As the Subscription Price is (i) within the Historical Price Range and above the Average Closing Price; (ii) equal to the average closing price for the last 10 consecutive trading days up to and including the Last Trading Day and at a premium of approximately 7.62% and 8.0% to the average closing price of 30 and 60 consecutive trading days up to and including the Last Trading Day; (iii) at a premium of approximately 271% to the audited net assets value attributable to owners of the Company of approximately RMB2.2 (equivalent to approximately HK$2.47*) per Share as at 31 December 2016; and (iv) higher than most of the trading day's daily closing price during the Review Period, we concur with the Company that the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**IV. Trading liquidity of Shares**

The following table sets out the trading volume of the Shares during the Review Period:

| | **Total trading volume for the month/period** *(No. of Shares)* | **Average daily trading volume for the month/ period** *(No. of Shares)* *(Note 1)* | **Percentage of average daily trading volume to number of Shares in issue as at the Latest Practicable Date** *(Note 2)* | **Percentage of average daily trading volume to number of Shares held by Independent Shareholders as at the Latest Practicable Date** *(Note 3)* |
|---|---|---|---|---|
| **2016** | | | | |
| March (beginning from 21 March 2016) | 3,558,000 | 508,286 | 0.31% | 0.32% |
| April | 12,580,500 | 629,025 | 0.38% | 0.39% |
| May | 3,908,000 | 186,095 | 0.11% | 0.12% |
| June | 4,967,500 | 236,548 | 0.14% | 0.15% |
| July | 2,329,100 | 116,455 | 0.07% | 0.07% |
| August | 3,456,500 | 157,114 | 0.10% | 0.10% |
| September | 9,975,400 | 475,019 | 0.29% | 0.30% |
| October | 2,736,000 | 144,000 | 0.09% | 0.09% |
| November | 5,506,000 | 250,273 | 0.15% | 0.16% |
| December | 10,839,000 | 541,950 | 0.33% | 0.34% |
| **2017** | | | | |
| January | 1,161,000 | 61,105 | 0.04% | 0.04% |
| February | 3,577,100 | 178,855 | 0.11% | 0.11% |
| March | 20,746,000 | 902,000 | 0.55% | 0.57% |
| April | 8,964,500 | 527,324 | 0.32% | 0.33% |
| May (up to the Latest Practicable Date) | 779,000 | 155,800 | 0.09% | 0.10% |

*Source:* Website of the Stock Exchange

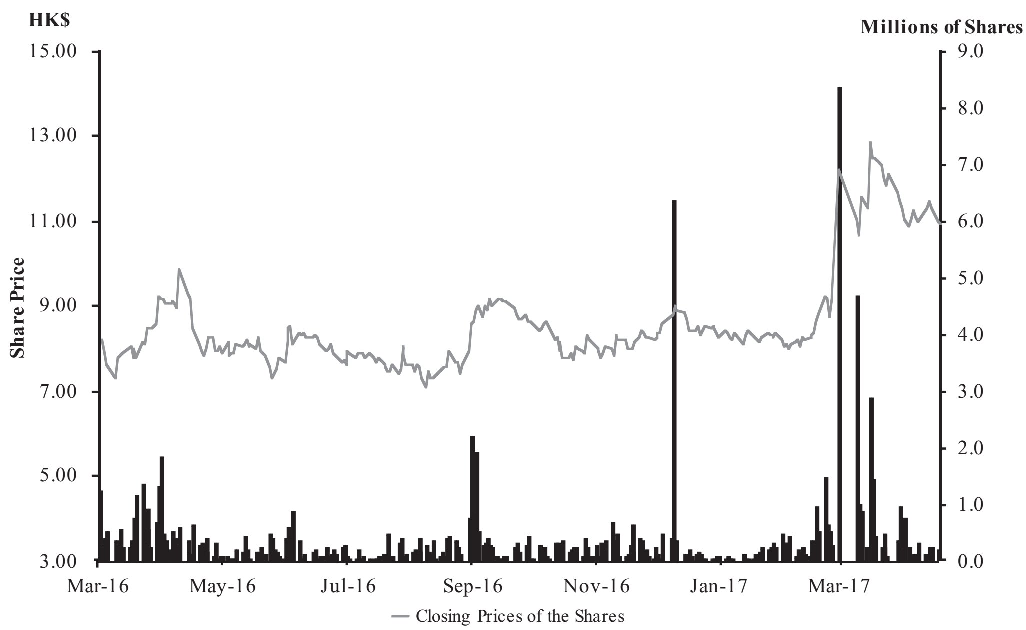
*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period.

2. Based on 164,160,000 H Shares, being the total number of H Shares of the Company in issue for the Review Period and as at the Latest Practicable Date.

3. Based on 159,395,750 H Shares held by the public Shareholders as at the Latest Practicable Date.

The following chart illustrates the daily trading volume of the Shares on the Stock Exchange and the closing prices of the Shares during the Review Period:




*Source:* Website of the Stock Exchange

The average daily trading volume of the Shares on the Stock Exchange during the Review Period was approximately 343,262 Shares, representing approximately 0.21% and 0.22% of the Company's total existing issued share capital and public float, respectively. A substantial volume trading of approximately 8,336,500 Shares of the Company Shares was recorded on 20 March 2017 following the release of the annual results announcement for the year ended 31 December 2016 on 17 March 2017, which disclosed a net profit of approximately RMB21.0 million for the year ended 31 December 2016 (2015: net loss of approximately RMB94.0 million). As advised by the Directors, they are not of aware any specific events or announcements that is related to the Group which led to a trading volume of approximately 6,335,000 Shares on 29 December 2016 and we have conducted a desktop search including the web sites of Stock Exchange, SFC and Bloomberg, and no specific event relating to the Group was identified which would explain the increase in trading volume on 29 December 2016. We noted that the Shares have a thin trading volume in most of the days during the Review Period. The highest daily trading volume during the Review Period was about 8,336,500 Shares on 20 March 2017, representing approximately 5.08% and 5.23% of the Company's total existing issued share capital and public float, respectively. Moreover, if the Company sold the similar number of Shares using the average daily trading volume as standard, it would theoretically require a period of approximately 165 trading days and it would result in a sustained disturbance in the price of the Shares.

We understand the Company has a thin trading volume of Shares based on our trading volume analysis of the Company as stated above in this section and, thus, if the Company was to sell the similar number of Shares in the open market, it will take a substantial period of time and exert a downward pressure on the price of the Shares. After considering the effects of selling the similar number of Shares in the open market taking into account the historical thin trading volume of Share of the Company, we concur with the Company that the Domestic Share Subscription is an opportunity to raise fund by selling a substantial block of Shares at the Subscription Price without effecting the normal trading of the Shares in terms of both price and volume.

**V. Market comparable analysis**

We had initially considered identifying comparable share subscription transactions based on the following criteria: (i) share subscription transactions by connected person(s) of a Hong Kong listed company; (ii) shares to be issued and allotted under specific mandate; (iii) announced between 20 September 2016 and the Last Trading Day (being the six months period preceding the Last Trading Day); (iv) involved the application of whitewash waivers made by the subscriber(s); (v) companies with similar business operations and prospects of the Company; and (vi) subscription of domestic shares transactions. As we were unable to identify any transactions which meet all our criteria, we considered relaxing our criteria by removing certain criteria. We consider criteria (iii), a review period of six months period preceding the Last Trading Day, to be appropriate to capture the recent market practice because the comparable transactions are considered for the purpose of taking a general indication for the recent market practice in relation to the subscription price under other subscription of new shares exercises under specific mandates. We also consider (v) and (vi) to be appropriate. However, as we were unable to identify (a) any companies with similar business operations and prospects of the Company carrying out a similar transaction; and/or (b) any subscription of domestic shares transactions, during the period mentioned in criteria (iii) above, we removed criteria (v) and (vi) in identifying comparable transactions. We consider removing criteria (v) is acceptable as we are comparing the subscription price to market price, and not comparing price multiples, such as price-to-earning ratio or price-to-book ratio, or similar metrics which need to be compared in similar industry or business operations. Therefore, we consider selecting transactions of a similar nature to be more relevant than selecting companies with the same principal business. Further, we consider removing criteria (vi) is acceptable as the terms of the Comparable Transactions (defined below) are determined under similar market conditions and sentiments as the Domestic Shares Subscription and they are able to reflect the recent trend of open market transactions involving issue of shares under specific mandate in the Hong Kong stock market.

Having considered the above, we have reviewed share subscription transactions in Hong Kong and identified, in our research through public information, comparable share subscription transactions (the "**Comparable Transactions**") based on the following criteria (i) share subscription transactions by connected person(s) of a Hong Kong listed company;

(ii) shares to be issued and allotted under specific mandate; (iii) announced between 20 September 2016 and the Last Trading Day (being the six months period preceding the Last Trading Day); (iv) involved the application of whitewash waivers made by the subscriber(s). The Comparable Transactions listed below are exhaustive based on the above criteria and they are fair and representative samples. It should be noted that all the subject companies involved in the Comparable Transactions may have different principal activities, market capitalization, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the subscription may also be different from that of the Company. We consider that the Comparable Transactions could provide a general reference for the recent market practice of companies listed on the Main Board of the Stock Exchange in share subscription exercises under specific mandate and under similar market conditions.

| Company (Stock code) | Principal activities | Date of announcement | Premium/ (discount) of subscription price over/to closing price on the last trading day | Premium/ (discount) of subscription price over/to average closing price of five trading days up to and including the last trading day | Premium/ (discount) of subscription price over/to average closing price of ten trading days up to and including the last trading day | Potential dilution of shareholding to the existing public shareholders upon completion |
|---|---|---|---|---|---|---|
| A8 New Media Group Limited (800) | Provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC | 21 Dec 2016 | (12.77%) | (12.95%) | (13.41%) | 33.67% |
| Datang International Power Generation Co., Ltd. – A-share<br><br>(H-share: 991; A-share: 600585) | Construction and operation of power plants, the sale of electricity and thermal power, the repair, maintenance and commissioning of power equipment and power related technical services | 28 Nov 2016 | (10.55%) | (9.51%) | (9.21%) | 47.14% |

| Company (Stock code) | Principal activities | Date of announcement | Premium/ (discount) of subscription price over/to closing price on the last trading day | Premium/ (discount) of subscription price over/to average closing price of five trading days up to and including the last trading day | Premium/ (discount) of subscription price over/to average closing price of ten trading days up to and including the last trading day | Potential dilution of shareholding to the existing public shareholders upon completion |
|---|---|---|---|---|---|---|
| Datang International Power Generation Co., Ltd. – H-share (H-share: 991; A-share: 600585) | Construction and operation of power plants, the sale of electricity and thermal power, the repair, maintenance and commissioning of power equipment and power related technical services | 28 Nov 2016 | 1.92% | 2.51% | 3.11% | 29.58% |
| Sunac China Holdings Limited (1918) | Specialized in integrated development of residential and commercial properties in the PRC | 26 Sep 2016 | 6.55% | 3.34% | 7.11% | 11.76% |
| Yue Da Mining Holdings Limited (629) | Exploration, mining and processing of metal minerals in the People's Republic of China | 11 Nov 2016 | 31.03% | 35.23% | 34.28% | 21.40% |
| Ozner Water International Holding Limited (2014) | Provision of water purification services and air sanitization services | 16 Nov 2016 | 2.40% | 7.55% | 6.88% | 15.48% |
| | | **Maximum** | 31.03% | 35.23% | 34.28% | |
| | | **Minimum** | (12.77%) | (12.95%) | (13.41%) | |
| | | **Average** | 3.10% | 4.36% | 4.79% | |
| | | **Issue Price** | (24.70%) | (5.34%) | Nil *(Note)* | |

*Sources:* Bloomberg and website of the Stock Exchange

*Note:* The Subscription Price is equal to the average closing price of H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day.

From the above table, comparing the subscription price to the closing price on the last trading day of the Comparable Transactions we noted a range from a discount of approximately 12.77% to a premium of approximately 31.03%, with an average premium of approximately 3.10%. We noted that the Subscription Price is at a steeper discount than the minimum discount of subscription price to closing price on the last trading day of the Comparable Transactions, which was mainly due to the daily closing price of the Shares had increased by approximately 32.2% from HK$9.23 per Share to HK$12.2 per Share on the last trading day of 20 March 2017 after the release of the annual result announcement for the year ended 31 December 2016 on 17 March 2017, which disclosed a net profit of approximately RMB21.0 million for the year ended 31 December 2016 (2015: net loss of approximately RMB94.0 million).

We consider the Subscription Price of HK$9.18 per Share is fair, reasonable and in the interest of the Company and the Shareholders as a whole on the following basis:

i) The subscription price was negotiated and arrived at after arm's length negotiation basis and is considered fair and reasonable with reference to the trading performance of the Shares during the last twelve months preceding the date of the Domestic Share Subscription Agreements and up to the Latest Practicable Date;

ii) The Subscription Price is fair and reasonable and in the interest of the Shareholders based on the price analysis as stated in section headed "III. Evaluation of the Subscription Price" above; and

iii) Given the thin trading volume of the Shares as discussed in the section headed "IV. Trading liquidity of Shares" above, it is an opportunity to raise funds by selling a block of Shares without affecting the normal trading of the Shares.

## VI. Effects on shareholding structure of the Company

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Domestic Share Subscription (assuming no other changes to the issued share capital of the Company prior to Completion):

| | | As at the Latest Practicable Date | | Immediately after the completion of the Domestic Share Subscription | |
|---|---|---|---|---|---|
| | Share Class | No. of Shares held | Percentage of total issued Shares | No. of Shares held | Percentage of total issued Shares |
| **The Subscribers and their respective concert parties** | Domestic | | | | |
| Liu Xin and parties acting in concert with it | Domestic | 125,380,500 | 38.09% | 158,880,500 | 41.20% |
| – Liu Xin | | 66,000,000 | 20.05% | 99,500,000 | 25.80% |
| – Shenzhen Langqu *(Note 2)* | | 49,432,000 | 15.02% | 49,432,000 | 12.82% |
| – Shenzhen De Shi Yu *(Note 3)* | | 9,948,500 | 3.02% | 9,948,500 | 2.58% |

| | Share Class | As at the Latest Practicable Date No. of Shares held | Percentage of total issued Shares | Immediately after the completion of the Domestic Share Subscription No. of Shares held | Percentage of total issued Shares |
|---|---|---|---|---|---|
| Xizang Ruidong and parties acting in concert with it | Domestic | 20,000,000 | 6.08% | 31,000,000 | 8.03% |
| – Xizang Ruidong *(Note 1)* | | 20,000,000 | 6.08% | 20,000,000 | 5.19% |
| – Rui Dong Hairun | | 0 | 0% | 5,500,000 | 1.42% |
| – Rui Dong Qicai | | 0 | 0% | 5,500,000 | 1.42% |
| Guo Shanling（郭善苓）*(Note 1)* | Domestic | 0 | 0% | 4,000,000 | 1.04% |
| Zhuhai Muyang | Domestic | 0 | 0% | 6,000,000 | 1.56% |
| Jiang Quanhong（姜全紅） | Domestic | 0 | 0% | 2,000,000 | 0.52% |
| **Subtotal for the Subscribers and their respective concert parties** | Domestic | 145,380,500 | 44.17% | 201,880,500 | 52.35% |
| Other Non-H Foreign Shareholders | Non-H Foreign | 19,619,500 | 5.96% | 19,619,500 | 5.08% |
| **Total Domestic and Non-H Foreign Shares** | Domestic & Non-H Foreign | 165,000,000 | 50.13% | 221,500,000 | 57.43% |
| **H Shareholders** | | | | | |
| Guo Shanling | H | 4,402,250 | 1.34% | 4,402,250 | 1.14% |
| Jiang Quanhong | H | 362,000 | 0.11% | 362,000 | 0.10% |
| Other public H Shareholders | H | 159,395,750 | 48.42% | 159,395,750 | 41.33% |
| Total H Shares | H | 164,160,000 | 49.87% | 164,160,000 | 42.57% |
| **Total issued Shares** | | 329,160,000 | 100% | 385,660,000 | 100% |

*Note 1:* Xizang Ruidong holds 20,000,000 Domestic Shares on trust for and on behalf of Rui Feng Fund. The partners of Rui Feng Fund are Li Yan（李艷）(36%), Yu Nan（余楠）(59%) and Guo Shanling（郭善苓）(5%) (one of the Subscribers) who are all Independent Third Parties.

*Note 2:* 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 (an executive Director of the Company) as to 40% respectively. Mr. Liu Xin is therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

*Note3:* The legal and beneficial interests in the shares of Shenzhen De Shi Yu are owned by Mr. Liu Xin as to 40% and by Ms. Liu Yong (a non-executive Director of the Company) as to 60%. Mr. Liu Xin is therefore deemed to be interested in all domestic shares registered in the name of Shenzhen De Shi Yu under Part XV of the SFO.

As shown in the above table, the shareholding interests of the existing public Shareholders would be diluted from approximately 48.42% as at the Latest Practicable Date to approximately 41.33% upon the Completion (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the date of Completion). Nonetheless, in view of (i) the reasons for and benefits of the Domestic

Share Subscription; and (ii) the terms of the Domestic Share Subscription Agreement being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

**VII. Financial Effect of the Share Subscription to the Group**

***a) Net Assets value***

As stated in the 2016 Annual Report, the net assets value of the Group attributable to the Shareholders as at 31 December 2016 was approximately RMB723.6 million. The Group's net assets value is expected to increase immediately after the Completion as the net proceeds from the Domestic Share Subscription will bring in additional funds to the Group.

As at the Latest Practicable Date, the number of Shares in issue was 329,160,000 Shares. The net asset value per Share based on the net asset value of approximately RMB723.6 million of the Group as at 31 December 2016 as disclosed in the 2016 Annual Report was approximately RMB2.20 per Share. Assuming no other changes to the issued share capital of the Company and Group's net asset value as at 31 December 2016 other than the Domestic Share Subscription, upon completion, the number of Shares in issue will be increased to 385,660,000 Shares and the net asset value will be increased by approximately RMB454.1 million (equivalent to approximately HK$510.8 million*) from the net proceeds of Subscription to approximately RMB1,177.7 million (equivalent to approximately HK$1,324.7 million*), representing a net asset value per Share of approximately RMB3.05 per Share. As such, the net asset value per Share may increase by approximately RMB0.85 per Share or 38.6% upon the Completion.

***b) Gearing***

The Group's gearing ratio, which is calculated by total liabilities divided by interests attributable to shareholders, is expected to improve immediately after the Completion as additional funds raised from Domestic Share Subscription will not incur any debt. In view of the fact that the net proceeds from the issue of the new Domestic Shares will be brought to the Group without any increase in debt, the interests attributable to shareholders will increase and lead to the decrease of the gearing ratio.

***c) Cashflow***

As stated in 2016 Annual Report, the Group had cash and cash equivalents of approximately RMB279.3 million as at 31 December 2016. Upon Completion, the liquidity and cash position of the Group is expected to improve immediately after the Completion as the net proceeds from the Domestic Share Subscription will increase the cash and cash equivalents of the Group.

**VIII. Use of Proceeds**

As stated in the Letter from the Board, the Company expects to raise gross proceeds of approximately RMB461 million (equivalent to approximately HK$518.6 million*) from the Domestic Share Subscription. The net proceeds from the Domestic Share Subscription is expected to be approximately RMB454.1 million (equivalent to approximately HK$510.8 million*). It is the intention of the Company to use the net proceeds from the Domestic Share Subscription for the following purpose:

(a) as to approximately RMB136.2 million among the net proceeds will be used as development fee of new technology (development of vehicles diagnosis cloud technology and development of vehicle big data) of the Company, including the positive introduction of a large number of professional vehicle technology engineers, cloud computing senior engineers, large data mining and application engineers, while setting up the corresponding cloud and large data operating environment and the supportive experimental environment, which demand huge investment in the computer equipment, cloud storage, and IDC resources etc.;

(b) as to approximately RMB272.5 million among the net proceeds will be used as marketing development fee which are mainly applied to promote new products (including artificial intelligence vehicles diagnosis products and comprehensive hand-held vehicles diagnosis products) and to improve the market share of diagnostic facilities of Internet for obtaining big data faster. During this year, to cooperate with the large data strategy, the Company will mainly promote the real-time upload diagnostic reports of network equipment and other major large data collection terminal. Also, the Company will introduce a series of products, including artificial intelligence-vehicle diagnostic products X-431 AIT, integrated hand-held vehicle diagnostic products X-431 HTT, EV17 car discharge handheld detection terminal, e-VIN police vehicle inspection terminal. The funds will be used to invest in the promotional strategies, including precision advertising sales, various entities and network sales platform, and cooperation with the different sectors in different ways with post-sale market to increase the acquisition of data; and

(c) as to RMB45.4 million as the reserve fund for working capital of the Group mainly for staff salaries and benefits, and spending on supply chain etc..

As stated in the paragraph headed "c) Reasons for and benefits of the Domestic Share Subscription", we concur with the Directors that the aforesaid use of proceeds is in line with the Company's business strategies and future plan.

**THE WHITEWASH WAIVER**

As at the Latest Practicable Date, Mr. Liu Xin, Shenzhen Langqu and Shenzhen De Shi Yu hold 125,380,500 Domestic Shares in total in the Company, representing approximately 38.09% of the total issued share capital of the Company as at the Latest Practicable Date.

After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Mr. Liu Xin and his concert parties will hold approximately 41.2% of the Company's enlarged issued share capital. As the shareholding held by Mr. Liu Xin and his concert parties will increase from 38.09% to 41.2% as a result of the issue of the new Domestic Shares, pursuant to Rule 26.1 of the Takeovers Code, Mr. Liu Xin will be required to make a mandatory general offer for all the issued shares in the share capital of the Company not already owned or agreed to be acquired by him and his concert parties in the absence of the Whitewash Waiver.

An application has been made to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the issue of the new Domestic Shares to Mr. Liu Xin pursuant to Mr. Liu's Subscription Agreement. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the SGM and the Class Meetings.

It is one of the conditions under the Domestic Share Subscription Agreements that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders by way of poll at the SGM and the Class Meetings. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Domestic Share Subscription Agreements will not become unconditional and the Domestic Share Subscription will not proceed.

The Company will lose all the benefits as mentioned in the paragraph headed "c) Reasons for and benefits of the Domestic Share Subscription" that are expected to be brought by the completion of the Domestic Share Subscription.

**RECOMMENDATION**

We have considered the above principal factors and reasons, in particular, the following:

(i) the use of proceeds from the issue of the new Domestic Shares to be in line with the business strategies of the Group;

(ii) the issue of the new Domestic Shares is the most feasible option compared to the other sources of funding;

(iii) despite the fact that the Subscription Price recorded a discount of 24.70% based on the closing price as quoted on the Stock Exchange on the Last Trading Day, the Subscription Price is within the Historical Price Range and above the Average Closing Price, and also higher than most of the trading day's daily closing price during the Review Period; and

(iv) given a thin trading volume of the Shares, it is an opportunity to raise fund by selling a block of shares without affecting the normal trading of the Shares.

Having considered the abovementioned principal factors and reasons, although the Domestic Share Subscription is not in the ordinary and usual course of business of the Group, it is on normal commercial terms and we are of the view that (i) the Whitewash Waiver and the terms of the Domestic Share Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Domestic Share Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Domestic Share Subscription Agreements, the Specific Mandate and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
**TC Capital International Limited**

| | |
|---|---|
| **Edward Wu** | **Stanley Chung** |
| *Chairman* | *Managing Director* |

*Note:*

*Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Both Mr. Wu and Mr. Chung have participated in and completed various advisory transactions and transactions under the Takeovers Code; in respect of connected transactions of listed companies in Hong Kong.*

* *Using the approximate exchange rate of RMB0.889 to HK$1 as at the Last Trading Day*

## 1. SUMMARY OF THE FINANCIAL INFORMATION

The following is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2014, 2015 and 2016 as extracted from the published financial statements of the Group in the annual report for the years ended 31 December 2014, 2015 and 2016; and the unaudited consolidated financial information of the Group for the six months period ended 30 June 2016 as extracted from the published financial statements of the Group in the interim results for the six months ended 30 June 2016.

Da Hua Certifical Public Accountants (Special General Partnership), the auditor of the Company, did not issue any qualified opinion on the financial statements of the Group for the for each of the years ended 31 December 2014, 2015 and 2016.

**Consolidated Income Statement**

*2016 (Expressed in Renminbi)*

| | For the year ended 31 December 2016 | For the year ended 31 December 2015 | For the year ended 31 December 2014 | For the Six month ended 30 June 2016 | For the Six month ended 30 June 2015 |
|---|---|---|---|---|---|
| **Operating income** | 835,053,156.36 | 697,597,929.64 | 697,597,929.64 | 395,581,000.00 | 335,919,000.00 |
| Less: Operating costs | 460,003,587.78 | 427,983,171.61 | 427,983,171.61 | 218,205,000.00 | 188,893,000.00 |
| Tax and surcharge | 9,485,126.03 | 4,154,526.73 | 4,154,526.73 | 2,506,000.00 | 1,761,000.00 |
| Selling expenses | 107,029,197.55 | 140,904,132.03 | 140,904,132.03 | 53,862,000.00 | 64,708,000.00 |
| Administrative expenses | 228,042,758.15 | 196,474,968.34 | 196,474,968.34 | 121,442,000.00 | 98,594,000.00 |
| Finance costs | 3,270,145.98 | 16,699,476.48 | 16,699,476.48 | 5,263,000.00 | 17,026,000.00 |
| Impairment loss on assets | 20,467,399.80 | 22,676,442.73 | 22,676,442.73 | 8,799,000.00 | -3,146,000.00 |
| Add: Gain on investments | -604,656.50 | 2,592,876.71 | 2,592,876.71 | – | – |
| **Operating profit (loss "–")** | 6,150,284.57 | -108,701,911.57 | -108,701,911.57 | -14,496,000.00 | -31,917,000.00 |
| Add: Non-operating income | 20,413,851.19 | 14,972,085.28 | 14,972,085.28 | 1,090,000.00 | 6,372,000.00 |
| Less: Non-operating expenses | 1,382,473.06 | 1,127,719.08 | 1,127,719.08 | 4,666,000.00 | 1,225,000.00 |
| **Total profit (loss "–")** | 25,181,662.70 | -94,857,545.37 | -94,857,545.37 | -18,072,000.00 | -26,770,000.00 |
| Less: Income tax expenses | 4,144,313.44 | -903,700.91 | -903,700.91 | 1,440,000.00 | 7,000.00 |
| **Net profit (loss "–")** | 21,037,349.26 | -93,953,844.46 | -93,953,844.46 | -19,512,000.00 | -26,777,000.00 |
| Net profit attributable to owners of parent company | 21,411,537.32 | -93,898,654.34 | -93,898,654.34 | -19,190,000.00 | -26,743,000.00 |
| Profit or loss attributable to minority shareholders(loss "–") | -374,188.06 | -55,190.12 | -55,190.12 | -322,000.00 | -34,000.00 |
| **Other comprehensive income** | 110,987.90 | 698,023.53 | 698,023.53 | – | – |
| **Total comprehensive income (loss "–")** | 21,148,337.16 | -93,255,820.93 | -93,255,820.93 | -19,512,000.00 | -26,777,000.00 |
| Total comprehensive income attributable to owners of parent company (loss "–") | 21,522,525.22 | -93,200,630.81 | -93,200,630.81 | -19,190,000.00 | -26,743,000.00 |
| Total comprehensive income attributable to minority shareholders (loss "–") | -374,188.06 | -55,190.12 | -55,190.12 | -322,000.00 | -34,000.00 |
| **Earnings per share:** | | | | | |
| Basic earnings per share (loss "–") *(Note)* | 0.0650 | -0.3111 | -0.3111 | -0.058 | -0.089 |

*Note:* There is no items which are exceptional because of size, nature or incidence as prescribed in Schedule II(6)(a)(i) of the Takeovers Code.

**Consolidated Balance Sheet**

*2016 (Expressed in Renminbi)*

| | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 | As at 30 June 2016 | As at 30 June 2015 |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Bank balances and cash | 279,285,875.90 | 415,464,672.34 | 343,796,861.36 | 154,376,000.00 | 415,465,000.00 |
| Bills receivable | 21,825,071.53 | 17,036,907.00 | 23,908,007.71 | 28,420,000.00 | 17,037,000.00 |
| Accounts receivable | 232,262,423.02 | 241,169,471.34 | 263,046,370.93 | 247,683,000.00 | 241,169,000.00 |
| Prepayments | 52,441,476.55 | 57,399,353.54 | 63,011,467.16 | 59,992,000.00 | 57,399,000.00 |
| Other receivables | 18,538,048.22 | 39,648,210.28 | 29,375,506.71 | 58,185,000.00 | 39,648,000.00 |
| Inventories | 112,747,368.47 | 101,939,465.29 | 92,241,372.70 | 138,101,000.00 | 101,939,000.00 |
| Other current assets | 4,591,043.25 | 7,886,496.93 | 54,196,947.70 | 8,342,000.00 | 7,887,000.00 |
| Total current assets | 721,691,306.94 | 880,544,576.72 | 869,576,534.27 | 695,099,000.00 | 880,544,000.00 |
| **Non-current assets:** | | | | | |
| Fixed assets | 357,858,779.08 | 387,455,236.13 | 307,605,358.61 | 372,730,000.00 | 387,455 |
| Construction in progress | 18,066,974.12 | 1,718,549.29 | 110,769,474.44 | 17,127,000.00 | 1,719 |
| Intangible assets | 174,827,700.73 | 191,031,014.69 | 172,113,179.72 | 155,863,000.00 | 191,031 |
| Development expenditure | 27,767,751.41 | 11,067,683.04 | 21,074,996.18 | 37,249,000.00 | 11,068 |
| Goodwill | 1,139,412.80 | 1,139,412.80 | 1,139,412.80 | 1,139,000.00 | 1,139,000.00 |
| Deferred income tax assets | 4,203,375.52 | 6,988.56 | 5,738.97 | 7,000.00 | 7,000.00 |
| Other non-current assets | 7,993,843.94 | 6,911,826.72 | – | 6,391,000.00 | 6,912,000.00 |
| Total non-current assets | 591,857,837.60 | 599,330,711.23 | 612,708,160.72 | 590,506,000.00 | 599,331,000.00 |
| **Total assets** | 1,313,549,144.54 | 1,479,875,287.95 | 1,482,284,694.99 | 1,285,605,000.00 | 1,479,875,000.00 |
| **Current liabilities:** | | | | | |
| Short-term borrowings | 384,374,000.00 | 560,767,159.96 | 713,509,931.12 | 385,000,000.00 | 560,767,000.00 |
| Accounts payable | 94,392,524.66 | 88,357,296.14 | 96,154,689.30 | 98,072,000.00 | 88,357,000.00 |
| Receipts in advance | 61,061,913.18 | 79,364,620.11 | 53,064,711.56 | 63,017,000.00 | 79,365,000.00 |
| Employee remuneration payable | 2,848,980.63 | 3,930,285.40 | 2,930,953.03 | 2,901,000.00 | 3,930,000.00 |
| Tax payables | 11,144,019.08 | 5,085,902.08 | 5,255,927.90 | 4,283,000.00 | 5,086,000.00 |
| Other payables | 12,832,830.76 | 12,576,859.75 | 8,275,296.71 | 23,435,000.00 | 12,577,000.00 |
| Non-current liabilities due within one year | 505,399.54 | 468,152.45 | 139,792.50 | – | 468,000.00 |
| Total current liabilities | 567,159,667.85 | 750,550,275.89 | 881,331,301.85 | 576,708,000.00 | 750,550,000.00 |

| | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 | As at 30 June 2016 | As at 30 June 2015 |
|---|---|---|---|---|---|
| **Non-current liabilities:** | | | | | |
| Long-term borrowings | 676,536.08 | 1,190,145.51 | 2,095,867.32 | 1,438,000.00 | 1,190,000.00 |
| Deferred income | 22,331,000.00 | 25,500,000.00 | 20,000,000.00 | 25,500,000.00 | 25,500,000.00 |
| Total non-current liabilities | 23,007,536.08 | 26,690,145.51 | 22,095,867.32 | 26,938,000.00 | 26,690,000.00 |
| Total liabilities | 590,167,203.93 | 777,240,421.40 | 903,427,169.17 | 603,646,000.00 | 777,240,000.00 |
| **Shareholders' equity:** | | | | | |
| Share capital | 329,160,000.00 | 329,160,000.00 | 301,800,000.00 | 329,160,000.00 | 329,160,000.00 |
| Capital reserve | 231,020,325.76 | 231,421,588.86 | 41,748,427.20 | 231,020,000.00 | 231,422,000.00 |
| Other comprehensive income | 3,332,286.09 | 3,221,298.19 | 2,523,274.66 | 2,461,000.00 | 3,222,000.00 |
| Surplus reserve | 18,099,377.81 | 18,099,377.81 | 18,099,377.81 | 18,099,000.00 | 18,099,000.00 |
| Undistributed profit | 141,981,816.61 | 120,570,279.29 | 214,468,933.63 | 101,380,000.00 | 120,570,000.00 |
| Total owners' equity attributable to parent company | 723,593,806.27 | 702,472,544.15 | 578,640,013.30 | 682,120,000.00 | 702,473,000.00 |
| Minority shareholders' equity | -211,865.66 | 162,322.40 | 217,512.52 | -161,000.00 | 162,000.00 |
| Total shareholders' equity | 723,381,940.61 | 702,634,866.55 | 578,857,525.82 | 681,959,000.00 | 702,635,000.00 |
| Total liabilities and shareholders' equity | 1,313,549,144.54 | 1,479,875,287.95 | 1,482,284,694.99 | 1,285,605,000.00 | 1,479,875,000.00 |

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

## 2. AUDITED FINANCIAL STATEMENTS

**Consolidated Balance Sheet**
*2016 (Expressed in Renminbi)*

| | *Note VII* | **2016** | **2015** |
|---|---|---|---|
| **Current assets:** | | | |
| Bank balances and cash | *1* | 279,285,875.90 | 415,464,672.34 |
| Bills receivable | *2* | 21,825,071.53 | 17,036,907.00 |
| Accounts receivable | *3* | 232,262,423.02 | 241,169,471.34 |
| Prepayments | *4* | 52,441,476.55 | 57,399,353.54 |
| Other receivables | *5* | 18,538,048.22 | 39,648,210.28 |
| Inventories | *6* | 112,747,368.47 | 101,939,465.29 |
| Other current assets | *7* | 4,591,043.25 | 7,886,496.93 |
| Total current assets | | 721,691,306.94 | 880,544,576.72 |
| **Non-current assets:** | | | |
| Fixed assets | *9* | 357,858,779.08 | 387,455,236.13 |
| Construction in progress | *10* | 18,066,974.12 | 1,718,549.29 |
| Intangible assets | *11* | 174,827,700.73 | 191,031,014.69 |
| Development expenditure | *12* | 27,767,751.41 | 11,067,683.04 |
| Goodwill | *13* | 1,139,412.80 | 1,139,412.80 |
| Deferred income tax assets | *14* | 4,203,375.52 | 6,988.56 |
| Other non-current assets | *15* | 7,993,843.94 | 6,911,826.72 |
| Total non-current assets | | 591,857,837.60 | 599,330,711.23 |
| Total assets | | 1,313,549,144.54 | 1,479,875,287.95 |
| **Current liabilities:** | | | |
| Short-term borrowings | *16* | 384,374,000.00 | 560,767,159.96 |
| Accounts payable | *17* | 94,392,524.66 | 88,357,296.14 |
| Receipts in advance | *18* | 61,061,913.18 | 79,364,620.11 |
| Employee remuneration payable | *19* | 2,848,980.63 | 3,930,285.40 |
| Tax payables | *20* | 11,144,019.08 | 5,085,902.08 |
| Other payables | *21* | 12,832,830.76 | 12,576,859.75 |
| Non-current liabilities due within one year | *22* | 505,399.54 | 468,152.45 |
| Total current liabilities | | 567,159,667.85 | 750,550,275.89 |

| | Note VII | 2016 | 2015 |
|---|---|---|---|
| **Non-current liabilities:** | | | |
| Long-term borrowings | *23* | 676,536.08 | 1,190,145.51 |
| Deferred income | *24* | 22,331,000.00 | 25,500,000.00 |
| Total non-current liabilities | | 23,007,536.08 | 26,690,145.51 |
| Total liabilities | | 590,167,203.93 | 777,240,421.40 |
| **Shareholders' equity:** | | | |
| Share capital | *25* | 329,160,000.00 | 329,160,000.00 |
| Capital reserve | *26* | 231,020,325.76 | 231,421,588.86 |
| Other comprehensive income | *27* | 3,332,286.09 | 3,221,298.19 |
| Surplus reserve | *28* | 18,099,377.81 | 18,099,377.81 |
| Undistributed profit | *29* | 141,981,816.61 | 120,570,279.29 |
| Total owners' equity attributable to parent company | | 723,593,806.27 | 702,472,544.15 |
| Minority shareholders' equity | | -211,865.66 | 162,322.40 |
| Total shareholders' equity | | 723,381,940.61 | 702,634,866.55 |
| Total liabilities and shareholders' equity | | 1,313,549,144.54 | 1,479,875,287.95 |

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

**Balance Sheet**
*2016 (Expressed in Renminbi)*

| | *Note XVI* | **2016** | **2015** |
|---|---|---|---|
| **Current assets:** | | | |
| Bank balances and cash | | 256,155,073.12 | 402,247,836.57 |
| Bills receivable | | 21,568,571.53 | 17,036,907.00 |
| Accounts receivable | *1* | 222,530,588.55 | 218,675,329.07 |
| Prepayments | | 46,621,887.16 | 71,815,630.96 |
| Other receivables | *2* | 71,116,976.43 | 59,427,606.73 |
| Inventories | | 71,591,403.55 | 65,064,161.47 |
| Other current assets | | 2,411,050.54 | 5,459,652.77 |
| Total current assets | | 691,995,550.88 | 839,727,124.57 |
| **Non-current assets:** | | | |
| Long-term equity investments | *3* | 202,555,576.68 | 184,513,562.18 |
| Fixed assets | | 243,288,852.40 | 262,904,104.12 |
| Intangible assets | | 82,835,837.49 | 72,217,014.86 |
| Development expenditure | | 13,995,880.12 | 10,677,389.64 |
| Other non-current assets | | 2,928,360.00 | 2,928,360.00 |
| Total non-current assets | | 545,604,506.69 | 533,240,430.80 |
| **Total assets** | | 1,237,600,057.57 | 1,372,967,555.37 |
| **Current liabilities:** | | | |
| Short-term borrowings | | 383,374,000.00 | 530,767,159.96 |
| Accounts payable | | 353,780,470.33 | 335,936,924.43 |
| Receipts in advance | | 58,532,138.93 | 72,325,517.98 |
| Employee benefits payables | | 232,590.88 | 1,527,947.97 |
| Tax payables | | 4,671,942.11 | 3,326,946.00 |
| Other payables | | 24,999,900.27 | 23,922,771.66 |
| Total current liabilities | | 825,591,042.52 | 967,807,268.00 |

| | *Note XVI* | **2016** | **2015** |
|---|---|---|---|
| **Non-current liabilities:** | | | |
| Deferred income | | 22,331,000.00 | 25,500,000.00 |
| Total liabilities | | 847,922,042.52 | 993,307,268.00 |
| **Shareholders' equity:** | | | |
| Share capital | | 329,160,000.00 | 329,160,000.00 |
| Capital reserve | | 231,122,518.70 | 231,523,781.80 |
| Surplus reserve | | 18,099,377.81 | 18,099,377.81 |
| Undistributed profits | | -188,703,881.46 | -199,122,872.24 |
| Total shareholders' equity | | 389,678,015.05 | 379,660,287.37 |
| **Total liabilities and shareholders' equity** | | 1,237,600,057.57 | 1,372,967,555.37 |

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

**Income Statement**

*2016 (Expressed in Renminbi)*

| | *Note XVI* | **2016** | **2015** |
|---|---|---|---|
| **Total operating income** | *4* | 789,810,683.46 | 643,066,271.81 |
| Less: Operating costs | *4* | 542,822,272.52 | 474,474,996.27 |
| Tax and levies | | 6,391,434.71 | 2,311,037.51 |
| Selling expenses | | 70,959,147.47 | 122,289,670.09 |
| Administrative expenses | | 147,231,039.42 | 120,513,086.34 |
| Finance costs | | 5,031,590.17 | 13,402,030.71 |
| Add: Impairment loss on assets | | 12,690,546.37 | 17,801,691.65 |
| Investment income | | – | 2,592,876.71 |
| **Operating profit (loss "-")** | | 4,684,652.80 | -105,133,364.05 |
| Add: Non-operating income | | 6,295,628.09 | 1,980,039.85 |
| Less: Non-operating expenditure | | 561,290.11 | 314,692.74 |
| **Total profit (loss "-")** | | 10,418,990.78 | -103,468,016.94 |
| Less: Income tax expenses | | – | – |
| **Net profit (loss "-")** | | 10,418,990.78 | -103,468,016.94 |
| **Total comprehensive income (loss "-")** | | 10,418,990.78 | -103,468,016.94 |

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

**Consolidated Cash Flow Statement**
*2016 (Expressed in Renminbi)*

| | *Note VII* | **2016** | **2015** |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash received from sales of goods and rendering of services | | 876,002,517.01 | 782,279,295.93 |
| Refund of taxes and levies | | 26,610,302.47 | 33,882,548.84 |
| Other cash receipts relating to operating activities | *40* | 32,020,880.16 | 26,198,157.80 |
| Sub-total of cash inflows from operating activities | | 934,633,699.64 | 842,360,002.57 |
| Cash paid for goods and services | | 480,913,819.49 | 573,451,267.78 |
| Cash paid to and on behalf of employees | | 184,758,243.87 | 169,890,772.50 |
| Payments of taxes and levies | | 41,634,650.76 | 31,677,730.88 |
| Other cash payments relating to operating activities | *40* | 120,549,021.25 | 143,224,315.29 |
| Sub-total of cash outflows from operating activities | | 827,855,735.37 | 918,244,086.45 |
| Net cash flows from operating activities | | 106,777,964.27 | -75,884,083.88 |
| **Cash flows from investing activities:** | | | |
| Cash received from return of investments | | – | 2,592,876.71 |
| Cash received from disposals of fixed assets, intangible assets and other long-term assets | | 590,329.87 | 7,463,014.64 |
| Cash received from other investing activities | | – | 50,000,000.00 |
| Sub-total of cash inflows from investing activities | | 590,329.87 | 60,055,891.35 |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | 49,721,744.35 | 48,709,118.19 |
| Cash paid for investment | | 1,146,723.42 | – |
| Sub-total of cash outflows from investing activities | | 50,868,467.77 | 48,709,118.19 |
| Net cash flows from investing activities | | -50,278,137.90 | 11,346,773.16 |

| | Note VII | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Cash receipts from investors | | -401,263.10 | 217,033,161.66 |
| Cash received from borrowings | | 384,374,000.00 | 731,025,123.87 |
| Other cash received relating to financing activities | | 21,478,990.00 | 104,219,060.14 |
| Sub-total of cash inflows from financing activities | | 405,451,726.90 | 1,052,277,345.67 |
| Cash repayments of borrowings | | 560,767,159.96 | 782,477,688.16 |
| Cash payments for interest expenses, distribution of dividend or profits | | 22,925,548.96 | 35,309,283.97 |
| Other Cash payments for financing activities | | 807,000.00 | – |
| Sub-total of cash outflows from financing activities | | 584,499,708.92 | 817,786,972.13 |
| Net cash flows from financing activities | | -179,047,982.02 | 234,490,373.54 |
| **Impact on cash by changes in foreign exchange rates** | | 5,920,810.59 | 5,933,808.30 |
| **Net increase in cash and cash equivalents** | | -116,627,345.06 | 175,886,871.12 |
| Add: Cash and cash equivalents at beginning of the period | | 393,985,682.34 | 218,098,811.22 |
| **Cash and cash equivalents at end of the period** | | 277,358,337.28 | 393,985,682.34 |

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

**Cash Flow Statement**
*2016 (Expressed in Renminbi)*

| | *Note XVI* | **2016** | **2015** |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash received from sales of goods and rendering of services | | 862,035,985.04 | 748,715,516.68 |
| Refund of taxes and levies | | 15,867,492.07 | 22,351,723.01 |
| Other cash receipts relating to operating activities | | 11,775,332.60 | 13,006,778.89 |
| Sub-total of cash inflows from operating activities | | 889,678,809.71 | 784,074,018.58 |
| Cash paid for goods and services | | 592,020,607.51 | 624,959,886.40 |
| Cash paid to and on behalf of employees | | 119,690,633.96 | 122,695,237.98 |
| Payments of taxes and levies | | 18,473,271.71 | 13,413,756.52 |
| Other cash payments relating to operating activities | | 103,952,266.93 | 115,285,774.38 |
| Sub-total of cash outflows from operating activities | | 834,136,780.11 | 876,354,655.28 |
| Net cash flows from operating activities | | 55,542,029.60 | -92,280,636.70 |
| **Cash flows from investing activities:** | | | |
| Cash received from return of investments | | – | 2,592,876.71 |
| Cash received from disposals of fixed assets, intangible assets and other long-term asset | | 63,450.32 | 7,193,395.08 |
| Cash received from other investing activities | | – | 50,000,000.00 |
| Sub-total of cash inflows from investing activities | | 63,450.32 | 59,786,271.79 |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | 19,720,490.02 | 23,499,903.59 |
| Cash paid for investments | | 18,042,014.50 | 15,100,000.00 |
| Sub-total of cash outflows from investing activities | | 37,762,504.52 | 38,599,903.59 |
| Net cash flows from investing activities | | -37,699,054.20 | 21,186,368.20 |

| | Note XVI | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Cash receipts from investors | | -401,263.10 | 217,033,161.66 |
| Cash received from borrowings | | 383,374,000.00 | 701,025,123.87 |
| Cash receipts from other financing activities | | 21,478,990.00 | 104,219,060.14 |
| Sub-total of cash inflows from financing activities | | 404,451,726.90 | 1,022,277,345.67 |
| Cash repayments of borrowings | | 530,767,159.96 | 752,347,895.03 |
| Cash payments for interest expenses, distribution of dividend or profits | | 21,952,644.80 | 29,631,469.83 |
| Other Cash repayments for financing activities | | 807,000.00 | – |
| Sub-total of cash outflows from financing activities | | 553,526,804.76 | 781,979,364.86 |
| Net cash flows from financing activities | | -149,075,077.86 | 240,297,980.81 |
| Impact or cash by changes in foreign exchange rates | | 4,761,329.01 | 4,399,143.50 |
| **Net increase in cash and cash equivalents** | | -126,470,773.45 | 169,203,712.31 |
| Add: Cash and cash equivalents at beginning of the period | | 380,768,846.57 | 207,165,990.76 |
| **Cash and cash equivalents at end of the period** | | 254,298,073.12 | 376,369,703.07 |

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

**Consolidated Statement of Movement on Equity**
*2016 (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 |

2015

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

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

**Statement of Movement on Equity**
*2016 (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 |

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

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

**NOTES TO THE FINANCIAL STATEMENTS**
*2016 (Expressed in Renminbi)*

## 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).

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).

Uniform Social Credit Code: 914403002794827320.

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

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

Legal representative: Liu Xin.

**(II) Scope of operation**

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

**(III) Business nature and major activities of the Company**

The Company belongs to the industry of automotive maintenance and repair equipment for automotive aftermarket, and its major 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 17 March 2017.

## 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 | 97.00 | 97.00 |
| Launch Tech International Co., Ltd. ("Launch International ") | Wholly-owned subsidiary | One | 100.00 | 100.00 |

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

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

| Name | Reasons |
|---|---|
| PJS | Investment establishment |
| Launch International | Investment establishment |

The details of changes in the entities that were included in the consolidated financial statements during the period were set out in "Note VIII, 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.

### (III) Functional currency

Renminbi is the functional currency.

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

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

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

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

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

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

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

***2. Business combinations involving entities under common control***

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

If there is any contingent consideration required to be recognized as estimated obligations or assets, capital reserve (capital or share premium) is adjusted by the difference between the amount of such estimated obligations or assets and the amount of settlement of subsequent contingent consideration; where the capital reserve is insufficient, the retained earnings are adjusted.

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.

***3. Business combinations involving entities not under common control***

On the date of acquisition, when there is any difference between the fair values and book values of the assets provided and liabilities incurred or 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.

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.

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.

*(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.

*(2) Disposal of subsidiary or business*

1) General treatments

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

When the Company loses control on its former subsidiary due to partial disposal of equity investment or otherwise, the remaining invested equity after disposal is re-measured based on the fair value at the date when control was lost. The difference between the sum of consideration received from disposal of equity and the fair value of the remaining equity, and the share of net assets calculated on an continual basis starting from the date of acquisition based on the former holding ratio, shall be recognized as the investment gain for the period when control was lost. Other comprehensive income and ex-dividend proift or loss, other comprehensive income and distributable profits associated with equity investment in the former subsidiary shall be transferred to investment gain upon the loss of control, but except other comprehensive income occurred due to movement of net assets and liabilities under the remeasurment of defined benefit plan by the investor.

2) Piecemeal disposal of subsidiary

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

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

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

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

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

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

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

*(3) Acquisition of minority interest of subsidiary*

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

*(4) Partly disposal of subsidiary without losing control*

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

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

#### *1. Classification of joint venture arrangements*

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

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

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

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

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

#### *2. Accounting method for joint operation*

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

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

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

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

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

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

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

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

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

**(VII) Determination criteria for cash and cash equivalents**

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

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

***1. Foreign currency businesses***

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

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

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

***2. Translation of foreign currency statements***

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

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

### *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;

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.

*(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.

*(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.

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.

***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.

### *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;

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.

*(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.

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 |

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.

***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.

**(XII) 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.

*(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.

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.

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.

*(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.

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.

(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.

### *5. Criteria for determination of common control and significant impact*

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

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

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

## (XIII) Fixed assets

### *1. Recognition of fixed assets*

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

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

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

***2. Initial measurement of fixed assets***

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

***3. Subsequent measurement and disposal of fixed assets***

*(1) Depreciation of fixed assets*

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

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

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.

(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.

**(XIV) 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.

## (XV) Borrowing expenses

### *1. Principles of recognizing capitalization of borrowing expenses*

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

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

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

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

(2) the loan expenses have occurred;

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

### *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.

**(XVI) Intangible assets and development expenses**

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

***1. Initial measurement of intangible assets***

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

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

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

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

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

***2. Subsequent measurement***

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

*(1) Intangible asset with a limited life*

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

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

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

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

*(2) Intangible assets with indefinite useful life*

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

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

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

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

***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.

***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.

**(XVII) Impairment of long-term assets**

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

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

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

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

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

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

## (XVIII) Employee Compensation

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

### *1. Short-term remuneration*

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

*2. Post-employment benefits*

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

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

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

*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 acturial calculation and change in benefit standards, will be charged to profit or loss for the period when it incurs.

*4. Other long-term employee benefit*

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

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

**(XIX) Income**

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

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

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.

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

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

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

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

**(XX) Government subsidies**

***1. Classification***

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

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 7 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.

*3. Accounting treatment*

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

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

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

**(XXI) Deferred tax assets and deferred tax liabilities**

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

***1. Criteria for recognition of deferred income tax assets***

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

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

***2. Criteria for recognition of deferred income tax liabilities***

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

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

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

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

**(XXII) Changes in key accounting policies and accounting estimates**

***1. Changes in accounting policies***

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

***2. Changes in accounting estimates***

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

## V. STATEMENT OF CHANGES TO THE FINANCIAL STATEMENTS

Ministry of Finance on December 3, 2016 issued the "VAT accounting treatment" (accounting [2016] No. 22).

"VAT Accounting Regulations" stipulates that the subject name of "business tax and surcharges" should be adjusted to "tax and surcharges". The tax is levied on operations which consumption tax, urban maintenance and construction tax, property tax, land tax, transportation usage tax, stamp duty and other related taxes and fees are adjusted to be grouped under the "Tax and surcharges" in the income statement.

"Value-added tax accounting regulations" also clearly require debit balance of "tax payable" under the "pay VAT", "VAT payable", "Input tax deductibles", "Input tax certifiable", "value Tax retained for deductions " at the end of the year should be based on the situation, classified as "other current assets "or" other non-current assets "in the balance sheet. Credit balance of " tax payable-to be transferred tax " at the year end shall be according to the situation, stated in the "other current liabilities" or "other non-current liabilities" items in the balance sheet.

The Company in accordance with the requirements of "VAT Accounting Regulations", adjusted the relevant impact on assets and liabilities and relevant income statement items for transactions occurred in the period from 1 May 2016 to the implementation date of this regulation including the adjustment of property tax, land use tax, travel tax and stamp duty amounted to RMB 2,547,102.37 from "Administrative expenses" to "tax and surcharges"; reclassification of amounted RMB 4,591,043.25 from "tax payable" to "Other current assets" of; for transactions made between January 1 and April 30, 2016, there is no retrospective adjustment; the financial statements for comparable periods in the financial statements for 2016 are also not retrospectively adjusted.

## VI. 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% |
| | Provision of services | 6% |
| | Overseas sales; provision of processing repair and maintenance labor services (German subsidiary) | 19% |
| Business tax | Income before tax reform to VAT | 5% |
| Urban 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% |

### (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 2016 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 2016 was 15%.

## VII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

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

### (1) Bank balances and cash

| Item | Ending balance | Beginning balance |
|---|---|---|
| Cash on hand | 1,239,401.42 | 2,567,187.00 |
| Bank deposit | 277,239,474.48 | 391,418,495.34 |
| Other bank balances and cash | 807,000.00 | 21,478,990.00 |
| Total | 279,285,875.90 | 415,464,672.34 |
| Including: total amount of deposits overseas | 1,874,166.78 | 1,729,102.01 |

Upto 31 December 2016, other than the time deposit of RMB 1,050,000.00 pledged by Launch Software, the Company's subsidiary, for a loan, there are no other items pledged, freezed or with potential risk on collection. Details of pledged deposit see (42).

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

| Item | Ending balance | Beginning balance |
|---|---|---|
| Guarantee deposits | 807,000 | 52,990.00 |
| Time deposits or call deposits for guarantee | 1,050,000 | – |
| Deposits for acceptance draft | – | 21,426,000.00 |
| Total | 1,857,000 | 21,478,990.00 |

Other explanations on bank balance and cash:

The decrease of 32.78% is mainly arising from the funding from borrowing decreased during the period.

**(2) Bills receivable**

***1. Categories of bills receivable***

| Item | Ending balance | Beginning balance |
|---|---|---|
| Bank acceptance notes | 21,525,071.53 | 16,836,907.00 |
| Commercial acceptance bill | 300,000.00 | 200,000.00 |
| Total | 21,825,071.53 | 17,036,907.00 |

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

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

| Items | Confirmed at the period end | Unconfirmed at the period end |
|---|---|---|
| Bank acceptance notes | 26,809,211.70 | – |
| Total | 26,809,211.70 | – |

## (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 | 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 |

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 | 317,069,893.16 | 99.25 | 75,900,421.82 | 23.94 | 241,169,471.34 |
| Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis | 2,408,794.46 | 0.75 | 2,408,794.46 | 100.00 | – |
| Total | 319,478,687.62 | 100.00 | 78,309,216.28 | 24.51 | 241,169,471.34 |

*(1) Aging of accounts receivable within the group:*

| Aging | Ending balance Accounts receivable | Provision for bad debts | Proportion (%) |
|---|---|---|---|
| Under 1 year | 133,171,654.87 | 6,658,582.75 | 5.00 |
| including: within 90 days | 86,753,967.43 | 4,337,698.38 | 5.00 |
| 91-180 days | 16,573,738.28 | 828,686.91 | 5.00 |
| 181-270 days | 23,236,450.65 | 1,161,822.53 | 5.00 |
| 271-365 days | 6,607,498.51 | 330,374.93 | 5.00 |
| 1-2 years | 62,778,513.92 | 6,277,851.38 | 10.00 |
| 2-3 years | 47,754,094.56 | 14,326,228.40 | 30.00 |
| 3-4 years | 19,746,283.93 | 9,873,141.97 | 50.00 |
| 4-5 years | 29,738,401.36 | 23,790,721.12 | 80.00 |
| Over 5 years | 21,685,396.78 | 21,685,396.78 | 100.00 |
| Total | 314,874,345.42 | 82,611,922.40 | 26.24 |

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 | 74,266,039.83 | 3,713,301.99 | 70,552,737.84 | 61,183,510.02 | 3,059,175.50 | 58,124,334.52 |
| overdue | 241,959,828.40 | 80,250,143.22 | 161,709,685.18 | 258,295,177.60 | 75,250,040.78 | 183,045,136.82 |
| Total | 316,225,868.23 | 83,963,445.21 | 232,262,423.02 | 319,478,687.62 | 78,309,216.28 | 241,169,471.34 |

*(2) Accounts receivable subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period*

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

### 2. *Provision, recovery or reversal of the provision for bad debts during the period*

The amount of provision for bad debts during the period amounted to RMB12,147,722.58; 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 | 6,493,493.65 |

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 Technology Canada Inc. | Payment for goods | 3,356,885.55 | Uncollectible | Approved by general managers' meeting | No |
| Disbrat Service Automotovos LTDA. | Payment for goods | 1,663,538.57 | Uncollectible | Approved by general managers' meeting | No |
| TECNOSERVICE SRL, Roma | Payment for goods | 575,725.60 | Uncollectible | Approved by general managers' meeting | No |
| FILIPPETTI SRL, Cattolica | Payment for goods | 194,834.20 | Uncollectible | Approved by general managers' meeting | No |
| L'Autoservices SRL, Castenedolo (BS) | Payment for goods | 125,939.80 | Uncollectible | Approved by general managers' meeting | No |
| Haining Lotus Passenger Car Co., Ltd | Payment for goods | 110,400.00 | Uncollectible | Approved by general managers' meeting | No |
| Shanghai Hankook Tire Sales Co., Ltd | Payment for goods | 98,271.60 | Uncollectible | Approved by general managers' meeting | No |
| WAS GmbH, Erkrath | Payment for goods | 96,994.72 | Uncollectible | Approved by general managers' meeting | No |
| 14 accounts with insignificant amounts | Payment for goods | 270,903.61 | Uncollectible | Approved by general managers' meeting | No |
| Total | | 6,493,493.65 | | | |

### *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. | 119,790,447.27 | 37.88 | 17,637,454.59 |
| Launch Tech Japan.Inc. | 27,065,309.21 | 8.56 | 19,839,112.54 |
| Launch Ibérica, S.L. | 15,763,292.84 | 4.98 | 2,838,533.11 |
| Matco Tools | 14,640,316.38 | 4.63 | 732,015.82 |
| Launch Technologies SA (PTY) LTD | 10,108,211.38 | 3.20 | 3,253,306.94 |
| Total | 187,367,577.08 | 59.25 | 44,300,423.00 |

## (4) Prepayments

### *1. Classification based on aging*

| | Ending balance | | Beginning balance | |
|---|---|---|---|---|
| Aging | Amount | Proportion (%) | Amount | Proportion (%) |
| Under 1 year | 35,206,105.50 | 67.13 | 35,598,349.15 | 62.02 |
| 1-2 years | 5,609,999.74 | 10.70 | 11,787,437.14 | 20.53 |
| 2-3 years | 5,517,159.71 | 10.52 | 2,431,620.71 | 4.24 |
| Over 3 years | 6,108,211.60 | 11.65 | 7,581,946.54 | 13.21 |
| Total | 52,441,476.55 | 100.00 | 57,399,353.54 | 100.00 |

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

| Name | Ending balance | Aging | Reasons |
|---|---|---|---|
| Shenzhen Kangmai Technology Co., Ltd | 1,111,358.97 | 2-3 years | not yet due |
| Shenzhen Jiayang Electronic Co., Ltd | 4,577,722.21 | Within 3 years | not yet due |
| Total | 5,689,080.18 | | |

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

| Name | Ending balance | Proportion in total prepayment (%) | Year of prepayment | Reasons |
|---|---|---|---|---|
| Shenzhen Ouya Meihua Electronic Technology Co., Ltd. | 9,668,745.87 | 18.44 | 2016 | still processing |
| Shenzhen Sanmu Communications Technology Co., Ltd. | 5,941,410.25 | 11.33 | 2016 | still processing |
| Shenzhen Jiayang Electronic Co., Ltd. | 4,577,721.21 | 8.73 | 2014 | still processing |
| JVC Inc. | 2,467,425.30 | 4.71 | 2016 | still processing |
| Shenzhen Fulunda Procession Industrial Technology | 1,600,898.69 | 3.05 | 2016 | still processing |
| Total | 24,256,201.32 | 46.26 | | |

## (5) Other receivables

### 1. *Disclosure of other receivables by categories:*

| Categories | Ending balance | | | | |
|---|---|---|---|---|---|
| | Carrying balance | | Provision for bad debts | | |
| | 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 |

Continued:

| Categories | Beginning balance | | | | |
|---|---|---|---|---|---|
| | Carrying balance | | Provision for bad debts | | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Book value |
| Other receivables that are individually significant and are provided for bad debts on individual basis | | | | | |
| Other receivables that are provided for bad debts on basis of credit risk portfolio | 42,906,264.66 | 93.63 | 3,258,054.38 | 7.59 | 39,648,210.28 |
| Other receivables that are individually insignificant but are provided for bad debts on individual basis | 2,920,780.57 | 6.37 | 2,920,780.57 | 100.00 | – |
| Total | 45,827,045.23 | 100.00 | 6,178,834.95 | 13.48 | 39,648,210.28 |

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 | 9,581,684.74 | 479,084.24 | 5.00 |
| 1-2 years | 6,609,468.64 | 660,946.87 | 10.00 |
| 2-3 years | 1,308,995.48 | 392,698.65 | 30.00 |
| 3-4 years | 1,639,366.09 | 819,683.05 | 50.00 |
| 4-5 years | 332,883.75 | 266,307.00 | 80.00 |
| Over 5 years | 298,674.31 | 298,674.31 | 100.00 |
| Total | 19,771,073.01 | 2,917,394.12 | 14.76 |

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 receivables.

(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 | 1,684,369.33 | | No provision |
| Total | 1,684,369.33 | | 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.

*(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** |
| Shenzhen Lianqiang Technology Co., Ltd | 1,100,000.00 | 1,100,000.00 | Within 5 years | Low recoverability due to significant risk |
| Guangzhou Zhogngong Commercial Newspaper & Media Co., Ltd. | 304,000.00 | 304,000.00 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen Xianglian Metal Produces Co., Ltd. | 300,000.00 | 300,000.00 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen ShijiHengXing Technology Co., Ltd. | 274,225.13 | 274,225.13 | Over 5 years | Low recoverability due to significant risks |
| Shanghai Qi Hao Industrial Co., Ltd | 250,000.00 | 250,000.00 | Over 5 years | Low recoverability with significant risk |
| Shenzhen Changchuang Electronic Technology Co., Ltd | 210,000.00 | 210,000.00 | Over 5 years | Low recoverability due to significant risks |
| Wuxi Songzhi Precision Machinery Manufacturing Co., Ltd | 199,999.95 | 199,999.95 | Within 5 years | Low recoverability due to significant risk |
| Shenzhen Defeng Mold Co., Ltd. | 197,075.43 | 197,075.43 | Over 5 years | Low recoverability due to significant risks |
| Foshan Nanhai LiXiDa Electric Appliance Co., Ltd | 162,414.64 | 162,414.64 | Over 5 years | Low recoverability due to significant risk |
| Shenzhen Haolida Ultrasonic Equipment Co., Ltd. | 159,999.99 | 159,999.99 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen Changlongxing Metal Product Co., Ltd. | 150,000.00 | 150,000.00 | Over 5 years | Low recoverability due to significant risks |
| Sub-total of 36 insignificant account | 1,864,506.20 | 1,864,506.20 | Over 5 years | Low recoverability due to significant risks |
| Total | 5,172,221.34 | 5,172,221.34 | | |

### 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 RMB3,308,318.89; and there is no recovery or written back of provision for bad debts during the period is noted.

### 3. *Other receivables actually written off during the reporting period*

| Item | Amounts written off |
|---|---|
| Other receivables actually written off | 1,397,538.38 |

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 |
|---|---|---|---|---|---|
| Shenzhen Bao'an LongHua NamDa Pneumatic hydraulic Sales Department | Deposit | 750,000.00 | Uncollectible | Approved by general managers' office | No |
| BYD Precision Manufacturing Co., Ltd | Deposit | 299,999.99 | Uncollectible | Approved by general managers' office | No |
| Shanghai University of Technology Zhenyuan Automobile Technology Co., Ltd. | Deposit | 282,000.00 | Uncollectible | Approved by general managers' office | No |
| Li Guo Building Property | Deposit | 31,797.00 | Uncollectible | Approved by general managers' office | No |
| Sub-total of 14 insignificant account | Current accounts | 33,741.39 | Uncollectible | Approved by general managers' office | No |
| Total | | 1,397,538.38 | | | |

### 4. *Other receivables by natures*

| Item | Ending balance | Beginning balance |
|---|---|---|
| Deposits | 1,540,020.51 | 1,514,346.90 |
| Imprest | 11,109,781.23 | 18,185,119.13 |
| Company borrowings | 4,019,070.00 | 13,049,650.40 |
| Export tax refund receivables | 1,684,369.33 | 6,917,086.63 |
| Others | 8,274,422.61 | 6,160,842.17 |
| Total | 26,627,663.68 | 45,827,045.23 |

### 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 |
|---|---|---|---|---|---|
| Beijing Yunfeng Culture Investment Co., Ltd | Temporary borrowing | 2,300,000.00 | Within 4 years | 8.64 | 980,000.00 |
| VAT refundable | Levy refund | 1,684,369.33 | Within 1 year | 6.33 | |
| Jiang Shiwen | Temporary borrowing | 1,632,745.00 | Within 1 year | 6.13 | 81,637.25 |
| China Unicom Shenzhen Branch | Current account | 1,283,792.65 | Within 1 year | 4.82 | 64,189.63 |
| Shenzhen Lianqiang Tech Co., Ltd. | Others | 1,100,000.00 | Over 5 years | 4.13 | 1,100,000.00 |
| Total | | 8,000,906.98 | | 30.05 | 2,225,826.88 |

## (6) Inventories

### *1. Categories*

| Item | Ending balance | | | Beginning balance | | |
|---|---|---|---|---|---|---|
| | Carrying balance | Provision for impairment | Book value | Carrying balance | Provision for impairment | Book value |
| Raw materials | 17,113,460.95 | – | 17,113,460.95 | 19,529,850.05 | – | 19,529,850.05 |
| Work-in-progress | 9,157,436.72 | – | 9,157,436.72 | 7,968,208.34 | – | 7,968,208.34 |
| Finished goods | 86,476,470.80 | – | 86,476,470.80 | 74,441,406.90 | – | 74,441,406.90 |
| Total | 112,747,368.47 | – | 112,747,368.47 | 101,939,465.29 | – | 101,939,465.29 |

As at 31 December 2016 no provision for impairment on inventories were made as there was no signs of impairment noted.

## (7) Other current assets

| Item | Ending balance | Beginning balance |
|---|---|---|
| Input tax pending for deduction | 2,338,215.60 | 2,644,181.62 |
| Input tax pending for certification | 2,252,827.65 | 5,242,315.31 |
| Total | 4,591,043.25 | 7,886,496.93 |

Explanations on other current assets

Decrease in other current assets of 41.79% compared with last year was mainly due to the decrease in Input tax pending for certification.

## (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 | | 1,146,723.42 | | -604,656.50 | |
| Total | | 1,146,723.42 | | -604,656.50 | |

Continued:

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

## (9) Fixed assets at cost and accumulated depreciation

### *1. Fixed asset*

| Item | Buildings | Machinery and equipment | Electronic equipment | Transport equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| I. Total original carrying value | | | | | | |
| 1. Beginning balance | 412,395,075.64 | 48,209,428.91 | 104,932,610.26 | 25,320,966.65 | 108,419,816.55 | 699,377,898.01 |
| 2. Increase for the period | – | 1,339,674.52 | 3,046,686.79 | 1,872,374.16 | 3,449,766.68 | 9,708,502.15 |
| Purchase | – | 1,339,674.52 | 3,046,686.79 | 1,872,374.16 | 3,449,766.68 | 9,708,502.15 |
| 3. Decrease for the period | – | 1,921,749.80 | 812,688.11 | 1,784,432.29 | 2,851,870.68 | 7,370,740.88 |
| Disposal or scrapping | – | 1,921,749.80 | 812,688.11 | 1,784,432.29 | 2,851,870.68 | 7,370,740.88 |
| 4. Ending balance | 412,395,075.64 | 47,627,353.63 | 107,166,608.94 | 25,408,908.52 | 109,117,712.55 | 701,715,659.28 |

| Item | Buildings | Machinery and equipment | Electronic equipment | Transport equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| II. Accumulated depreciation | | | | | | |
| 1. Beginning balance | 89,386,526.60 | 33,199,036.28 | 79,901,696.43 | 20,634,726.71 | 88,800,675.86 | 311,922,661.88 |
| 2. Increase for the period | 18,383,117.52 | 3,562,526.51 | 8,121,159.09 | 1,799,429.02 | 5,855,570.46 | 37,721,802.60 |
| Provisions | 18,383,117.52 | 3,562,526.51 | 8,121,159.09 | 1,799,429.02 | 5,855,570.46 | 37,721,802.60 |
| 3. Decrease for the period | – | 973,022.10 | 549,997.93 | 1,621,020.87 | 2,643,543.38 | 5,787,584.28 |
| Disposal or scrapping | – | 973,022.10 | 549,997.93 | 1,621,020.87 | 2,643,543.38 | 5,787,584.28 |
| 4. Ending balance | 107,769,644.12 | 35,788,540.69 | 87,472,857.59 | 20,813,134.86 | 92,012,702.94 | 343,856,880.20 |
| III. Provision for impairment | – | – | – | – | – | – |
| IV. Total Book value | | | | | | |
| 1. Book value at the end of the period | 304,625,431.52 | 11,838,812.94 | 19,693,751.35 | 4,595,773.66 | 17,105,009.61 | 357,858,779.08 |
| 2. Book value at the beginning of the period | 323,008,549.04 | 15,010,392.63 | 25,030,913.83 | 4,686,239.94 | 19,619,140.69 | 387,455,236.13 |

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

| Item | Carrying Amount | Reasons |
|---|---|---|
| Buildings | 107,362,485.03 | Application in progress |
| Total | 107,362,485.03 | |

### 3. *Other explanations on fixed assets*

The original book value of the pledged fixed assets at the end of the period was RMB202,694,643.35, see Note XII(I) for details.

## (10) Construction in progress

### *1. Construction in progress*

| Item | Ending balance Carrying balance | Ending balance Provision for impairment | Ending balance Book value | Beginning balance Carrying balance | Beginning balance Provision for impairment | Beginning balance Book value |
|---|---|---|---|---|---|---|
| Xian Launch building | 18,005,435.66 | – | 18,005,435.66 | – | – | – |
| Other sporadic projects | 61,538.46 | – | 61,538.46 | 1,718,549.29 | – | 1,718,549.29 |
| Total | 18,066,974.12 | – | 18,066,974.12 | 1,718,549.29 | – | 1,718,549.29 |

### *2. Changes in significant construction in progress*

| Name | Beginning balance | Increase | Transfer to fixed assets during current period | Decrease | Ending balance |
|---|---|---|---|---|---|
| Xian Launch building | 1,718,549.29 | 16,286,886.37 | – | – | 18,005,435.66 |
| Total | 1,718,549.29 | 16,286,886.37 | – | – | 18,005,435.66 |

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 | 14,065.00 | 12.80 | 12.80 | – | – | – | Self-financing |

### *3. Other Explanation on Construction in progress*

The increase of 951.29% is mainly due to the increase of construction cost of Xi'an Launch Building.

**(11) 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 | 282,105,985.34 | 1,177,350.41 | 339,029,061.84 |
| 2. Increase for the period | – | 37,419,094.19 | – | 37,419,094.19 |
| Purchase | – | 37,419,094.19 | – | 37,419,094.19 |
| 3. Decrease for the period | – | – | – | – |
| 4. Ending balance | 55,745,726.09 | 319,525,079.53 | 1,177,350.41 | 376,448,156.03 |
| II. Accumulated amortization | | | | |
| 1. Beginning balance | 6,082,764.07 | 126,179,120.71 | – | 132,261,884.78 |
| 2. Increase for the period | 1,350,215.42 | 47,802,901.32 | | 49,153,116.74 |
| Provisions | 1,350,215.42 | 47,802,901.32 | | 49,153,116.74 |
| 3. Decrease for the period | | | | |
| 4. Ending balance | 7,432,979.49 | 173,982,022.03 | – | 181,415,001.52 |
| III. Provisions for impairment | | | | |
| 1. Beginning balance | – | 15,736,162.37 | – | 15,736,162.37 |
| 2. Increase for the period | – | 4,469,291.41 | – | 4,469,291.41 |
| Provisions | – | 4,469,291.41 | – | 4,469,291.41 |
| 3. Decrease for the period | – | – | – | – |
| 4. Ending balance | – | 20,205,453.78 | – | 20,205,453.78 |
| IV. Total Book value | | | | |
| 1. Book value at the end of the period | 48,312,746.60 | 125,337,603.72 | 1,177,350.41 | 174,827,700.73 |
| 2. Book value at the beginning of the period | 49,662,962.02 | 140,190,702.26 | 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 71.95%.

(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 XIII(i) for details

## (12) Development expenditure

### 2016

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

**2015**

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

Explanation on Development projects:

Increase in development expenditure of 150.89% is mainly due to the increase in development efforts and increase new projects.

## (13) 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 2016, 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, 2016, and then calculate the total value of shareholders equity, which the total value of shareholders = the value of the total assets-interest-bearing debt.

## (14) Deferred tax assets and deferred tax liabilities

### *1. Deferred income tax assets not written off*

| Item | Ending balance | | Beginning balance | |
|---|---|---|---|---|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| Provisions for asset impairment | 18,404,516.89 | 4,203,375.52 | 46,590.37 | 6,988.56 |
| Total | 18,404,516.89 | 4,203,375.52 | 46,590.37 | 6,988.56 |

### 2. *Unrecognized deferred tax assets*

| Item | Ending balance | Beginning balance |
|---|---:|---:|
| (1) Deductible temporary differences | 94,396,064.48 | 100,177,623.23 |
| Bad debt provision – accounts receivable | 69,678,815.77 | 78,309,216.28 |
| Bad debt provision – other receivables | 7,879,370.57 | 6,132,244.58 |
| Provision for impairment of intangible assets | 16,295,811.22 | 15,736,162.37 |
| Provision for impairment of long term equity impairment | 542,066.92 | – |
| (2) Deductible losses | 175,304,532.26 | 227,924,644.10 |
| (3) Internal unrealised profits | 4,770,289.04 | 7,938,697.67 |
| Total | 274,470,885.78 | 336,040,965.00 |

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

| Item | Ending balance | Beginning balance | *Note* |
|---|---:|---:|---|
| 2017 | 23,810,922.97 | 45,888,537.50 | |
| 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 | 36,175,119.02 | – | |
| Total | 175,304,532.26 | 161,207,027.77 | |

**(15) Other non-current assets**

| Item | Ending balance | Beginning balance |
|---|---|---|
| Prepayment for properties | 7,993,843.94 | 6,911,826.72 |
| Total | 7,993,843.94 | 6,911,826.72 |

**(16) Short-term borrowings**

***1. Categories***

| Item | Ending balance | Beginning balance |
|---|---|---|
| Guaranteed | 130,000,000.00 | 219,347,159.96 |
| Secured + guaranteed | 253,374,000.00 | 270,000,000.00 |
| Pledged deposits | 1,000,000.00 | – |
| Banking acceptance draft financing | – | 71,420,000.00 |
| Total | 384,374,000.00 | 560,767,159.96 |

Explanation of classification of short-term borrowings:

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

## (17) Accounts payable

| Item | Ending balance | Beginning balance |
|---|---|---|
| Under 1 year | 91,001,472.44 | 84,412,542.71 |
| 1-2 years | 2,260,010.28 | 1,616,623.84 |
| 2-3 years | 23,404.67 | 1,282,317.77 |
| Over 3 years | 1,107,637.27 | 1,045,811.82 |
| Total | 94,392,524.66 | 88,357,296.14 |

### *1. Key accounts payable with aging of over 1 year*

| Name | Ending balance | Reasons for no repayment or settlement |
|---|---|---|
| Shenzhen Jiangxi New Microelectronics Co., Ltd | 1,242,029.84 | Settlement date undue |
| Shenzhen Meibai Electronics Co., Ltd | 1,611,342.44 | Settlement date undue |
| Dongguan Jin Deer Battery Technology Co., Ltd | 303,404.33 | Settlement date undue |
| Total | 3,156,776.61 | |

## (18) Receipts in advance

### *1. Receipts in advance*

| Item | Ending balance | Beginning balance |
|---|---|---|
| Under 1 year | 61,061,913.18 | 79,364,620.11 |
| Total | 61,061,913.18 | 79,364,620.11 |

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

### (19) Employee remuneration payables

#### 1. *Employee remuneration payables*

| Item | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Short-term remuneration | 3,930,285.41 | 176,793,049.39 | 178,000,890.43 | 2,722,443.37 |
| Post-employment benefits – Defined contributions plan | – | 18,045,074.50 | 18,045,074.50 | – |
| Termination benefit | – | 5,630,577.66 | 5,504,041.40 | 126,536.26 |
| Total | 3,930,285.41 | 200,468,701.55 | 201,550,006.33 | 2,848,980.63 |

#### 2. *Short-term remuneration*

| Item | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Salaries, bonus, allowance and subsidies | 1,425,582.32 | 150,209,932.75 | 150,572,613.30 | 1,062,901.77 |
| Staff welfare | | 9,139,954.56 | 9,139,954.56 | |
| Social insurance fees | | 7,137,377.24 | 7,137,377.24 | |
| Including: Basic medical insurance fees | | 6,075,282.88 | 6,075,282.88 | |
| Injury insurance fees | | 414,874.83 | 414,874.83 | |
| Maternity insurance fees | | 647,219.53 | 647,219.53 | |
| Housing provident fund | | 9,368,464.18 | 9,368,464.18 | |
| Union funds and employee education funds | 2,504,703.09 | 937,320.66 | 1,782,481.15 | 1,659,542.60 |
| Total | 3,930,953.03 | 176,793,049.39 | 178,000,890.43 | 2,722,444.37 |

### 3. *Defined contribution plans*

| Item | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Basic pension | – | 17,511,812.41 | 17,511,812.41 | – |
| Unemployment insurance fees | – | 533,262.09 | 533,262.09 | – |
| Total | – | 18,045,074.50 | 18,045,074.50 | – |

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% (2015: 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.

**(20) Tax payables**

| Item | Ending balance | Beginning balance |
|---|---|---|
| VAT | 868,557.20 | 2,193,339.26 |
| Business tax | 14,965.32 | 156,480.71 |
| EIT | 6,129,828.80 | – |
| Personal income tax | 1,111,950.09 | 955,769.21 |
| Urban maintenance and construction tax | 1,108,538.69 | 202,623.99 |
| Real estate tax | 1,011,464.85 | 988,433.97 |
| Land use tax | 119,799.62 | 327,918.63 |
| Education surcharge | 778,122.10 | 143,643.70 |
| Others | 792.41 | 117,692.61 |
| Total | 11,144,019.08 | 5,085,902.08 |

Explanation on Tax Payables

Increase of 119.12% is mainly due to the increase in Urban maintenance and construction tax and Education surcharge resulting from increase in year end balance of Tax refundable tax for Tax Exemption, Offset and Refund of goods.

**(21) Other payables**

***1. Presentation of other payables by aging***

| Aging | Ending balance | Beginning balance |
|---|---|---|
| Under 1 year | 6,984,541.99 | 8,855,375.96 |
| 1-2 years | 3,689,990.37 | 492,225.17 |
| 2-3 years | 251,823.77 | 1,709,705.19 |
| Over 3 years | 1,906,474.63 | 1,519,553.43 |
| Total | 12,832,830.76 | 12,576,859.75 |

### 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 |
| Shenzhen Shangjia Car maintenance tool Co., Ltd | 200,000.00 | Security deposit not yet due |
| Total | 1,331,750.00 | |

## (22) Non-current liabilities due within one year

| Item | Ending balance | Beginning balance |
|---|---|---|
| Long-term borrowing due within 1 year | 505,399.54 | 468,152.45 |
| Total | 505,399.54 | 468,152.45 |

## (23) Long-term borrowings

### *1. Categories*

| Categories | Ending balance | Beginning balance |
|---|---|---|
| House mortgage repayment | 676,536.08 | 1,190,145.51 |
| Total | 676,536.08 | 1,190,145.51 |

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 2016, the balance of the loan contract was RMB1,181,935.62.

## (24) Deferred income

| Item | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Asset-related government subsidies | 25,500,000.00 | – | 3,169,000.00 | 22,331,000.00 |
| Total | 25,500,000.00 | – | 3,169,000.00 | 22,331,000.00 |

### 1. *Deferred income in relation to government subsidies*

| Item | Beginning balance | Amount of new subsidies for current period | Amount included in non-operating income for current period | Other changes | Ending balance | Asset-related/ income-related |
|---|---|---|---|---|---|---|
| a. Research on Critical Technique of Automobile Comprehensive Performance Testing, Development of its Product Series and its Industrialization | 20,000,000.00 | – | 3,169,000.00 | – | 16,831,000.00 | 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 | 25,500,000.00 | – | 3,169,000.00 | – | 22,331,000.00 | |

### 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.

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. The period of co-operation is from 8 October 2015 to 30 September 2017. As of 31 December 2016, 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. The period of co-operation is from 9 January 2015 to 8 January 2017. As of 31 December 2016, the project is still under development stage.

**(25) Share capital**

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

### (26) Capital reserve

| Item | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Capital premium (share premium) | 231,421,588.86 | – | 401,263.10 | 231,020,325.76 |
| Other capital reserve | | | | |
| Total | 231,421,588.86 | – | 401,263.10 | 231,020,325.76 |

Explanation of capital reserve:

The decrease in capital reserves is mainly due to legal fee relating to the additional issue of overseas listed foreign shares on 29 December 2015.

### (27) Other comprehensive income

| | | Current period | | |
|---|---|---|---|---|
| Item | Beginning balance | Current period before tax | After-tax income attributable to the parent company | Ending balance |
| Translation difference of foreign currency statements | 3,221,298.19 | 110,987.90 | 110,987.90 | 3,332,286.09 |
| Total of other comprehensive income | 3,221,298.19 | 110,987.90 | 110,987.90 | 3,332,286.09 |

### (28) Surplus reserve

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

### (29) Undistributed profits

| Item | Amount | Provision or distribution proportion (%) |
|---|---|---|
| Undistributed profits at the end of last period before adjustment | 120,570,279.29 | – |
| 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 | 120,570,279.29 | – |
| Add: Net profits attributable to owners of parent company during this period | 21,411,537.32 | – |
| Undistributed Profits at the end of period | 141,981,816.61 | |

### (30) Operating income and operating costs

#### *1. Operating income and operating costs*

| Item | Current period | | Previous period | |
|---|---|---|---|---|
| | Income | Cost | Income | Cost |
| Principal operation | 818,148,347.46 | 459,861,117.69 | 683,678,245.76 | 427,983,171.61 |
| Other operations | 16,904,808.90 | 142,470.09 | 13,919,683.88 | – |
| Total | 835,053,156.36 | 460,003,587.78 | 697,597,929.64 | 427,983,171.61 |

### (31) Business tax and surcharges

| Item | Current period | Previous period |
|---|---|---|
| Business tax | 292,500.88 | 850,472.03 |
| City maintenance and construction tax | 3,875,938.16 | 1,844,622.22 |
| Education surcharges | 2,765,628.43 | 1,418,193.51 |
| Real estate | 1,913,520.81 | – |
| Land use tax | 543,509.78 | – |
| Other | 94,027.97 | 41,238.97 |
| Total | 9,485,126.03 | 4,154,526.73 |

Explanations on Tax and surcharge:

Increase of 128.31% is mainly due to the reclassification of Real estate tax, Land use tax, Stamp duties and Vehicle and vessel usage tax from Administrative expenses from May onward. It is also contributed by the increase in additional tax payment resulting from the relatively high Free Offset and refund tax balance at the year end.

### (32) Selling expenses

| Item | Current period | Previous period |
|---|---|---|
| Remuneration | 58,811,576.07 | 57,613,366.28 |
| Depreciation expenses | 522,092.99 | 626,702.64 |
| Rental expenses | 3,850,023.76 | 5,219,539.36 |
| Utilities | 828,949.03 | 930,100.79 |
| Office expenses | 1,209,609.99 | 1,318,214.62 |
| Exhibition expenses | 4,287,508.52 | 4,091,623.35 |
| Advertising and printing expenses | 3,959,134.50 | 8,858,626.74 |
| Travelling expenses | 4,060,495.07 | 5,221,687.24 |
| Vehicle expenses | 902,389.97 | 1,050,327.92 |
| Repair costs | 27,148.86 | 36,302.21 |
| Entertainment | 499,639.16 | 587,999.11 |
| Postage | 1,319,080.60 | 1,336,199.48 |
| Storage and transportation fees | 3,295,947.39 | 3,494,052.44 |
| Amortization of low-cost consumables | 232,755.25 | 398,526.59 |
| Customs fees | 1,386,806.97 | 1,130,544.96 |
| Commissions | 11,738,224.69 | 12,426,083.29 |
| Training expenses | 1,432,656.43 | 655,681.06 |
| After-sales service costs | 7,492,346.75 | 35,061,017.02 |
| Cost of annual meeting | 324,214.26 | 167,224.40 |
| Insurance | 223,207.52 | 234,358.36 |
| Others | 625,389.77 | 445,954.17 |
| Total | 107,029,197.55 | 140,904,132.03 |

### (33) Administrative expenses

| Item | Current period | Previous period |
|---|---|---|
| Remuneration | 32,040,929.99 | 27,584,134.21 |
| Office expenses | 5,344,384.61 | 6,498,544.97 |
| Travelling expenses | 4,239,144.55 | 3,416,770.49 |
| Entertainment | 5,021,118.13 | 2,742,871.39 |
| Taxation | 1,294,239.78 | 3,139,046.32 |
| Inventories losses | 4,929,459.49 | 5,910,114.11 |
| Amortization of low-cost consumables | 621,244.41 | 259,074.01 |
| Auditing and consulting expenses | 2,762,635.10 | 2,756,801.74 |
| Legal consultancy expenses | 3,346,822.58 | 2,043,031.99 |
| Depreciation expenses | 20,246,098.60 | 19,188,264.13 |
| Research and development expenses | 79,814,679.44 | 62,352,282.17 |
| Union funds and employee education funds | 3,665,392.44 | 3,248,756.33 |
| Vehicles and storage and transportation costs | 4,662,060.68 | 4,262,928.47 |
| Repairs and maintenance expenses | 5,096,584.56 | 1,825,013.72 |
| Amortization of intangible assets | 49,153,116.74 | 45,115,361.68 |
| Patent application and inspection certification fees | 2,095,366.35 | 2,258,612.94 |
| Other expenses | 3,709,480.70 | 3,873,359.67 |
| Total | 228,042,758.15 | 196,474,968.34 |

### (34) Finance costs

| Categories | Current period | Previous period |
|---|---|---|
| Interest expenses | 22,925,548.95 | 35,309,283.96 |
| Less: Interest income | 1,065,680.25 | 2,932,062.12 |
| Exchange differences | -21,389,448.39 | -18,513,041.82 |
| Others | 2,799,725.67 | 2,835,296.46 |
| Total | 3,270,145.98 | 16,699,476.48 |

Explanation on finance costs:

Financial costs reduced by 80.42% is mainly due to the increase in exchange difference resulting from relatively large fluctuations in exchange rate reduction in interest expenses resulting from the decrease in borrowings and in this period.

### (35) Asset impairment losses

| Item | Current period | Previous period |
|---|---|---|
| Bad debt | 15,456,041.47 | 21,310,252.45 |
| Impairment loss on inventories | – | 12,537.47 |
| Impartment loss on intangible assets | 4,469,291.41 | 1,353,652.81 |
| Loss on impairment on long term equity investment | 542,066.92 | – |
| Total | 20,467,399.80 | 22,676,442.73 |

### (36) Investment income

#### 1. *Details of investment income*

| Item | Current period | Previous period |
|---|---|---|
| Gain/loss on long term equity investment | -604,656.50 | – |
| Others | – | 2,592,876.71 |
| Total | -604,656.50 | 2,592,876.71 |

### (37) Non-operating income

| Item | Current period | Previous period | Amount recorded in non-recurring gain or loss |
|---|---|---|---|
| Gain on disposals of non-current assets | 2,936.75 | 1,387,424.43 | 2,936.75 |
| Including: Gain on disposals of fixed assets | 2,936.75 | 1,387,424.43 | 2,936.75 |
| Government grants | 19,123,427.65 | 12,406,578.82 | 9,169,192.23 |
| Including: value-added tax refund | 9,954,235.42 | 9,081,978.82 | – |
| Others | 1,287,486.79 | 1,178,082.03 | 1,287,486.79 |
| Total | 20,413,851.19 | 14,972,085.28 | 10,459,615.77 |

### 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 science and technology (patent) reward | – | 100,000.00 | Income-related grants |
| Shenzhen patent and overseas trademarks subsidy | 390,000.00 | 149,600.00 | Income-related grants |
| Intellectual property reward of special fund for industry development of Futian District, Shenzhen | – | 33,000.00 | Income-related grants |
| Shenzhen market Supervision Administration Bureau subsidy | – | 32,000.00 | Income-related grants |
| Shenzhen computer software copyright registration subsidy | 18,000.00 | – | Income-related grants |
| Shenzhen specialized subsidy for design of integrated circuit | – | 3,000,000.00 | Income-related grants |
| Shenzhen Enterprises' working injury protection and safety manufacturing rewards | – | 10,000.00 | 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 | 3,324,600.00 | |

### (38) Non-operating expenses

| Item | Current period | Previous period | Amount recorded in non-recurring gain or loss |
|---|---|---|---|
| Total loss on disposals of non-current assets | 815,011.38 | 273,803.90 | 815,011.38 |
| Including: Loss on disposals of fixed assets | 815,011.38 | 273,803.90 | 815,011.38 |
| Others | 567,461.68 | 853,915.18 | 567,461.68 |
| Total | 1,382,473.06 | 1,127,719.08 | 1,382,473.06 |

### (39) Income tax expense

| Item | Current period | Previous period |
|---|---|---|
| Current income tax expenses | 8,340,700.40 | 902,451.31 |
| Deferred income tax expenses | -4,196,386.96 | -1,249.59 |
| Total | 4,144,313.44 | -903,700.91 |

**(40) Notes to in cash flow statement**

*1. Other cash receipts relating to operating activities*

| Item | Current Period | Previous period |
|---|---|---|
| Interest income | 1,065,680.25 | 2,932,062.12 |
| Government grants | 6,000,192.23 | 8,824,600.00 |
| Other non-operating income | 1,216,948.17 | 1,178,082.03 |
| Current accounts | 23,738,059.51 | 13,263,413.65 |
| Total | 32,020,880.16 | 26,198,157.80 |

*2. Other cash payments relating to operating activities*

| Item | Current Period | Previous period |
|---|---|---|
| Administrative expenses | 61,405,777.76 | 47,026,046.64 |
| Selling expenses | 47,291,715.31 | 83,091,923.90 |
| Bank charges and other | 2,799,725.67 | 2,835,296.46 |
| Non-operating expenses | 567,461.68 | 853,915.18 |
| Other current accounts | 8,484,340.83 | 9,417,133.11 |
| Total | 120,549,021.25 | 143,224,315.29 |

*3. Cash received from other financing activities*

| Item | Current period | Previous period |
|---|---|---|
| Decrease in restricted monetary item | 21,478,990.00 | 104,219,060.14 |
| Total | 21,478,990.00 | 104,219,060.14 |

## (41) Supplementary Information of Cash Flow Statement

### *1. Supplementary Information of Cash Flow Statement*

| Item | Current period | Previous period |
|---|---|---|
| 1. Reconciliation of net income to cash flows from operating activities: | | |
| Net Income | 21,037,349.26 | -93,953,844.46 |
| Add: Provision for impairment on assets | 20,467,399.80 | 22,676,442.73 |
| Depreciation of fixed assets, oil and gas assets and productive biological assets | 37,721,802.60 | 36,913,163.28 |
| Amortization of intangible assets | 49,153,116.74 | 45,115,361.68 |
| Loss on disposals of fixed assets, intangible assets and other long-term assets (“-” for gains) | 812,074.63 | -1,113,620.53 |
| Losses on scrapping of fixed assets (“-” for gains) Finance costs (“-” for gains) | 22,925,548.95 | 35,309,283.96 |
| Investments losses (“-” for gains) | 604,656.50 | -2,592,876.71 |
| Decrease in deferred tax assets (“-” for increase) | -4,196,386.96 | -1,249.59 |
| Decrease in inventories (“-” for increase) | -10,807,903.18 | -8,166,307.00 |
| Decrease in operating receivables (“-” for increase) | -14,090,043.54 | -29,195,594.99 |
| Increase in operating payables (“-” for decrease) | -15,729,111.91 | -80,874,842.25 |
| Net cash flows from operating activities | 107,898,502.89 | -75,884,083.88 |
| 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 | 277,428,875.90 | 393,985,682.34 |
| Less: Cash at the beginning of the period | 393,985,682.34 | 218,098,811.22 |
| 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 | -116,556,806.44 | 175,886,871.12 |

*2. Composition of cash and cash equivalents*

| Item | Ending balance | Beginning balance |
|---|---|---|
| 1. Cash | 277,428,875.90 | 393,985,682.34 |
| Including: Cash deposits | 1,239,401.42 | 2,567,187.00 |
| Available-for-use bank deposit | 276,189,474.48 | 391,418,495.34 |
| 2. Cash equivalents | | |
| Including: bond investment maturing within three months | – | – |
| 3. Cash and cash equivalents as at the end of the period | 277,428,875.90 | 393,985,682.34 |
| Including: Restricted cash and cash equivalent in the parent company or subsidiaries in the Group | – | – |

**(42) Assets with restricted ownership or use rights**

| Item | Balance | Reason for restriction |
|---|---|---|
| Bank balance and cash | 1,857,000.00 | Pledged borrowing, guarantee deposits |
| Fixed assets | 202,694,643.35 | Security for borrowings |
| Intangible assets | 13,511,684.63 | Mortgage loan |
| Total | 218,063,327.98 | |

Other Explanations:

As of 31 December 2016, the Company placed a fixed deposit of RMB1,050,000.00 as pledge for a short-term loan of 1,000,000.00 granted by Penglong branch of Bank of China with a term from 29 November 2016 to 29 November 2017.

**(43) Foreign currency items**

*1. Foreign currency items*

| Item | Ending balance in foreign currency | Exchange rate | Ending balance converted in RMB |
|---|---|---|---|
| Bank balances and cash | – | – | 44,672,525.94 |
| Including: USD | 6,108,561.51 | 6.9370 | 42,375,091.19 |
| Euro | 296,141.48 | 7.3068 | 2,163,846.57 |
| HKD | 149,409.38 | 0.89451 | 133,648.18 |
| Accounts receivable | – | – | 287,959,530.43 |
| Including: USD | 39,656,921.62 | 6.9370 | 275,100,065.28 |
| Euro | 1,759,931.18 | 7.3068 | 12,859,465.15 |

*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 | 7.3417 | Annual average exchange rate |
| | | Other items | 7.3068 | Year-end exchange rate |
| Launch International | HKD | Long term investment | 0.84029 | historical rate |
| | | Revenue items | 0.85715 | Annual average rate |
| | | Other items | 0.89451 | Year end rate |

## VIII. CHANGE IN THE SCOPE OF CONSOLIDATION

### (1) Acquisition of subsidiaries through establishment or investment

| Name | Type | Registration place | Business Nature | Registered capital | Major operation |
|---|---|---|---|---|---|
| PJS | Limited Liability Company | Shenzhen | Technology Development | 10,000,000.00 | Computer hardware and software, communications equipment, technology development and sales |
| Launch International | Limited Company | Hong Kong | Automobile repair and maintenance equipment | HK$50,000 | Car diagnosis, testing, maintenance equipment sales, information network services |

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 |
|---|---|---|---|---|---|
| PJS | 97 | 97 | 2,000,000.00 | | Yes |
| Launch International | 100 | 100 | HK$50,000.00 | | Yes |

Continued:

| Name | Enterprise type | Unified Social code | Minority interest | Amount to offset minority interest | equity used to offset minority interest |
|---|---|---|---|---|---|
| PJS | Limited Liability Company | 91440300 MA5DD 38916 | -46,599.85 | | |
| Launch International | Limited Company | 2228017 | – | | |

## IX. 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 |

| Name of subsidiaries | Principal place of operation | Registration place | Business nature | Shareholding proportion (%) Direct | Indirect | Way of acquisition |
|---|---|---|---|---|---|---|
| Peng Ao Da | Shenzhen | Shenzhen | Auto electronic products, automotive inspection equipment, automotive fault diagnostic software, computer network engineering, technological development, purchase and sales of computer software and hardware. | 88 | – | Business combination not under common control |
| Shenzhen Haishiwei | Shenzhen | Shenzhen | Health care management consultation(not include medical treatments); Health care products development; computer software and hardware and periherals, mobile phone, communication products, electronic products development and distribution; chip development and distribution; goods and technologies 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. | 97 | | Establishment |
| Launch International | Hong Kong | Hong Kong | Car diagnosis, testing, maintenance equipment sales, information network services. | 100 | | Establishment |

## X. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

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

### (I) Credit risks

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

Bank balance and cash held by the Company are mainly deposited in financial institutions such as state-controlled banks and other large to medium size commercial banks. The management believes that, the commercial banks have good reputation and asset status with low credit risks, and no significant credit risk and no significant losses from beach of contracts are expected.

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

As of 31 December 2016, receivables of top five customers of the Company accounted for 43.45% (2015: 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 2016, 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 | 279,285,875.90 | 279,285,875.90 | 279,285,875.90 | | | |
| 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 | 530,086,347.14 | 622,139,407.81 | 515,190,308.40 | 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 | 94,392,524.66 | | | |
| 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 | |

*Continued:*

| Item | Net carrying value | Original carrying value | Beginning balance Under 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Bank balances and cash | 415,464,672.34 | 415,464,672.34 | 415,464,672.34 | | | |
| Accounts receivable | 241,169,471.34 | 319,478,687.62 | 219,353,543.96 | 100,125,143.66 | | |
| Other receivables | 39,648,210.28 | 45,827,045.23 | 39,162,447.63 | 6,664,597.60 | | |
| Sub-total | 696,282,353.96 | 780,770,405.19 | 673,980,663.93 | 106,789,741.26 | | |
| Short-term borrowings | 489,347,159.96 | 489,347,159.96 | 489,347,159.96 | | | |
| Accounts payable | 88,357,296.14 | 88,357,296.14 | 88,357,296.14 | | | |
| Other payables | 12,576,859.75 | 12,576,859.75 | 12,576,859.75 | | | |
| Long-term borrowing fall due with one year | 468,152.45 | 468,152.45 | 468,152.45 | | | |
| Long-term borrowings | 1,190,145.51 | 1,190,145.51 | | 505,399.54 | 684,745.97 | |
| Sub-total | 102,592,453.85 | 102,592,453.85 | 101,402,308.34 | 505,399.54 | 684,745.97 | |

## (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.

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

(2) As of 31 December 2016, 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 | 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 |

*Continued:*

| | Beginning balance | | | | | |
|---|---|---|---|---|---|---|
| Item | USD | Euro | HKD | AUD | JPY | Total |
| Foreign currency financial assets: | | | | | | |
| Bank balance and cash | 22,060,380.51 | 2,308,093.03 | 161,972,363.86 | 1.8 | | 186,340,839.20 |
| Accounts receivable | 284,243,963.31 | 13,181,577.43 | | | | 297,425,540.75 |
| Sub-total | 306,304,343.82 | 15,489,670.46 | 161,972,363.86 | 1.8 | | 483,766,379.95 |
| Foreign currency financial liabilities: | | | | | | |
| Accounts payable | 198,655.66 | | | | | 198,655.66 |
| Sub-total | 198,655.66 | | | | | 198,655.66 |

(3) Sensitivity analysis:

As of 31 December 2016, 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 RMB33,263,211.64 (2015: approximately RMB48,356,772.00).

***2. Interest rate risks***

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

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

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

(2) As of 31 December 2016, the Company's long-term interest-bearing debt is the contract with floating interest rate dominated in RMB, and the value is RMB385,555,935.62. See Note VII (16), (22) and (23) for details.

(3) Sensitivity analysis:

As of 31 December 2016, 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 RMB1,927,779.68 (2015: approximately RMB2,455,027.29).

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.

## XI. FAIR VALUE

### (I) Financial instrument measured at fair value

As of 31 December 2016, 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.

## XII. 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 IX (1) "Equity interests in subsidiaries".

### (3) 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 2016, 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.

**(4) 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. |

**(5) Connected Transactions**

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

***2. 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 | 1,406,765.71 | |
| Total | | 1,406,765.71 | |

***3. 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 | |
| Total | | 2,250,000.00 | |

### *4. Provision of fund to Related parties*

| Related parties | Beginning balance | Provision of fund | Repayment | Ending balance |
|---|---|---|---|---|
| Jiang Shiwen | | 1,955,577.73 | 322,832.73 | 1,632,745.00 |
| Total | | 1,955,577.73 | 322,832.73 | 1,632,745.00 |

### *5. Cash in advance for Related parties*

| Related parties | Beginning balance | Debit in the period | Credit in the period | Ending balance | Nature of borrowing |
|---|---|---|---|---|---|
| Liu Xin | | 3,849,911.10 | 3,849,911.10 | | Travelling and entertainment expenses |
| Liu Jun | | 3,499,525.00 | 3,499,525.00 | | Travelling and entertainment expenses |
| Total | | 7,349,436.10 | 7,349,436.10 | | |

### *6. 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, Shanghai Launch, Liu Xin, Liu Jun | 140,000,000.00 | 26,000,000.00 | 2016/2/29 | 2019/2/28 | No |
| | | | 20,000,000.00 | 2016/3/28 | 2019/3/27 | No |
| | | | 13,874,000.00 | 2016/11/30 | 2019/5/26 | No |
| | | | 33,500,000.00 | 2016/12/9 | 2019/12/8 | No |
| b | Liu Xin, Liu Jun | 160,000,000.00 | 20,000,000.00 | 2016/1/26 | 2019/1/26 | No |
| | | | 40,000,000.00 | 2016/2/24 | 2019/2/24 | No |
| | | | 20,000,000.00 | 2016/4/26 | 2019/2/26 | No |
| | | | 50,000,000.00 | 2016/5/26 | 2019/2/26 | No |
| | | | 30,000,000.00 | 2016/6/23 | 2019/2/23 | No |
| c | Shanghai Launch, Shenzhen Langqu, Liu Xin, Hu Fang, LiuJun, Li Xiao Xia | 70,000,000.00 | 70,000,000.00 | 2016/3/11 | 2019/2/19 | No |
| d | Launch Software, Shanghai Launch, Liu Xin, Liu Jun | 160,000,000.00 | 60,000,000.00 | 2016/5/19 | 2019/5/18 | No |
| Total | | 530,000,000.00 | 383,374,000.00 | | | |

Explanation of guarantee with related parties

a) The Company entered into the maximum amount consolidated credit facility agreement "Nong Yin Shou Zi 2016 No. 1031" with Shenzhen Central District Branch of Agricultural Bank of China (for a maximum consolidated credit facility of RMB140 million), as of 31 December 2016, the balance of borrowing under such facility was RMB93.374 million.

b) The Company entereed into the consolidated credit facility agreement "2015 Zhen Zhong Yin She Zong Xie Zi No.0000859" with Shenzhen Shekou Branch of Bank of China (for a credit facility RMB160 million), borrowing limit was RMB160 million; as of 31 December 2016, the balance of borrowing under such facility was RMB160 million.

c) The Company entereed into the consolidated credit facility agreement "10206215025" with Shenzhen Branch of Guangdong Development Bank Co., Ltd (Ceiling of facility RMB140 million, with exposure of RMB70 million), as of 31 December 2016, the balance of borrowing under such facility was RMB70 million.

d) The Company entereed into the consolidated credit facility agreement "Jie 2016 Zong 12007 NanShan" with Shenzhen Huaqiaocheng Branch of China Construction Bank (for a credit facility of RMB100 million), with borrowing limit of RMB60 million as of 31 December 2016, the balance of borrowing under such facility was RMB60 million.

### 7. *Key management personnel remuneration*

*(1) Remunerations of Directors and supervisors*

| **Item** | **Current period** | **Previous period** |
|---|---|---|
| Key management personnel remunerations | 3,642,330.63 | 2,641,939.70 |

Remuneration for directors and supervisors in 2016 are as follows:

| Name | Fees | Salaries and subsidies | Retirement benefit | Total |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Liu Xin | | 492,000.00 | 53,422.46 | 545,422.46 |
| Liu Jun | | 456,266.00 | 53,422.46 | 509,688.46 |
| Huang Zhaohuan | | 712,500.00 | 46,964.70 | 759,464.70 |
| Jiang Shiwen | | 948,600.00 | 53,422.46 | 1,002,022.46 |
| **Non-executive director** | | | | |
| 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 | | 575,000.00 | 30,732.55 | 605,732.55 |
| Total | 220,000.00 | 3,184,366.00 | 237,964.63 | 3,642,330.63 |

(2) *Five highest paid personnels*

2016, 2 directors were included in the 5 highest paid personnels.

| Name | Fees | Salaries and subsidies | Retirement benefit | Total |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Huang Zhaohuan | | 712,500.00 | 46,964.70 | 759,464.70 |
| Jiang Shiwen | | 948,600.00 | 53,422.46 | 1,002,022.46 |
| **Non-directors** | | | | |
| Zhang Wei | | 782,364.00 | 51,710.19 | 834,074.19 |
| Zhang JiangBo | | 696,000.00 | 53,116.46 | 749,116.46 |
| Xu XiangMin | | 561,000.00 | 53,116.46 | 614,116.46 |
| Total | | 3,700,464.00 | 258,330.27 | 3,958,794.27 |

### *8. Amount due from/to related parties*

*(1) Amount due from related parties*

| Item | Related parties | Ending balance Book value | Ending balance Provision | Beginning balance Book value | Beginning balance Provision |
|---|---|---|---|---|---|
| Other receivables | Jiang Shiwen | 1,632,745.00 | 81,637.25 | | |

## XIII. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

### (I) Significant commitments

### *1. Ongoing lease agreements and related financial influence*

As at 31 December 2016, 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 | 1,620,706.33 | 943,590.45 |
| 2-5 years | 240,000.00 | 157,230.83 |
| Over 5 years | – | |
| Total | 1,860,706.33 | 1,100,821.28 |

### *2. Other significant finance commitments*

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

The Company pledged its properties and buildings with an original value of 54,581,743.00 as the mortgage to provide pledge guarantee for the maximum amount consolidated credit facility agreement "Nong Yin Shou Zi 2016 No.1031" with Shenzhen Meilin sub branch of Agricultural Bank of China (for a maximum consolidated credit facility of RMB140 million from 25 October 2016 to 24 October 2017), as of 31 December 2016, the balance of borrowing under such facility was RMB95 million.

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 wa RMB160 million.

Besides the commitment above, the Company had no significant commitments that should be disclosed as at 31 December 2016.

**(II) Contingent liabilities on the balance sheet date**

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

## XIV. 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.

## XV. 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%:

(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.

### 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 | 852,132,455.34 | 207,956,173.37 | 77,292,112.39 | 302,257,046.12 | 835,123,694.98 |
| | Including: | | | | | |
| | Revenue from external transaction | 698,108,567.60 | 59,723,014.99 | 77,292,112.39 | | 835,123,694.98 |
| | Revenue from inter-segment transaction | 154,023,887.74 | 148,233,158.38 | | 302,257,046.12 | |
| II. | Operating expenses | 293,227,931.92 | 23,434,418.56 | 16,493,856.76 | 10,796,217.99 | 343,952,425.23 |
| | Including: | | | | | |
| | income from investment in associates and joint ventures | -604,656.50 | | | | –604,656.50 |
| | Impairment loss of assets | 17,707,455.38 | 2,435,796.86 | 324,147.56 | | 20,467,399.80 |
| | Depreciation and amortization expenses | 78,536,290.68 | 8,194,311.04 | 144,317.62 | | 86,874,919.34 |
| III. | Operating profit(loss) | 8,251,689.03 | 10,584,975.96 | 3,176,589.08 | -3,168,408.63 | 25,181,662.70 |
| IV. | Income tax expenses | 203,353.51 | 2,865,521.21 | 1,075,438.72 | | 4,144,313.44 |
| V. | Net profits (losses) | 8,048,335.52 | 7,719,454.75 | 2,101,150.36 | -3,168,408.63 | 21,037,349.26 |
| VI. | Total assets | 350,408,855.65 | 197,252,000.93 | 72,471,640.99 | 693,416,646.97 | 1,313,549,144.54 |
| VII. | Total liabilities | 38,012,234.25 | 62,948,108.27 | 58,256,289.71 | 430,950,571.70 | 590,167,203.93 |
| VIII. | Other significant non-monetary items | | | | | |
| | 1. Capital expenditure | 49,448,756.56 | 120,117.00 | 152,870.79 | | 49,721,744.35 |

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".

## XVI. 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 | 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 |

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 | 281,175,103.19 | 99.52 | 62,499,774.12 | 22.23 | 218,675,329.07 |
| Accounts receivable that are individually insignificant but are subjected to provision for bad debts on individual basis | 1,351,522.81 | 0.48 | 1,351,522.81 | 100 | |
| Total | 282,526,626.00 | 100 | 63,851,296.93 | 22.6 | 218,675,329.07 |

*(1) Explanation of accounts receivable:*

Aging of accounts receivable within the group:

| Aging | Accounts receivable | Ending balance Provision for bad debts | Proportion of provision (%) |
|---|---|---|---|
| Under 1 year | 108,655,395.63 | 5,432,769.78 | 5.00 |
| including: within 90 days | 63,869,031.04 | 3,193,451.56 | 5.00 |
| 91-180 days | 15,794,597.46 | 789,729.87 | 5.00 |
| 181-270 days | 22,274,397.24 | 1,113,719.86 | 5.00 |
| 271-365 days | 6,717,369.89 | 335,868.49 | 5.00 |
| 1-2 years | 52,206,586.97 | 5,220,658.70 | 10.00 |
| 2-3 years | 35,733,231.54 | 10,719,969.46 | 30.00 |
| 3-4 years | 11,525,829.21 | 5,762,914.61 | 50.00 |
| 4-5 years | 26,099,328.51 | 20,879,462.81 | 80.00 |
| Over 5 years | 19,249,379.78 | 19,249,379.78 | 100.00 |
| Total | 253,469,751.64 | 67,265,155.14 | |

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 | Ending balance Provision | Ending balance Book value | Beginning balance Carring balance | Beginning balance Provision | Beginning balance Book value |
|---|---|---|---|---|---|---|
| Not past due | 84,161,308.96 | 4,208,065.45 | 79,953,243.51 | 73,211,024.96 | 3,660,551.25 | 69,550,473.71 |
| overdue | 206,985,957.54 | 64,408,612.50 | 142,577,345.04 | 209,315,601.04 | 60,190,745.68 | 149,124,855.36 |
| Total | 291,147,266.50 | 68,616,677.95 | 222,530,588.55 | 282,526,626.00 | 63,851,296.93 | 218,675,329.07 |

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

| Name | Ending balance Accounts receivable | Ending balance Provision for bad debts | Ending balance Proportion of provision (%) |
|---|---|---|---|
| Related parties within the range of consolidation | 36,325,992.05 | | No provisions are made |
| Total | 36,325,992.05 | | |

(3) *Accounts receivable subjected to provision for bad debts that are individually significant or insignificant but carried out impairment test on individual basis at the end of the period*

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

### 2. *Provision, recovery or reversal of the provision for bad debts during the period*

The amount of provision for bad debts during the period amounted to RMB9,266,046.21; 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 | 4,50,665.19 |

Details of significant accounts receivable actually written off:

| Name | Nature | Amount written off | Reason | Approval Procedure | Whether arising from connected transaction |
|---|---|---|---|---|---|
| Launch Technology Canada Inc. | Payment for goods | 3,356,885.55 | Uncollectible | Approved by General Managers' meeting | No |
| Disbrat Service Automotovos LTDA. | Payment for goods | 745,481.76 | Uncollectible | Approved by General Managers' meeting | No |
| Haining Lotus Passenger Car Co., Ltd | Payment for goods | 110,400.00 | Uncollectible | Approved by General Managers' meeting | No |
| Shanghai Hankook Tire Sales Co., Ltd | Payment for goods | 98,271.60 | Uncollectible | Approved by General Managers' meeting | No |
| L-M/S Ned University of Engineering & Technology | Payment for goods | 49,743.00 | Uncollectible | Approved by General Managers' meeting | No |
| Central Purchasing Inc. | Payment for goods | 26,337.26 | Uncollectible | Approved by General Managers' meeting | No |
| L-Rally Auto Service CO., LTD | Payment for goods | 25,300.42 | Uncollectible | Approved by General Managers' meeting | No |
| 38 accounts with insignificant amounts | Payment for goods | 88,245.60 | Uncollectible | Approved by General Managers' meeting | No |
| Total | | 4,500,665.19 | | | |

### 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. | 97,089,803.92 | 33.35 | 11,430,779.51 |
| Launch Europe GmbH | 36,325,992.05 | 12.48 | – |
| Launch Tech Japan Inc. | 27,065,124.34 | 9.30 | 19,839,094.55 |
| Launch Ibérica, S.L. | 15,763,292.84 | 5.41 | 2,838,533.11 |
| Matco Tools | 14,640,316.38 | 5.03 | 732,015.82 |
| Total | 190,884,529.53 | 65.57 | 34,840,422.99 |

## (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 | 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 |

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

*(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 | 8,101,971.43 | 405,098.58 | 5.00 |
| 1-2 years | 6,450,453.14 | 645,045.32 | 10.00 |
| 2-3 years | 1,211,560.66 | 363,468.20 | 30.00 |
| 3-4 years | 1,639,366.09 | 819,683.05 | 50.00 |
| 4-5 years | 260,920.53 | 208,736.42 | 80.00 |
| Over 5 years | 288,008.10 | 288,008.10 | 100.00 |
| Total | 17,952,279.95 | 2,730,039.67 | 15.21 |

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

| Name of portfolio | Ending balance Other receivables | Provision for bad debts | Proportion of provision (%) |
|---|---|---|---|
| Related party in the scope of consolidation | 55,894,736.15 | | No provision |
| Total | 55,894,736.15 | | |

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

| Name | Carrying balance Other receivables | Amount of provision for bad debts | Aging | Reason |
|---|---|---|---|---|
| Shenzhen Liangqiang Technology Co., Ltd | 1,100,000.00 | 1,100,000.00 | Within 5 years | Low recoverability with significant risk |
| Guangzhou Zhogngong Commercial Newspaper & Media Co., Ltd. | 304,000.00 | 304,000.00 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen Xianglian Metal Produces Co., Ltd. | 300,000.00 | 300,000.00 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen Shiji Hengxing Technology Co., Ltd. | 274,225.13 | 274,225.13 | Over 5 years | Low recoverability due to significant risks |
| Shanghai Qi Hao Industrial Co., Ltd | 250,000.00 | 250,000.00 | Over 5 years | Low recoverability with significant risk |
| Shenzhen Changchuang Electronic Technology Co., Ltd | 210,000.00 | 210,000.00 | Over 5 years | Low recoverability due to significant risks |
| Wuxi Songzhi Precision Machinery Manufacturing Co., Ltd. | 199,999.95 | 199,999.95 | Within 5 years | Low recoverability with significant risk |
| Shenzhen Defeng Mold Co., Ltd. | 197,075.43 | 197,075.43 | Over 5 years | Low recoverability due to significant risks |
| Foshan Nanhai LiXiDa Electric Appliance Co., Ltd | 162,414.64 | 162,414.64 | Over 5 years | Low recoverability with significant risk |
| Shenzhen Haolida Ultrasonic Equipment Co., Ltd. | 159,999.99 | 159,999.99 | Over 5 years | Low recoverability due to significant risks |
| Shenzhen Changlongxing Metal Product Co., Ltd. | 150,000.00 | 150,000.00 | Over 5 years | Low recoverability due to significant risks |
| Sub-total of 35 insignificant account | 1,765,506.20 | 1,765,506.20 | Over 5 years | Low recoverability due to significant risks |
| Total | 5,073,221.34 | 5,073,221.34 | | |

### *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 RMB3,234,892.62; and the amount of write-off of the provision for bad debts during the period amounted to RMB266,913.40.

### *3. Other receivables actually written off during the reporting period*

| Item | Amounts written off |
|---|---|
| Other receivables actually written off | 1,388,851.90 |

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 |
|---|---|---|---|---|---|
| Pneumatic Hydraulic Operation Department of South China U Bao'an district Shenzhen | Deposits | 750,000.00 | Uncollectible | Approved by General Manager meeting | No |
| BYD Precision Manufacturing Co., Ltd | Deposits | 299,999.99 | Uncollectible | Approved by General Manager meeting | No |
| Shanghai technology U Zhenyuan Car Technology Co., Ltd | Deposits | 282,000.00 | Uncollectible | Approved by General Manager meeting | No |
| LiGuo Building property | Deposits | 31,797.00 | Uncollectible | Approved by General Manager meeting | No |
| 12 accounts with insignificant amounts | Imprest | 25,054.91 | Uncollectible | Approved by General Manager meeting | No |
| Total | | 1,388,851.90 | | | |

### 4. *Other receivables by nature*

| Item | Ending balance | Openning balance |
|---|---:|---:|
| Deposits | 1,136,820.51 | 1,284,154.78 |
| Imprest | 10,445,961.53 | 17,517,279.25 |
| Borrowings | 59,913,806.15 | 36,120,455.29 |
| Export tax refundable | – | 4,758,866.04 |
| Others | 7,423,649.25 | 5,704,071.66 |
| Total | 78,920,237.44 | 65,384,827.02 |

### 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 |
|---|---|---:|---:|---:|---:|
| Haishiwei | Borrowings | 21,282,873.27 | Within 2 year | 26.97 | – |
| LAUNCH EUROPE | Borrowings | 18,674,985.83 | Within 3 year | 23.66 | – |
| Golo Internet | Borrowings | 10,179,027.45 | Within 1 years | 2.99 | – |
| Shanghai Launch | Borrowings | 2,850,525.81 | Within 3 year | 3.61 | – |
| Beijing Yunfeng Culture and Investment Co., Ltd. | Borrowings | 2,300,000.00 | Within 4 year | 2.91 | 980,000.00 |
| Total | | 55,287,912.36 | | 70.05 | 980,000.00 |

## (3) Long-term equity investment

| Nature | Ending balance Carrying balance | Ending balance Provision for bad debts | Ending balance Book value | Beginning balance Carrying balance | Beginning balance Provision for bad debts | Beginning balance Book value |
|---|---:|---:|---:|---:|---:|---:|
| Investment in subsidiaries | 202,555,576.68 | | 202,555,576.68 | 184,513,562.18 | | 184,513,562.18 |
| Total | 202,555,576.68 | | 202,555,576.68 | 184,513,562.18 | | 184,513,562.18 |

### *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 | 16,000,000.00 | | 51,000,000.00 | | |
| 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 | 184,513,562.18 | 18,042,014.50 | | 202,555,576.68 | | |

### *2. Other explanations*

The increase is in long term investment is due to the establishment of new subsidiaries PJS, Launch International and additional investment in Xi'an Launch.

### (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 | 748,385,673.54 | 542,822,272.52 | 609,090,572.81 | 474,474,996.27 |
| Other business | 41,425,009.92 | – | 33,975,699.00 | |
| Total | 789,810,683.46 | 542,822,272.52 | 643,066,271.81 | 474,474,996.27 |

## XVII. 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 | -812,074.63 | |
| 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) | 9,169,192.23 | |
| Other non-operating income and expenses other than the aforementioned items | 720,025.11 | |
| Impact of income tax | 74,341.93 | |
| Impact of minority shareholders' interests (after tax) | 19,618.71 | |
| Total | 8,983,182.07 | |

**(2) Return on net assets and earnings per share**

| Profits of the reporting period | Weighted average return on net assets (%) | Earnings per share Basic | Diluted |
|---|---|---|---|
| Net profit attributable to ordinary shareholders of the Company | 3.00 | 0.0650 | 0.0650 |
| Net profit after deducting non-recurring profit and loss attributable to ordinary shareholders of the Company | 1.74 | 0.0378 | 0.0378 |

## FINANCIAL SUMMARY

*RMB million*

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Operating revenue | 835 | 698 | 731 | 678 | 612 |
| Net Profit (loss) | 21 | -94 | -47 | 7 | -44 |
| Adjusted EPS (RMB) | 0.065 | -0.311 | -0.156 | 0.023 | -0.146 |
| Total Assets | 1,314 | 1,480 | 1,482 | 1,370 | 1,233 |
| Total Liabilities | 590 | 777 | 903 | 747 | 617 |
| Net Assets | 724 | 703 | 579 | 623 | 616 |
| Adjusted NAV per share (RMB) | 2.200 | 2.135 | 1.917 | 2.063 | 2.04 |

## 4. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had aggregate outstanding borrowings of approximately RMB293,202,002.50 (comprising RMB233,500,000.00 and USD8,500,000.00) comprising:

(a) Outstanding borrowings of approximately RMB93,500,000.00 and USD 8,500,000.00 (approximately RMB58,644,050.00) which were secured by properties and land owned by the Company. Liu Xin,Liu Jun and the subsidiaries of the Company (Shenzhen Launch Software Development Co., Ltd*(深圳市元征軟件開發有限公司), Shanghai Launch Machinery and Equipment Limited Liability Company* (上海元征機械設備有限責任公司) and Xian Launch Software technology limited liability company* (西安元征軟件科技有限責任公司)) provide joint liability guarantee;

(b) Outstanding borrowings of approximately RMB1,000,000.00, which were secured by the Company's certificates of deposit as collateral;

(c) Outstanding borrowings of approximately RMB139,000,000.00, in respect of which Liu Xin, Liu Jun and the subsidiaries of the Company (including Shanghai Launch Machinery and Equipment Limited Liability Company* (上海元征機械設備有限責任公司) and the Company's associated company, Shenzhen Qulang Technology Co., Ltd * (深圳市浪曲科技有限公司)), provide joint liability guarantee;

(d) Outstanding borrowings of approximately RMB1,057,952.50, which was secured by the mortgage of the properties of the Company.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 31 March 2017 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

* *for identification purpose only*

## 5. MATERIAL CHANGE

The Group is expected to record a decrease in the bank balances and cash from approximately RMB279.3 million as at 31 December 2016 to approximately RMB97.1 million as at 30 April 2017, which was mainly due to net loan repayment of approximately RMB91.9 million and the acquisition of fixed asset of approximately RMB41.1 million. Save for aforesaid, the Directors confirmed that there is no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

## 6. FINANCIAL AND TRADING PROSPECTS

In 2016, the Group adhering to the "becoming the global Internet of Vehicle core enterprise" as the direction of development orientation, determining specific strategies to achieve the development objective of becoming the global Internet of Vehicle Big Data (based on VIN) service provider, carried out positive exploration and practices. Based on this strategic objective, the Group has clearly identified and optimized the Group's four core businesses: to vigorously develop and promote the Internet-based automotive diagnostic equipment, to develop B2B2C cooperation model of the Internet of Vehicle business, and vigorously develop the vehicle maintenance technicians operating platform, and actively explore the advanced technologies of intelligent automotive and others.

In 2016, the Group actively promoted the thought of lean entrepreneurship; sized up the situation, adjusted the business strategies in a timely manner, and accurately monitored and influenced the development trends of the market. Having considered the Group's core competencies and Big Data demands, focused on expansion of key businesses and reduction of investment on those business with high cost in introduction of new customers, and controlled of financial costs and management fees. These series of measures brought immediate positive results to the Group's performance by revealing a turn of deficits to surplus in 2016. We are going to elaborate and analyze the business starting from the Direction, Strategies and actions, and then the Operations as follows.

2016, being the third year that the Group's development and marketing the Internet of Vehicle business is also the timing that the Group fully implemented strategic transformation as planned. In order to quickly finish the layout, the Group has continuously optimized the business strategy, acted firmly and steadily, made decisive adjustment on high paid-slow return part of the class-C business, meanwhile speed up in promotion of Internet based diagnostic equipment business which is with high margins and can facilitate accumulation of Big Data. Looking forward, we are going to set up our plan mainly in the following six aspects:

1. To speed up the progress of research and development, and actively promote new series of automotive diagnostic equipment products, fill the gaps and quickly occupied the market;

2. To introduce a reasonable preferential policy for existing diagnostic equipment users to replace the new Internet-based diagnostic equipment, to rapidly increase the proportion of internet-based diagnostic equipment;

3. For the Internet of Vehicle business, to implement a comprehensive open strategy, and vigorously develop a variety of B2B2C cooperation models;

4. For the golo technicians, to full implement Internet business management ideas to improve product user activity level for the management objectives;

5. To introduce professionals, to continuously analyze and optimize Big Data structure, making data collection more completely and effectively;

6. To expand and invest more to R & D team for future technologies on Internet of Vehicle.

In the year of 2016, the Group made the strategic adjustment on our business strategies. Based on the core strategy of collection of Big Data, we changed the original strategy of investing in the C-type customers. Instead 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 future, the Group will focus on the development of application technologies and services on Internet of Vehicle, and endeavor to create the automobile repair and maintenance and car life ecology based on the golo car cloud platform. In O2O, insurance, used cars, fleet management and other fields the Group will continue to actively carry out exploration and cooperation of Big Data applications, and to achieve the realization of Big Data operations. By strengthening and optimizing internal control, and meanwhile by ceaselessly deepening "Innovation, Quality, Efficiency, Professional, Competitive", our enterprise's culture and stimulating the creativity of our staff, enhances our overall competitive advantage, and of course create better results to our shareholder.

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 March 2017 of the property interests of the Company.*

AVISTA Valuation Advisory
艾 華 迪 評 估 咨 詢

23rd Floor, Siu On Centre, No. 188 Lockhart Road,
Wan Chai, Hong Kong

TEL：(852) 3702 7338 FAX：(852) 3914 6388
info@avaval.com
www.avaval.com

12 May 2017

The Board of Directors
**Launch Tech Company Limited**
2-8 Floors, Xin Yang Building,
Bagua Number Four Road,
Futian District,
Shenzhen, The PRC

Dear Sirs/Madams,

**INSTRUCTIONS**

In accordance with the instructions of Launch Tech Company Limited ("Launch Tech" or the "Company") for us to carry out the valuation of the property interests held by the Company and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 March 2017 (the "Valuation Date").

**PREMISES OF VALUE**

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

## BASIC OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council and Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission.

As advised by the Company, the potential taxes which may be incurred on the sale of the property, including the value added tax (5% on the transaction price), stamp duty (0.05% on the contract sum), value added tax surtax (7% for urban maintenance and construction tax; 3% for educational surtax and 2% for local educational surtax); land value appreciation tax (applicable tax rate on the incremental value generated by the purchasing price deducting relevant fee); and corporate income tax (15% on the net profit upon disposal). All of the percentages are in approximation and subject to the local government's tax policy in the PRC.

As confirmed by the Company as at the valuation date, the Company does not have the intention to sell the property interest within 3 years and therefore the potential taxes liabilities are unlikely to be crystallized.

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

Our valuations also exclude potential tax liability which might arise if the assets were to be sold at the valuation date, including but not limited to profit tax, business tax, land appreciation tax, capital gain tax and any other relevant taxes prevailing at the valuation date.

## VALUATION METHODOLOGY

In the course of our valuation, the appraised property interests have been categorized according firstly to type of interests held by the Group, which in turn being classified into the following groups:

Group I – Property interests held and occupied by the Group in the PRC

Group II – Property interests held by the Group under development in the PRC

In valuing the property interests Nos. 1 & 8 in Group I and No. 9 in Group II due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business.

In valuing the property interests Nos. 2 – 4 & 7 in Group I, we have valued by market approach by making reference to comparable market transactions in our assessment of the property interests. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the property interests Nos. 5 – 6 in Group I, we have assigned no commercial value to it because it is not freely transferable in the market in accordance with the PRC legal opinion issued by the Company's PRC legal adviser (Beijing Dacheng (Shenzhen) Law Office) (For details, please refer to Property No. 5 notes 3c and Property No. 6 notes 2c.).

**TITLE INVESTIGATION**

We have been provided by the Company with copy of extract of the title documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company's PRC legal adviser – Beijing Dacheng (Shenzhen) Law Office, concerning the validity of title of the properties in the PRC.

**SITE INVESTIGATION**

We have inspected the exterior and, where possible, the accessible portions of the interior of the properties being appraised. The inspection was carried out by Mr. Ken Feng (Assistant Manager of AVISTA Valuation Advisory Limited), Mr. Ivan Mak (Senior Valuer of AVISTA Valuation Advisory Limited) and Mr. Jim Du (Valuer of AVISTA Valuation Advisory Limited) on 20 April 2017. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the properties are free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the properties taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the properties but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the properties or on adjoining or neighbouring land or that the properties had been or are being put to contaminated use, we reserve right to revise our opinion of value.

**SOURCE OF INFORMATION**

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

## VALUATION ASSUMPTIONS

For the properties which are held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have relied on the PRC legal opinion issued by the Company's PRC legal adviser (Beijing Dacheng (Shenzhen) Law Office) that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

## LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

## CURRENCY

Unless otherwise stated, all amounts are denominated in Renminbi (RMB). Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
**AVISTA Valuation Advisory Limited**
**Sr Oswald W Y Au**
*MHKIS(GP) AAPI MSc(RE)*
*Registered Professional Surveyor (GP)*
*Director*

*Note:* Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

## SUMMARY OF VALUES

**Group I – Property interests held and occupied by the Group in the PRC**

| No. | Property | Market value in existing state as at 31 March 2017 *RMB* | Interest Attributable to the Group | Market value Attributable to the Group as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 1. | Property located at Gangtou Village, Buji Town, Longgang District, Shenzhen City, Guangdong Province, The PRC | No Commercial Value | 100% | No Commercial Value |
| 2. | 17 Residential Units located at Haofang Modern Haoyuan, East of Qi Lin Road, Nanshan District, Shenzhen City, Guangdong Province, The PRC | 82,410,000 | 100% | 82,410,000 |
| 3. | Unit B1702, Block 1, Bihua Tingju, Interjunction of Meihua Road and Meixiu Road, Futian District, Shenzhen City, Guangdong Province, The PRC | 9,680,000 | 100% | 9,680,000 |
| 4. | Unit 402, Tower D2, Block D, Xintian International Famous Garden, Southeast of Lianhua West Road and Xiangmihu Road, Futian District, Shenzhen City, Guangdong Province, The PRC | 12,020,000 | 100% | 12,020,000 |

| No. | Property | Market value in existing state as at 31 March 2017<br>*RMB* | Interest Attributable to the Group | Market value Attributable to the Group as at 31 March 2017<br>*RMB* |
|---|---|---|---|---|
| 5. | 3 residential units located at Yiye Plaza Qiaoxiang Road, Futian District, Shenzhen City, Guangdong Province, The PRC | No Commercial Value | 100% | No Commercial Value |
| 6. | Unit 1301, Tower B, Block 6, Hongshu Fuyuan, Pingguan Street, Guihua Road, Futian Free Trade Zone, Shenzhen City, Guangdong Province, The PRC | No Commercial Value | 100% | No Commercial Value |
| 7. | Unit No. 4, 23rd Floor, Block 3, No. 666 Jincheng Avenue, High-Tech Industrial Development Zone, Chengdu City, Sichuan Province, The PRC | 4,220,000 | 100% | 4,220,000 |
| 8. | Property located at No. 661 Bai'an Road, Anting Town, Shanghai City, The PRC | 219,420,000 | 100% | 219,420,000 |
| | **Sub-total:** | **327,750,000** | | **327,750,000** |

**Group II – Property interest held by the Group under development in the PRC**

| No. | Property | Market value in existing state as at 31 March 2017<br>*RMB* | Interest Attributable to the Group | Market value Attributable to the Group as at 31 March 2017<br>*RMB* |
|---|---|---|---|---|
| 9. | Property located at North of Keji 6th Road, Xi'an High-Tech Industries Development Zone, Xi'an City, Shaanxi Province, The PRC | 93,990,000 | 100% | 93,990,000 |
| | **Sub-total:** | **93,990,000** | | **93,990,000** |
| | **Grand-total:** | **421,740,000** | | **421,740,000** |

Remarks: As confirmed by the Company, all property interests held by the Group have been included in this summary and no properties have been excluded as at the valuation date.

## VALUATION CERTIFICATE

**Group I – Property interests held and occupied by the Group in the PRC**

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 1. | Property located at Gangtou Village, Buji Town, Longgang District, Shenzhen City, Guangdong Province, The PRC | The property comprises 1 parcel of land with a total site area of approximately 47,814.55 sq.m and 6 blocks of building erected thereon completed from 2009 to 2016.<br><br>The buildings have a total gross floor area of approximately 64,739.57 sq.m and mainly include 1 block of office, 1 block of dormitory and 3 blocks of factory. There is another 1 block of R&D center with a total gross floor area of approximately 12,402.93 sq.m.<br><br>The land use rights of the property have been granted for a term commencing from 7 April 2004 and expiring on 6 April 2054 for industrial use. | As advised by the Company, a portion of the property with a total gross floor area of approximately 1,841 sq.m was leased to various tenants at a total monthly rent of approximately RMB74,708, while a portion of the property was vacant, and the remaining portion of the property was occupied by the Group for industrial use as at the valuation date. | No Commercial Value*<br><br>(100% interest attributable to the Company: No Commercial Value)<br><br>*(*Please refer to Note 6)* |

*Notes:*

1. Pursuant to the Real Estate Title Certificate – No. 6000343449 dated 11 May 2009, the land use rights of a parcel of land with a site area of approximately 47,814.55 sq.m and the property with a total gross floor area of 64,739.57 sq.m have been granted to Launch Tech Company Limited, for a term of 50 years for industrial use.

2. Pursuant to the Construction Land Planning Permit – Shen Gui Tu Gui Xu Zi No. 06-2003-0170 dated 20 April 2004, the construction site of the property with a total site area of approximately 47,858.9 sq.m. are in compliance with the urban planning requirements and have been approved.

3. Pursuant to the Construction Works Planning Permit – Shen Gui Tu Jian Xu Zi No. LG-2012-0047 dated 27 June 2012, the construction works of the property with a total gross floor area of approximately 12,402.93 sq.m. are in compliance with the urban planning requirements and have been approved.

4. Pursuant to the Construction Works Commencement Permit – 44030720120901601 dated 6 September 2012, the construction works of the property with a total gross floor area of approximately 12,402.93 have been approved for commencement of construction.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

    a. Launch Tech Company Limited has the legal right of the property;

b. Launch Tech Company Limited has the right to transfer, lease and pledge of the property;

c. The usage of the land parcel is high-tech industrial project. It is subject to the government approval to lease and transfer the property or cooperate through the land use right. There is a land premium while the land is used for other usage;

d. The property is subject to a mortgage in favour of Agricultural Bank of China Shenzhen Centre Branch（中國農業銀行深圳中心區支行）with a consideration of RMB140,000,000 for a term commencing from 25 October 2016 and expiring on 24 October 2017. During this period, Launch Tech Company Limited should obtain the written consent from the mortgagee when transferring, leasing and pledging the property; and

e. The property mentioned in Note No. 3 has obtained approval in relation to the construction of the development and passed the final acceptance of construction, and is pending for the building ownership registration.

6. In undertaking our valuation, we have assigned no commercial value to the property since it cannot be freely transferable in the market which has been mentioned in Note No. 5 (c). For reference purpose, we are of the opinion that the estimated value of the property as at the valuation date would be RMB547,410,000, assuming the property could be freely transferred in the market.

7. A summary of major certificates/licenses is shown as follows:

| | | |
|---|---|---|
| a. | Real Estate Title Certificate | Yes |
| b. | Construction Land Planning Permit | Yes |
| c. | Construction Works Planning Permit | Yes |
| d. | Construction Works Commencement Permit | Yes |

8. As confirmed by the Company that there is no material environmental and planning issues.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 2. | 17 residential units located at Haofang Modern Haoyuan, East of Qilin Road, Nanshan District, Shenzhen City, Guangdong Province, The PRC | The property comprises 17 residential units on various floors within a residential development known as Haofang Modern Haoyuan (豪方現代豪園). The property was completed in about 2002.<br><br>In accordance with 17 Real Estate Title Certificates, the property has a total gross floor area of approximately 1,267.34 sq.m.<br><br>The land use rights of the property have been granted for a term of 70 years commencing from 18 October 2001 and expiring on 17 October 2071 for residential use. | As advised by the Company, the property was held and occupied by the Group for residential use as at the valuation date. | 82,410,000<br><br>(100% interest attributable to the Company: RMB82,410,000) |

*Notes:*

1. Pursuant to the 17 Real Estate Title Certificates – dated 13 October 2005 with a total gross floor area of approximately 1,267.34 sq.m. has been vested to Launch Tech Company Limited for residential use. The details are tabulated as below:

| No. | Unit No. | Real Estate Title Certificates No. | Gross Floor Area *(sq.m)* |
|---|---|---|---|
| 1 | Unit 1-4A, Block 1-2 | Shen Fang Di Zi Di No. 4000237263 | 75.26 |
| 2 | Unit 1-4B, Block 1-2 | Shen Fang Di Zi Di No. 4000237260 | 75.00 |
| 3 | Unit 1-3B, Block 1-2 | Shen Fang Di Zi Di No. 4000237264 | 75.00 |
| 4 | Unit 8-7C, Block 8-9 | Shen Fang Di Zi Di No. 4000237262 | 73.79 |
| 5 | Unit 9-7D, Block 8-9 | Shen Fang Di Zi Di No. 4000237245 | 74.85 |
| 6 | Unit 9-8D, Block 8-9 | Shen Fang Di Zi Di No. 4000237265 | 74.85 |
| 7 | Unit 9-8C, Block 8-9 | Shen Fang Di Zi Di No. 4000237252 | 75.11 |
| 8 | Unit 9-9C, Block 8-9 | Shen Fang Di Zi Di No. 4000237250 | 75.11 |
| 9 | Unit 9-10C, Block 8-9 | Shen Fang Di Zi Di No. 4000237249 | 75.11 |
| 10 | Unit 8-8C, Block 8-9 | Shen Fang Di Zi Di No. 4000237257 | 73.79 |
| 11 | Unit 8-9C, Block 8-9 | Shen Fang Di Zi Di No. 4000237259 | 73.79 |
| 12 | Unit 9-9D, Block 8-9 | Shen Fang Di Zi Di No. 4000237258 | 74.85 |
| 13 | Unit 9-10D,Block 8-9 | Shen Fang Di Zi Di No. 4000237255 | 74.85 |
| 14 | Unit 8-18C, Block 8-9 | Shen Fang Di Zi Di No. 4000237243 | 73.79 |
| 15 | Unit 8-20D,Block 8-9 | Shen Fang Di Zi Di No. 4000237269 | 73.54 |
| 16 | Unit 8-21D, Block 8-9 | Shen Fang Di Zi Di No. 4000237247 | 73.54 |
| 17 | Unit 9-21C, Block 8-9 | Shen Fang Di Zi Di No. 4000237248 | 75.11 |

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Tech Company Limited has the legal right of the property;

   b. Launch Tech Company Limited has the right to transfer, lease and pledge of the property; and

   c. The property is subject to a mortgage in favour of China CITIC Bank Shenzhen Branch（中信銀行深圳分行）with a consideration of RMB80,000,000 for a term commencing from 25 December 2016 to 5 December 2017, together with the property No. 3. During this period, Launch Tech Company Limited should obtain the written consent from the mortgagee when transferring, leasing and pledging the property.

3. In our valuation, we have made reference to some asking price references of comparable units in the subject and nearby development. We have adopted the range of unit rates between RMB60,000 to RMB70,000 per sq.m. The unit rates assumed by us are consistent with the said asking price reference. Due adjustments to the unit rates of those asking price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 3. | Unit B1702, Block 1, Bihua Tingju, Interjunction of Meihua Road and Meixiu Road, Futian District, Shenzhen City, Guangdong Province, The PRC | The property comprises 1 residential unit on 17th floor within a residential development known as Bihua Tingju（碧華庭居）. The property was completed in about 2000.<br><br>In accordance with the Real Estate Title Certificate, the property has a total gross floor area of approximately 182.59 sq.m.<br><br>The land use rights of the property have been granted for a term of 70 years commencing from 3 September 1999 and expiring on 2 September 2069 for residential use. | As advised by the Company, the property was held and occupied by the Group for residential use as at the valuation date. | 9,680,000<br><br>(100% interest attributable to the Company: RMB9,680,000) |

*Notes:*

1. Pursuant to 1 Sales and Purchase Agreement dated 24 December 2012, the property with a total gross floor area of approximately 182.59 sq.m. has been vested to Launch Tech Company Limited, for residential use at a total consideration of RMB4,800,000.

2. Pursuant to the 1 Real Estate Title Certificate – Shen Fang Di Zi Di No. 3000704973 dated 26 December 2012 with a total gross floor area of approximately 182.59 sq.m. has been vested to Launch Tech Company Limited for residential use.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Tech Company Limited has the legal right of the property;

   b. Launch Tech Company Limited has the right to transfer, lease and pledge of the property; and

   c. The property is subject to a mortgage in favour of China CITIC Bank Shenzhen Branch（中信銀行深圳分行）with a consideration of RMB80,000,000 for a term commencing from 25 December 2016 to 5 December 2017, together with the property No. 2. During this period, Launch Tech Company Limited should obtain the written consent from the mortgagee when transferring, leasing and pledging the property.

4. In our valuation, we have made reference to some asking price references of comparable units in the subject and nearby development. We have adopted the range of unit rates between RMB50,000 to RMB60,000 per sq.m. The unit rates assumed by us are consistent with the said asking price reference. Due adjustments to the unit rates of those asking price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 4. | Unit 402, Tower D2, Block D, Xintian International Famous Garden, Southeast of Lianhua West Road and Xiangmihu Road, Futian District, Shenzhen City, Guangdong Province, The PRC | The property comprises 1 residential unit on 4th floor within a residential development known as Xintian International Famous Garden (新天國際名苑). The property was completed in about 2003.<br><br>In accordance with the Real Estate Title Certificate, the property has a total gross floor area of approximately 130.66 sq.m.<br><br>The land use rights of the property have been granted for a term of 70 years commencing from 30 May 2000 and expiring on 29 May 2070 for residential use. | As advised by the Company, the property was held and occupied by the Group for residential use as at the valuation date. | 12,020,000<br><br>(100% interest attributable to the Company: RMB12,020,000) |

*Notes:*

1. Pursuant to 1 Sales and Purchase Agreement dated 24 December 2012, the property with a total gross floor area of approximately 130.66 sq.m. has been vested to Launch Tech Company Limited, for residential use at a total consideration of RMB4,000,000.

2. Pursuant to the 1 Real Estate Title Certificate – Shen Fang Di Zi Di No. 3000705022 dated 26 December 2012 with a total gross floor area of approximately 130.66 sq.m. has been vested to Launch Tech Company Limited for residential use.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Tech Company Limited has the legal right of the property; and

   b. Launch Tech Company Limited has the right to transfer, lease and pledge of the property.

4. In our valuation, we have made reference to some asking price references of comparable units in the subject and nearby development. We have adopted the range of unit rates between RMB90,000 to RMB100,000 per sq.m. The unit rates assumed by us are consistent with the said asking price reference. Due adjustments to the unit rates of those asking price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 5. | 3 residential units located at Yiye Plaza Qiaoxiang Road, Futian District, Shenzhen City, Guangdong Province, The PRC | The property comprises 3 residential units on various floors within a residential development known as Yiye Plaza（一冶廣場）. The property was completed in about 2013.<br><br>In accordance with 3 Sales and Purchase Agreements, the property has a total gross floor area of approximately 178.57 sq.m.<br><br>The land use rights of the property have been granted for a term of 70 years commencing from 15 May 2012 and expiring on 14 May 2082 for residential use. | As advised by the Company, the property was held and occupied by the Group for residential use as at the valuation date. | No Commercial Value*<br><br>(100% interest attributable to the Company: RMB No Commercial Value)<br><br>*(*Please refer to Note 4)* |

*Notes:*

1. Pursuant to 2 Sales and Purchase Agreements dated 10 November 2014, the property with a total gross floor area of approximately 118.94 sq.m. has been vested to Launch Tech Company Limited, for residential use at a total consideration of RMB667,782. The details are tabulated as below:

| No. | Contract No. | Unit No. | Gross Floor Area *(sq.m)* | Consideration *(RMB)* |
|---|---|---|---|---|
| 1 | Shen Fu Ren Dan Zi (2014) No. 00203 | Unit 102, Tower B, Block 1 | 59.34 | 288,110 |
| 2 | Shen Fu Ren Dan Zi (2014) No. 00204 | Unit 2602, Tower B, Block 1 | 59.60 | 379,672 |

2. Pursuant to 1 Sales and Purchase Agreement dated 10 November 2014, the property with a total gross floor area of approximately 59.63 sq.m. has been vested to Launch Software Development Co., Ltd., a wholly-owned subsidiary of the Company, for residential use at a total consideration of RMB361,678. The details are tabulated as below:

| No. | Contract No. | Unit No. | Gross Floor Area *(sq.m)* | Consideration *(RMB)* |
|---|---|---|---|---|
| 1 | Shen Fu Ren Dan Zi (2014) No. 00202 | Unit 1802, Tower B, Block 2 | 59.63 | 361,678 |

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Tech Company Limited and Launch Software Development Co., Ltd. are subject to a limited legal interest of the property;

b. Launch Tech Company Limited and Launch Software Development Co., Ltd. have the right to transfer, lease and pledge the property subject to the restriction of Futian District Enterprise Talent Housing Allocation Management Scheme (福田區企業人才住房配售管理辦法); and

c. The property cannot be transferred to any party other than the government.

4. In undertaking our valuation, we have assigned no commercial value to the property since it cannot be freely transferable in the market. For reference purpose, we are of the opinion that the estimated value of the property as at the valuation date would be RMB1,060,000.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 6. | Unit 1301, Tower B, Block 6, Hongshu Fuyuan, Pingguan Street, Guihua Road, Futian Free Trade Zone, Shenzhen City, Guangdong Province, The PRC | The property comprises 1 residential unit on 13th floor within a residential development known as Hongshu Fuyuan (紅樹福苑). The property was completed in about 2012.<br><br>In accordance with 1 Sales and Purchase Agreement, the property has a total gross floor area of approximately 85.45 sq.m.<br><br>The land use rights of the property have been granted for a term of 70 years commencing from 15 November 2009 and expiring on 14 November 2079 for residential use. | As advised by the Company, the property was held and occupied by the Group for residential use as at the valuation date. | No Commercial Value*<br><br>(100% interest attributable to the Company: RMB No Commercial Value)<br><br>*(*Please refer to Note 3)* |

*Notes:*

1. Pursuant to 1 Sales and Purchase Agreement – Shen Fu Ren Dan Zi (2013) No. 0088 dated 27 December 2013 with a total gross floor area of approximately 85.45 sq.m. has been vested to Launch Software Development Co., Ltd., a wholly-owned subsidiary of the Company, for residential use at a total consideration of RMB573,631.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Software Development Co., Ltd. is subject to a limited legal interest of the property;

   b. Launch Software Development Co., Ltd. has the right to transfer, lease and pledge the property subject to the restriction of Futian District Enterprise Talent Housing Allocation Management Scheme (福田區企業人才住房配售管理辦法); and

   c. The property cannot be transferred to any party other than the government..

3. In undertaking our valuation, we have assigned no commercial value to the property since it cannot be freely transferable in the market. For reference purpose, we are of the opinion that the estimated value of the property as at the valuation date would be RMB570,000.

| No. | Property | Description and tenure | Particulars of occupancy | Market value Attributable to the Company as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 7. | Unit No. 4, 23rd Floor, Block 3, No. 666 Jincheng Avenue, High-Tech Industrial Development Zone, Chengdu City, Sichuan Province, The PRC | The property comprises 1 office unit on 23rd floor out of a 27-storey office building. The property was completed in about 2014.<br><br>In accordance with the Building Ownership Certificate, the property has a total gross floor area of approximately 337.46 sq.m.<br><br>The land use rights of the property have been granted for a term expiring on 23 August 2046 for other commercial use. | As advised by the Company, the property was held and occupied by the Group for office use as at the valuation date. | 4,220,000<br><br>(100% interest attributable to the Company: RMB4,050,000) |

*Notes:*

1. Pursuant to 1 Sales and Purchase Agreement dated 10 September 2013, the property with a total gross floor area of approximately 337.46 sq.m sq.m. has been vested to Launch Tech Company Limited, for office use at a total consideration of RMB4,150,758.

2. Pursuant to the State-owned Land Use Rights Certificate – Cheng Gao Guo Yong (2015) Di No. 48380 dated 22 December 2015 with a site area of approximately 14.49 sq.m. has been granted to Launch Tech Company Limited, for a term expiring on 23 August 2046 for other commercial use.

3. Pursuant to the Building Ownership Certificate – Cheng Fang Quan Zheng Jian Zheng Zi Di No. 3941804 dated 14 March 2014, the property with a total gross floor area of approximately 337.46 sq.m. is vested in Launch Tech Company Limited.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Launch Tech Company Limited has the legal right of the property; and

   b. Launch Tech Company Limited has the right to transfer, lease and pledge of the property.

5. In our valuation, we have made reference to some asking price references of comparable units in the subject and nearby development. We have adopted the range of unit rates between RMB11,000 to RMB13,000 per sq.m. The unit rates assumed by us are consistent with the said asking price reference. Due adjustments to the unit rates of those asking price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

| No. | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 March 2017<br>*RMB* |
|---|---|---|---|---|
| 8. | Property located at No. 661 Bai'an Road, Anting Town, Shanghai City, The PRC | The property comprises 1 parcel of land with a total site area of approximately 69,426 sq.m and 11 buildings erected thereon which was completed from 2005 to 2013.<br><br>The building has a total gross floor area of approximately 70,462.43 sq.m.<br><br>The land use rights of the property have been granted for a term of 50 years commencing from 28 August 2003 and expiring on 27 August 2053 for industrial use. | As advised by the Company, a portion of the property with a total gross floor area of approximately 26,950 sq.m was leased to various tenants at a total monthly rent of approximately RMB457,317, while the remaining portion of the property was held and occupied by the Group for industrial use as at the valuation date. | 219,420,000<br><br>(100% interest attributable to the Company: RMB219,420,000) |

*Notes:*

1. Pursuant to the Shanghai Certificate of Real Estate Ownership – Hu Fang Di Jia Zi (2014) Di No. 036945 dated 28 October 2014, the land use rights of a parcel of land with a site area of approximately 69,426 sq.m and the property with a total gross floor area of 69,062.43 sq.m have been granted to Shanghai Launch Mechanical Equipment Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years for industrial use.

2. In the course of our valuation, we have attributed no commercial value to the Building No. 7 with a gross floor area of approximately 1,400 sq.m since it has not obtained valid title certificates as at the Valuation Date. For reference purpose, we are of the opinion that the estimated value of the property as at the valuation date would be RMB980,000, assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

    a. Shanghai Launch Mechanical Equipment Co., Ltd. has legally obtained the Shanghai Certificate of Real Estate Ownership for buildings mentioned in Note No. 1, and has the right to transfer, lease and pledge the property;

    b. The building No. 7 mentioned in Note No. 2 which has not obtained the ownership certificate due to its gross floor area in excess of the plot ratio under the urban planning conditions. The government is entitled to investigate and penalize if Shanghai Launch Mechanical Equipment Co., Ltd. cannot obtained the administrative approval for plot ratio adjustment; and

    c. The property is subject to a mortgage in favour of Bank of China Shenzhen She Kou Branch (中國銀行深圳蛇口支行) with a consideration of RMB 160,000,000 for a term commencing from 10 February 2017 to 10 February 2018. During this period, Shanghai Launch Mechanical Equipment Co., Ltd. should obtain the written consent from the mortgagee when transferring, leasing and pledging the property..

4. As confirmed by the Company that there is no material environmental and planning issues.

**Group II – Property interests held by the Group under development in the PRC**

| No. | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 March 2017 *RMB* |
|---|---|---|---|---|
| 9. | Property located at North of Keji 6th Road, Xi'an Hi-Tech Industries Development Zone, Xi'an City, Shaanxi Province, The PRC | The property comprises 1 parcel of land with a total site area of approximately 8,166.4 sq.m.<br><br>In accordance with the Construction Works Planning Permit, the property is planned to have a total gross floor area of approximately 48,623.8 sq.m.<br><br>As advised by the Company, the total construction cost was estimated to be approximately RMB261,543,322 of which approximately RMB18,090,000 had been paid as at the valuation date.<br><br>The land use rights of the property have been granted for a term expiring on 29 June 2053 for commercial use. | As at the valuation date, the property was under the process of construction. | 93,990,000<br><br>(100% interest attributable to the Company: RMB93,990,000) |

*Notes:*

1. Pursuant to the State-owned Land Use Rights Grant Contract – GF-2008-2601-28596 dated 28 May 2013, the land use rights of a parcel of land with a site area of approximately 8,166.4 sq.m have been granted to Xi'an Launch Software Technology Co., Ltd., a wholly owned subsidiary of the Company, for a term of 40 years for commercial use at a total land premium of RMB32,100,000.

2. Pursuant to the State-owned Land Use Rights Certificate – Xi Gao Ke Ji Guo Yong (2014) Di No. 30713 dated 21 October 2014 with a site area of approximately 8,166.4 sq.m. has been granted to Xi'an Launch Software Technology Co., Ltd., a wholly-owned subsidiary of the Company, for a term expiring on 29 June 2053 for commercial use.

3. Pursuant to the Construction Land Planning Permit – Di Zi Di Gao Xin Gui No. (2013) 104 dated 30 October 2013, the construction site of the property with a total site area of approximately 14,833 sq.m. are in compliance with the urban planning requirements and have been approved.

4. Pursuant to the Construction Works Planning Permit – Jian Zi Di Gao Xin Jian Gui Zi No. 2016-048 dated 8 July 2016, the construction works of the property with a total gross floor area of approximately 48,623.8 are in compliance with the urban planning requirements and have been approved.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Xi'an Launch Software Technology Co., Ltd. has legally obtained the State-owned Land Use Rights Certificate of the property; and

b. Xi'an Launch Software Technology Co., Ltd. has obtained permission and approval in relation to the construction of the development..

6. A summary of major certificates/licenses is shown as follows:

| | | |
|---|---|---|
| a. | State-owned Land Use Rights Certificate | Yes |
| b. | Construction Land Planning Permit | Yes |
| c. | Construction Works Planning Permit | Yes |
| d. | Construction Works Commencement Permit | No |

7. As confirmed by the Company that there is no material environmental and planning issues.

8. It is estimated that upon completion of the development which is scheduled to be completed in October 2019, the capital value of the property will be approximately RMB337,443,322.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility for the information contained herein, includes particulars given in compliance with the Listing Rules for the purpose of giving information relating to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information relating to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Subscribers and their respective concert parties) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Subscribers and their respective concert parties has been supplied by the Subscribers. Each of the Subscribers jointly and severally accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group and the other Subscribers) and confirms, having made all reasonable enquiries, that to the best of each of their knowledge, opinions expressed (other than those expressed by the Group) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

## MARKET PRICE

The table below sets out the closing prices of the H Shares on the Stock Exchange on (i) the last trading day of each of the six months immediately preceding the date of the Announcement; (ii) the Last Trading Day, being the last business day immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date.

| **Date** | **Closing price per H Share** *HK$* |
|---|---|
| 30 September 2016 | 9.02 |
| 31 October 2016 | 8.23 |
| 30 November 2016 | 8.34 |
| 30 December 2016 | 8.88 |
| 27 January 2017 | 8.38 |
| 28 February 2017 | 8.23 |
| 20 March 2017 (being the Last Trading Day) | 12.2 |
| 9 May 2017 (being the Latest Practicable Date) | 10.92 |

The lowest and highest closing market prices of the H Shares recorded on the Stock Exchange during the period commencing on 28 September 2016 (being the six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date were HK$7.74 per H Share (recorded on 9 November 2016) and HK$12.84 per H Share (recorded on 5 April 2017), respectively.

## 2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

The registered capital of the Company as at the Latest Practicable Date was RMB329,160,000.00. The issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Domestic Share Subscription was and will be as follows:

| | As at the Latest Practicable Date | | Immediately after the completion of the Domestic Share Subscription | |
|---|---|---|---|---|
| | No. of Shares held | Percentage of total issued Shares | Number of Shares held | Percentage of total issued Shares |
| Domestic Shares | 145,380,500 | 44.17% | 201,880,500 | 52.35% |
| Non-H Foreign Shares | 19,619,500 | 5.96% | 19,619,500 | 5.08% |
| H Shares | 164,160,000 | 49.87% | 164,160,000 | 42.57% |
| Total | 329,160,000 | 100% | 385,660,000 | 100% |

The H Shares, Non-H Foreign Shares and Domestic Shares in issue are ordinary shares in the share capital of the Company. All existing Domestic Shares, Non-H Foreign Shares and H Shares rank pari passu in all respects with each other, including capital, dividends and voting rights. The H Shares are listed on the Hong Kong Stock Exchange and the Domestic Shares and Non-H Foreign Shares are privately held shares that are not listed on any stock exchanges.

The new Domestic Shares to be issued pursuant to the Domestic Share Subscription Agreements will rank, upon issue, pari passu in all respects with the Domestic Shares in issue at the time of allotment and issue of such new Domestic Shares, and will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of such Domestic Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into Shares.

## 3. DISCLOSURE OF INTERESTS

### (A) Director, supervisor and chief executive's interests and short positions in Shares and underlying Shares of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the required standard of dealings as set out in Appendix 10 of the Listing Rules.

| Name of Director | Capacity in which shares were | Number of domestic shares | Approximate percentage fo the Company's total issues shares |
|---|---|---|---|
| Liu Xin | Beneficial Owner | 66,000,000 | 20.05% |
| | Interest in a controlled company | 49,432,000 *(Note 1)* | 15.02% |
| | Interest in a controlled company | 9,948,500 *(Note 2)* | 3.02% |
| Liu Jun | Interest in a controlled company | 49,432,000 *(Note 3)* | 15.02% |
| Liu Yong | Interest in a controlled company | 9,948,500 | 3.02% |

*Notes:*

(1) Mr. Liu Xin holds 60.00% interest in 深圳市浪曲科技開發有限公司 ("**Shezhen Langqu**") which holds approximately 15.02% interest in the total issued 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 15.02% interest in the total issued shares of the Company apart from his personal interest of 20.05% interest in the total issued shares of the Company.

(2) Mr. Liu Xin holds 40.00% interest in 深圳市得時域投資有限公司 ("**Shenzhen De Shi Yu**") which holds approximately 3.02 % interest in the total issued shares of the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen De Shi Yu, Mr. Liu Xin is deemed, under the Part XV of the SFO, to be interested in 3.02 % interest in the total issued shares of the Company apart from his personal interest of 20.05% interest in the total issued shares of the Company. Meanwhile, by virtue of Ms. Liu Yong's holding more than one-third interest in Shenzhen De Shi Yu, Ms. Liu Yong is also deemed, under the Part XV of the SFO, to be interested in 3.02% interest in to total issued shares of the Company.

(3) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 15.02% interest in the total issued 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 15.02% interest in the total issued shares of the Company, Mr. Liu Jun is deemed, under Part XV of the SFO, to be interested in approximately 15.02% interest in the total issued shares of the Company.

## (B) Substantial Shareholders' interests and short positions in Shares and underlying Shares of the Company and its associated corporations

As at the Latest Practicable Date, to the best knowledge of the Company and the Directors after making reasonable inquiries, 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 total issued shares |
|---|---|---|---|
| Shenzhen Langqu | Beneficial Owner | 49,432,000 *(Note 1)* | 15.02% |
| Xizang Ruidong Wealth Investment Co., Ltd. | Beneficial Owner | 20,000,000 | 6.08% |

*Note:* The legal and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

*(ii) H Shares*

NIL

## 4. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

(a) save for the Domestic Share Subscription Agreements in this circular, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Subscribers or any party acting in concert with him and any of the Directors, recent Directors, the Shareholders or recent Shareholders having any connection with or dependence upon the Domestic Share Subscription;

(b) save as disclosed in the Letter from the Board in Appendix, the Subscribers and their concert parties, had no interests in any shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities, or had dealt for value in any shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;

(c) no benefit (other than statutory compensation, if applicable) was or will be given to any of the Directors as compensation for loss of office in any members of the Group or otherwise in connection with the Domestic Share Subscription;

(d) there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Domestic Share Subscription or otherwise connected with the Domestic Share Subscription;

(e) there was no material contract entered into by the Subscribers in which any of the Directors has a material personal interest.

## 5. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or supervisors of the Company nor their respective close associates had any direct or indirect interests in any businesses that constitutes or may constitute a competing business of the Company.

## 6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director or supervisor of the Company had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which: (i) was a continuous contract with a notice period of 12 months or more; (ii) was a fixed term contract with more than 12 months to run irrespective of the notice period; (iii) has been entered into or amended within 6 months before the date of the

Announcement (including continuous and fixed term contracts); or (iv) was not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 7. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS / CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed in this circular: a) none of the Directors or the supervisors of the Company had any direct or indirect interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and b) none of the Directors or the supervisors of the Company was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

## 8. MATERIAL CONTRACTS

Save for the Domestic Share Subscription Agreements, the Group had not entered into any material contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) within two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date.

## 9. QUALIFICATION OF EXPERT AND CONSENT

The qualification of the experts who have given an opinion or advice in this circular is as follow:

| Name | Qualification |
|---|---|
| TC Capital | a licensed corporation to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) regulated activities under the SFO |
| AVISTA Valuation Advisory Limited | Independent property valuer |
| Beijing Dacheng (Shenzhen) Law Office | PRC legal adviser |

As of the Latest Practicable Date, the above experts: (i) have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which they are respectively included; (ii) have no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) have no direct or indirect interests in any assets which have been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

## 10. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Copies of the following documents will be made available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business in Hong Kong of the Company at Unit 1104 Crawford House 70 Queen's Road Central Hong Kong; (ii) on the Company's website (http://www.cnlaunch.com), and (iii) on the website of SFC (www.sfc.hk), from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the articles of association of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2014, 2015 and 2016;

(c) the Domestic Subscription Agreements;

(d) the written consent referred to in the paragraph headed "Qualification of the Expert and consent" in this appendix;

(e) the letter from the Board, the text of which is set out in this circular;

(f) the letter from the Independent Board Committee, the text of which is set out in this circular;

(g) the letter of advice from the Independent Financial Adviser, the text of which is set out in this circular;

(h) the valuation report issued by the independent property valuer, the text of which is set out in this circular;

(i) the legal opinion given by Beijing Dacheng (Shenzhen) Law Office regarding the titles to the proterties; and

(j) this circular.

## 11. MISCELLANEOUS

(a) The registered address of the Company is at 2-8 Floors Xin Yang Building Bagua Number Four Road Futian District Shenzhen, the PRC.

(b) The principal place of business of the Company in the PRC is at Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC (Launch Industrial Park) and No. 661 Baian Road, Angtin Zhen, Jiading District, Shanghai, the PRC (Launch Shanghai Base).

(c) The principal place of business of the Company in Hong Kong is at Unit 1104 Crawford House, 70 Queen's Road Central, Hong Kong.

(d) The Hong Kong share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong.

(e) The company secretary is Mr. Liu Chun Ming, who is a fellow member of the Association of Chartered Certified Accountants.

(f) The full name and address of Subscribers and their concert parties are as follows:

| Name | Address |
|---|---|
| Liu Xin | Room A1719 of the Office Building, Launch Industrial Park, North of Wuhe Road, Longgang District, Shenzhen, PRC |
| Shenzhen Langqu | Room A1719 of the Office Building, Launch Industrial Park, North of Wuhe Road, Longgang District, Shenzhen, PRC |
| Shenzhen De Shi Yu | Room A1721 of the Office Building, Launch Industrial Park, North of Wuhe Road, Longgang District, Shenzhen, PRC |
| Xizang Ruidong | 401-6, Ya Jiang Industrial Park, Renmin Road, Qushui County, Lhash City, Tibet Autonomous Region, PRC |
| Rui Dong Hairun | Room 179, 1st Floor, Jing Bian Building, No. 2 Jing Du Er Road, Jing Bian Industrial Park, Haining, Zhejiang Province, PRC. |
| Rui Dong Qicai | Room 181, 1st Floor, Jing Bian Building, No. 2 Jing Du Er Road, Jing Bian Industrial Park, Haining, Zhejiang Province, PRC. |
| Guo Shanling | Room 1009, No.8 Yincheng Road, Shanghai, PRC |
| Jiang Quanhong | 107-1-302, Puya Garden, Lingshijun, Hongkan, Jinnan District, Tianjin City, PRC. |
| Zhuhai Muyang | Room 105-27209, No.6 Bao Hua Road, Hengqin New Area, Zhuhai, Guangdong Province, PRC. |

(g) The new Domestic Shares to be issued to the Subscribers pursuant to the Domestic Share Subscription will not be transferred, charged or pledged to any other persons.

(h) The English text of this circular and the accompanying proxy form shall prevail over the Chinese text.

LAUNCH

深圳市元征科技股份有限公司

# LAUNCH TECH COMPANY LIMITED*

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

## NOTICE OF THE SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that Special General Meeting ("**SGM**") of Launch Tech Company Limited (the "**Company**") will be held at 10th Floor, R&D Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC on Saturday, 27 May 2017 at 11:00 a.m. to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 12 May 2017 issued by the Company (the "**Circular"**) shall have the same meanings when used herein unless otherwise specified:

### SPECIAL RESOLUTIONS

**Resolution in relation to the Domestic Share Subscription Agreements and the grant of Specific Mandate**

1. "**THAT**:

   (a) the Domestic Share Subscription Agreements entered into between the Company and each of the Subscribers in relation to the subscription of a total of 56,500,000 new Domestic Shares by the Subscribers pursuant to which the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to issue an aggregate of 56,500,000 new Domestic Shares at RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under the Domestic Share Subscription Agreements be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Domestic Share Subscription Agreements as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked "A" and signed by the Chairman of the SGM for the purpose of identification.

   (b) the Board be and is hereby granted a specific mandate to issue the new Domestic Shares at the subscription price of RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share upon completion of the Domestic Share Subscription to the Subscribers pursuant to the Domestic Share Subscription Agreements.

* *for identification purpose only*

(c) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the Domestic Share Subscription Agreements and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

**Resolution in relation to the amendments to the Articles**

2. "**THAT**:

(a) the proposed amendments to the Articles to be made in order to reflect the corresponding increase in the registered capital and change in shareholding structure of the Company following completion of the Domestic Share Subscription Agreements be and are hereby approved and the Board be and is hereby authorised to make such other modifications to the proposed amendments to the Articles as may be necessary to reflect the registered capital of the Company following completion of the Domestic Share Subscription Agreements or required by the relevant regulatory authorities in the PRC.

(b) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the proposed amendments to the Articles and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

## ORDINARY RESOLUTION

**Resolution in relation to the Whitewash Waiver**

3. "**THAT**:

subject to the granting of the Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of Mr. Liu Xin to make a mandatory general offer to the Shareholders for all issued Shares not already owned by Mr. Liu Xin

and his concert parties under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the subscription of the new Domestic Shares, such Whitewash Waiver be and is hereby approved."

By Order of the Board
**Launch Tech Company Limited**
**Liu Chun Ming**
*Company Secretary*

Hong Kong, 12 May 2017

*Notes:*

**(1) Voting arrangements**

The Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the proposed amendments to the Articles of Association of the Company will be proposed by way of special resolutions and the Whitewash Waiver will be proposed by way of an ordinary resolution at the SGM to be held on Saturyday, 27 May 2017 at 11:00 a.m.. The Subscribers and their respective concert parties (including, among others, Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (Rui Dong Hairun and Rui Dong Qicai), and any other shareholder(s) who is involved or interested in the Domestic Share Subscription and the Specific Mandate (including Mr. Zhang Jiangbo, assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the date of this circular)) will or will be required to abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the SGM.

**(2) Registration procedures for the SGM**

i. Shareholders of the Company shall note that pursuant to Article 46 of the Articles, the share register of the Company will be closed during the period from Thursday, 20 April 2017 to Saturday, 27 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the SGM, all transfer documents, together with the relevant share certificates, should be lodged to the Company's H share share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares), or to the Company's principal place of business in the PRC (for holders of Domestic shares), no later than 4:30 p.m. on Wednesday, 19 April 2017. Shareholders whose names appear on the register of shareholders of the Company on the Record Date shall be entitled to attend the SGM to vote thereat.

ii. Shareholders who intend to attend the SGM are required to return the reply slip to the Company on or before 30 April 2017. Please refer to the reply slip and the instruction thereon for details.

**(3) Proxy**

i. Any Shareholders entitled to attend and to vote at the SGM shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more shares may appoint more than one proxy.

ii. To be valid, the proxy forms for the use of Shareholders and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the SGM or its adjourned meetings of the Company.

iii. Holders of domestic shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's principal place of business in the PRC.

iv. Holders of H Shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's H share share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

v. Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the SGM in person. In such event, the form of proxy will be deemed to have been revoked.

vi. Shareholders or their proxies shall produce their identification documents (and form of proxy in case of proxies) when attending the SGM.

**(4) Miscellaneous**

i. The SGM is expected to last for 20 minutes. Shareholders and their proxies attending the SGM shall be responsible for the transportation and accommodation expenses on their own.

*As at the date of this circular, the board of directors of the Company comprises Mr. Liu Xin (Chairman), Mr. Liu Jun, Ms. Huang Zhao Huan and Mr. Jiang Shiwen as executive Directors, Ms. Liu Yong as a non-executive Director, and Mr. Liu Yuan, Ms. Zhang Yan and Mr. Ning Bo as independent non-executive Directors.*

LAUNCH

深圳市元征科技股份有限公司

# LAUNCH TECH COMPANY LIMITED*

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

## NOTICE OF THE H SHARE CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the H Share Class Meeting (the "**H Share Class Meeting**") of Launch Tech Company Limited (the "**Company**") will be held at 10th Floor, R&D Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC on Saturday, 27 May 2017 at 11:20 a.m. (or immediately after the conclusion of the special general meeting (the "**SGM**")) to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 12 May 2017 issued by the Company (the "**Circular"**) shall have the same meanings when used herein unless otherwise specified:

### SPECIAL RESOLUTIONS

**Resolution in relation to the Domestic Share Subscription Agreements and the grant of Specific Mandate**

1. "**THAT**:

   (a) the Domestic Share Subscription Agreements entered into between the Company and each of the Subscribers in relation to the subscription of a total of 56,500,000 new Domestic Shares by the Subscribers pursuant to which the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to issue an aggregate of 56,500,000 new Domestic Shares at RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under the Domestic Share Subscription Agreements be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Domestic Share Subscription Agreements as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked "A" and signed by the Chairman of the H Share Class Meeting for the purpose of identification.

   (b) the Board be and is hereby granted a specific mandate to issue the new Domestic Shares at the subscription price of RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share upon completion of the Domestic Share Subscription to the Subscribers pursuant to the Domestic Share Subscription Agreements.

* *for identification purpose only*

(c) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the Domestic Share Subscription Agreements and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

**Resolution in relation to the amendments to the Articles**

2. "**THAT**:

(a) the proposed amendments to the Articles to be made in order to reflect the corresponding increase in the registered capital and change in shareholding structure of the Company following completion of the Domestic Share Subscription Agreements be and are hereby approved and the Board be and is hereby authorised to make such other modifications to the proposed amendments to the Articles as may be necessary to reflect the registered capital of the Company following completion of the Domestic Share Subscription Agreements or required by the relevant regulatory authorities in the PRC.

(b) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the proposed amendments to the Articles and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

## ORDINARY RESOLUTION

**Resolution in relation to the Whitewash Waiver**

3. "**THAT**:

subject to the granting of the Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of Mr. Liu Xin to make a mandatory general offer to the Shareholders for all issued Shares not already owned by Mr. Liu Xin

and his concert parties under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the subscription of the new Domestic Shares, such Whitewash Waiver be and is hereby approved."

By Order of the Board
**Launch Tech Company Limited**
**Liu Chun Ming**
*Company Secretary*

Hong Kong, 12 May 2017

*Notes:*

**(1) Voting arrangements**

The Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the proposed amendments to the Articles of Association of the Company will be proposed by way of special resolutions and the Whitewash Waiver will be proposed by way of an ordinary resolution at the H Share Class Meeting to be held on Saturday, 27 May 2017 at 11:20 a.m. (or immediately after the conclusion of the SGM). The Subscribers and their respective concert parties (including, among others, Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (Rui Dong Hairun and Rui Dong Qicai), and any other shareholder(s) who is involved or interested in the Domestic Share Subscription and the Specific Mandate (including Mr. Zhang Jiangbo, assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the date of this circular)) will or will be required to abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the H Share Class Meeting, if any of them holds any H Shares. Save as set out above, no H shareholder is required to abstain from voting on the above resolutions at the H Share Class Meeting.

**(2) Registration procedures for the H Share Class Meeting**

i. Shareholders of the Company shall note that pursuant to Article 46 of the Articles, the share register of the Company will be closed during the period from Thursday, 20 April 2017 to Saturday, 27 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the H Share Class Meeting, all transfer documents, together with the relevant share certificates, should be lodged to the Company's H share share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares), or to the Company's principal place of business in the PRC (for holders of Domestic shares), no later than 4:30 p.m. on Wednesday, 19 April 2017. Shareholders whose names appear on the register of shareholders of the Company on the Record Date shall be entitled to attend the H Share Class Meeting to vote thereat.

ii. Shareholders who intend to attend the H Share Class Meeting are required to return the reply slip to the Company on or before 30 April 2017. Please refer to the reply slip and the instruction thereon for details.

**(3) Proxy**

i. Any Shareholders entitled to attend and to vote at the H Share Class Meeting shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more shares may appoint more than one proxy.

ii. To be valid, the proxy forms for the use of Shareholders and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the H Share Class Meeting or its adjourned meetings of the Company.

iii. Holders of H Shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's H share share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

iv. Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the H Share Class Meeting in person. In such event, the form of proxy will be deemed to have been revoked.

v. Shareholders or their proxies shall produce their identification documents (and form of proxy in case of proxies) when attending the H Share Class Meeting.

**(4) Miscellaneous**

i. The H Share Class Meeting is expected to last for 20 minutes. Shareholders and their proxies attending the H Share Class Meeting shall be responsible for the transportation and accommodation expenses on their own.

*As at the date of this circular, the board of directors of the Company comprises Mr. Liu Xin (Chairman), Mr. Liu Jun, Ms. Huang Zhao Huan and Mr. Jiang Shiwen as executive Directors, Ms. Liu Yong as a non-executive Director, and Mr. Liu Yuan, Ms. Zhang Yan and Mr. Ning Bo as independent non-executive Directors.*

# LAUNCH

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED***

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2488)**

## NOTICE OF THE DOMESTIC SHARE CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the Domestic Share Class Meeting (the "**Domestic Share Class Meeting**") of Launch Tech Company Limited (the "**Company**") will be held at 10th Floor, R&D Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC on Saturday, 27 May 2017 at 11:40 a.m. (or immediately after the conclusion of the H share class meeting (the "**H Share Class Meeting**")) to consider and, if thought fit, pass the following resolutions. Capitalised terms defined in the circular dated 12 May 2017 issued by the Company (the "**Circular**") shall have the same meanings when used herein unless otherwise specified:

### SPECIAL RESOLUTIONS

**Resolution in relation to the Domestic Share Subscription Agreements and the grant of Specific Mandate**

1. "**THAT**:

   (a) the Domestic Share Subscription Agreements entered into between the Company and each of the Subscribers in relation to the subscription of a total of 56,500,000 new Domestic Shares by the Subscribers pursuant to which the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to issue an aggregate of 56,500,000 new Domestic Shares at RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under the Domestic Share Subscription Agreements be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Domestic Share Subscription Agreements as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked "A" and signed by the Chairman of the Domestic Share Class Meeting for the purpose of identification.

   (b) the Board be and is hereby granted a specific mandate to issue the new Domestic Shares at the subscription price of RMB8.16 (equivalent to approximately HK$9.18) per new Domestic Share upon completion of the Domestic Share Subscription to the Subscribers pursuant to the Domestic Share Subscription Agreements.

* *for identification purpose only*

(c) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the Domestic Share Subscription Agreements and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

**Resolution in relation to the amendments to the Articles**

2. "**THAT**:

(d) the proposed amendments to the Articles to be made in order to reflect the corresponding increase in the registered capital and change in shareholding structure of the Company following completion of the Domestic Share Subscription Agreements be and are hereby approved and the Board be and is hereby authorised to make such other modifications to the proposed amendments to the Articles as may be necessary to reflect the registered capital of the Company following completion of the Domestic Share Subscription Agreements or required by the relevant regulatory authorities in the PRC.

(e) the Board be and is hereby authorised to implement and take all steps and to do all acts and things which in its opinion may be necessary or desirable to give effect and/or to complete or in connection with the proposed amendments to the Articles and transactions contemplated thereunder, including, without limitation, to approve any changes and amendments thereto, to obtain all necessary approvals from, and make all relevant registrations and filings with, the relevant PRC regulatory authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder."

## ORDINARY RESOLUTION

**Resolution in relation to the Whitewash Waiver**

3. "**THAT**:

subject to the granting of the Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of Mr. Liu Xin to make a mandatory general offer to the Shareholders for all issued Shares not already owned by Mr. Liu Xin

and his concert parties under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the subscription of the new Domestic Shares, such Whitewash Waiver be and is hereby approved."

By Order of the Board
**Launch Tech Company Limited**
**Liu Chun Ming**
*Company Secretary*

Hong Kong, 12 May 2017

*Notes:*

**(1) Voting arrangements**

The Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the proposed amendments to the Articles of Association of the Company will also be proposed by way of special resolutions and the Whitewash Waiver will also be proposed by way of an ordinary resolution at the SGM to be held on Saturday, 27 May 2017 at the Domestic Share Class Meetings at 11:40 a.m. (or immediately after the conclusion of the H Share Class Meeting). The Subscribers and their respective concert parties (including, among others, Liu Xin and his concert parties (including but not limited to Shenzhen Langqu and Shenzhen De Shi Yu), and Xizang Ruidong and its concert parties (Rui Dong Hairun and Rui Dong Qicai), and any other shareholder(s) who is involved or interested in the Domestic Share Subscription and the Specific Mandate (including Mr. Zhang Jiangbo, assistant to president who was involved in the negotiation of the Domestic Share Subscription and is holding 71,000 H Shares as at the date of this circular)) will or will be required to abstain from voting on the resolutions to be proposed for approving the proposed Domestic Share Subscription Agreements and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the Domestic Share Class Meeting, if any of them holds any Domestic Shares. Save as set out above, no Domestic Shareholders is required to abstain from voting on the above resolutions at the Domestic Share Class Meeting.

**(2) Registration procedures for the Domestic Share Class Meeting**

i. Domestic Shareholders of the Company shall note that pursuant to Article 46 of the Articles, the share register of the Company will be closed during the period from Thursday, 20 April 2017 to Saturday, 27 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the Domestic Share Class Meeting, all transfer documents, together with the relevant share certificates, should be lodged to the Company's principal place of business in the PRC, no later than 4:30 p.m. on Wednesday, 19 April 2017. Shareholders whose names appear on the register of Domestic Shareholders of the Company on the Record Date shall be entitled to attend the Domestic Share Class Meeting to vote thereat.

ii. Domestic Shareholders who intend to attend the Domestic Share Class Meeting are required to return the reply slip to the Company on or before 30 April 2017. Please refer to the reply slip and the instruction thereon for details.

**(3) Proxy**

i. Any Domestic Shareholders entitled to attend and to vote at the Domestic Share Class Meeting shall be entitled to appoint a proxy who need not be a Shareholder, to attend and to vote on his or her behalf. A member who is the holder of two or more shares may appoint more than one proxy.

ii. To be valid, the proxy forms for the use of Shareholders and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the SGM or its adjourned meetings of the Company.

iii. Domestic Shareholders shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's principal place of business in the PRC.

iv. Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the Domestic Share Class Meeting in person. In such event, the form of proxy will be deemed to have been revoked.

v. Shareholders or their proxies shall produce their identification documents (and form of proxy in case of proxies) when attending the Domestic Share Class Meeting.

**(4) Miscellaneous**

i. The Domestic Share Class Meeting is expected to last for 20 minutes. Shareholders and their proxies attending the Domestic Share Class Meeting shall be responsible for the transportation and accommodation expenses on their own.

*As at the date of this circular, the board of directors of the Company comprises Mr. Liu Xin (Chairman), Mr. Liu Jun, Ms. Huang Zhao Huan and Mr. Jiang Shiwen as executive Directors, Ms. Liu Yong as a non-executive Director, and Mr. Liu Yuan, Ms. Zhang Yan and Mr. Ning Bo as independent non-executive Directors.*