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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)

2021 INTERIM RESULT ANNOUNCEMENT

The board of directors (the “Board”) of Launch Tech Company Limited (the “Company”) hereby announces the unaudited consolidated result of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 (the “Reporting Period”) prepared in accordance with China Accounting Standards for Business Enterprises:

I. FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2021	31 December 2020 (Audited)
Current assets:			
Bank balances and cash		342,786	396,936
Bills receivable		30,260	45,073
Accounts receivable	4	128,670	125,731
Accounts receivable financing		43,728	25,010
Prepayments		53,085	40,075
Other receivables		51,105	21,328
Inventories	5	208,642	159,383
Other current assets		26,886	18,775
		<hr/>	<hr/>
Total current assets		885,162	832,311

CONSOLIDATED BALANCE SHEET (continued)

	<i>Notes</i>	30 June 2021	31 December 2020 (Audited)
Non-current assets:			
Long-term equity investment		2,078	2,180
Investment in other equity instruments		5,297	3,111
Investment Property		61,266	63,753
Fixed assets		202,988	212,940
Construction in progress		210,357	190,605
Right-in-use assets		5,121	5,121
Intangible assets		113,596	84,223
Goodwill		1,139	1,139
Deferred income tax assets		5,136	5,136
Other non-current assets		4,439	470
		<hr/>	<hr/>
Total non-current assets		611,417	568,678
		<hr/>	<hr/>
Total assets		1,496,579	1,400,989
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Current liabilities:			
Short-term borrowings		267,492	275,838
Bills payable		80,000	132,857
Accounts payable	6	149,653	135,088
Contract liabilities		160,022	101,318
Employee remuneration payable		2,470	10,794
Tax payables		8,336	4,271
Other payables		66,003	16,652
Non-current liabilities due within one year		2,907	2,907
Other current liabilities		46,816	53,575
		<hr/>	<hr/>
Total current liabilities		783,699	733,300
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET (continued)

	<i>Notes</i>	30 June 2021	31 December 2020 (Audited)
Non-current liabilities:			
Non-current liabilities due within one year		2,605	2,605
Deferred income		10,579	11,268
Deferred tax liabilities		188	188
		<hr/>	<hr/>
Total non-current liabilities		13,372	14,061
		<hr/>	<hr/>
Total liabilities		797,071	747,361
		<hr/>	<hr/>
Shareholders' equity:			
Share capital		432,217	432,217
Capital reserve		410,939	410,939
Other comprehensive income		-7,478	-6,604
Surplus reserve		41,037	41,037
Undistributed profit	7	-177,207	-224,189
		<hr/>	<hr/>
Total owners' equity attributable to parent company		699,508	653,399
Minority shareholders' equity		-	229
		<hr/>	<hr/>
Total shareholders' equity		699,508	653,628
		<hr/>	<hr/>
Total liabilities and shareholders' equity		1,496,579	1,400,989
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	<i>Notes</i>	2021	2020
Operating income	<i>3</i>	641,636	390,758
Less: Operating costs		384,550	218,207
Tax and surcharge		4,780	3,777
Selling expenses		49,902	49,089
Administrative expenses		37,945	37,261
R&D expenses		103,890	102,291
Finance costs		8,868	6,922
Other revenue		11,156	11,896
Gain in investment		48	–
Impairment loss on assets and credit		14,214	10,067
Operating profit		48,691	-24,960
Add: Non-operating income		1,838	467
Less: Non-operating expenses		2,025	280
Total profit		48,504	-24,773
Less: Income tax expenses	<i>8</i>	1,750	1,206
Net profit		46,754	-25,979
Net profit attributable to owners of parent company		46,754	-25,979
Profit or loss attributable to minority shareholders		–	–
Earnings per share:			
Basic earnings per share (RMB)	<i>9</i>	0.108	-0.060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. BASIS OF PREPARATION OF FINANCIAL STATEMENT

Financial information in this announcement was extracted from the unaudited financial statements (the “Financial Statements”) published in the 2021 Interim Report.

The Company carried out recognition and measurement on a going concern and actual transaction and event basis in accordance with the Basic Standard and specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations (hereafter referred to as “the Accounting Standards for Business Enterprises”), in combination with the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (amended in 2014) issued by the China Securities Regulatory Commission (CSRC) and prepared the Financial Statements. The accounting policies are consistent with those adopted in the preparation of the Group’s 2020 annual results.

In addition, the Financial Statements have also complied with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting period

The Reporting Period is from 1 January to the six months ended 30 June 2021.

(2) Reporting currency

Renminbi was adopted as the reporting currency. The Company’s foreign subsidiaries choose their reporting currencies on the basis of the primary economic environment in which they operate and converted into RMB when preparing financial statements.

(3) Method of preparing consolidated financial statements

All subsidiaries were included in the consolidated financial statements

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Company. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting periods of the Company. Based on the financial statements of the Company and its subsidiaries, the consolidated financial statements are prepared by the Company according to other relevant information and after the long-term equity investments in the subsidiaries are adjusted in accordance with the equity method. When consolidating the financial statements, the effects of intra-transactions between the Company and its subsidiaries, and among subsidiaries on the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity shall be offset.

3. OPERATING INCOME

Income from main operations includes the net value of the received and receivable for the sales of different types of vehicle maintenance equipment, and provision of internet upgrade service.

	For the six months ended 30 June	
	Current year	Previous year
Revenue from main operations	615,489	373,364
Revenue from other operations: rent	26,147	17,394
	641,636	390,758

4. ACCOUNTS RECEIVABLE

Accounts receivable

The Company basically used credit terms when dealing with customers and normally offered credit period from 30 days to 210 days. Should a customer possessed long and good records or in case of being a major customer, or under the circumstances that the Company would like to maintain prolong operational relationship, and then a different credit period might be considered.

	At the period end	At the beginning of the year
Accounts receivables	221,485	210,122
Less: provision for bad debts	92,815	84,391
Net amount	128,670	125,731

Aging

Within 1 year	160,335	113,724
Over 1 year	61,150	96,398
	221,485	210,122

5. INVENTORIES

	At the period end	At the beginning of the year
Raw materials	23,858	17,344
Work in progress	4,779	3,198
Finished goods	<u>180,005</u>	<u>138,841</u>
	<u>208,642</u>	<u>159,383</u>

6. ACCOUNTS PAYABLE

Aging	At the period end	At the beginning of the year
Within 1 year	143,443	129,528
Over 1 year	<u>6,210</u>	<u>5,560</u>
	<u>149,653</u>	<u>135,088</u>

7. Undistributed profits

Current year

	Amount
As at the beginning of the period	-224,189
Add: net profit attributable to owners of parent company in the current period	46,754
Transfer to retained profit	<u>228</u>
As at the end of the period	<u>-177,207</u>

8. INCOME TAX EXPENSE

	Applicable tax rate
The Company	15%
Launch Software	15%
Shanghai Launch	25%
Launch Europe Gmbh	19%
Golo IOV	15%
Xi'an Launch	25%
PJS	15%
Launch International	16.5%
Nanjing Launch	25%
SLH	25%
NJG	25%
Hainan Launch	25%
Launch Italy Gmbh	24%
YXLH	25%
Launch Information	25%

9. EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the consolidated net profit for holders of ordinary share of the parent company by average weighted number of outstanding ordinary shares of the parent company.

Items	Current year	Previous year
Consolidated net profit for holder of ordinary shares of the parent company	46,754,000	-25,979,000
Average weighted number of outstanding ordinary shares of the parent company	432,216,600	432,216,600
Basic earnings per share (RMB/share)	0.108	-0.060
After adjustment (RMB/share)	0.108	-0.060

(2) Diluted earnings per share

As there was no ordinary share with dilutive potential for the year 2021 and 2020, thus no diluted earnings per share is presented.

10. DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2021 (2020: Nil).

11. SUBSIDIARIES

Name of the corporation	Shareholding	Business nature	Registered capital
Shanghai Launch Mechanical Equipment Co., Ltd. ("Shanghai Launch")	100%	Manufacturing of equipment and machines for maintenance of automobiles	USD18,000,000
Launch Software Development Co., Ltd. ("Launch Software")	100%	Software development	RMB40,000,000
Launch Europe GmbH	100%	Sales of LAUNCH products	EURO25,564.59
Xi'an Launch Software Technology Co., Ltd. ("Xi'an Launch")	100%	Software development	RMB100,000,000
Shenzhen Golo Internet of Vehicle Data Technology Co., Ltd. ("Golo Internet")	100%	Automotive warranty equipment industry	RMB10,000,000
Shenzhen PengJuShu Information Technology Co., Ltd. ("PJS")	100%	Technology development	RMB2,000,000
Launch Tech International Co., Ltd. ("Launch International")	100%	Automotive warranty equipment industry	HKD50,000
Nanjing Launch Intelligent Technology Co., Ltd. ("Nanjing Launch")	100%	Technology development	RMB50,000,000
Shenzhen Launch Future Auto Technology Co., Ltd. ("Launch Future" previously known as "SLH")	100%	Technology research and development	RMB1,000,000
Nanjing Golo Big Data Technology Co., Ltd. ("NJG")	100%	Software and information technology services	RMB10,000,000
Launch Italy GmbH	100%	Software and information technology services	EURO50,000.00
Hainan Launch Education Technology Co., Ltd. ("Hainan Launch")	70%	Software and information technology services	RMB10,000,000
Shenzhen Yuan Xiang Li Heng Technology Co., Ltd. ("YXLH")	100%	Software and information technology services	RMB1,000,000
Shenzhen Launch Information Technology Development Co., Ltd. ("Launch Information")	100%	Software and information technology services	RMB5,000,000

12. CONTINGENT LIABILITY

At the end of the Reporting Period, the Company did not have any significant contingent liability.

13. PLEDGE OF ASSETS

As at 30 June 2021, the Company pledged land, properties and buildings with original value approximately amounting to 285,000,000 for certain bank borrowings.

14. CAPITAL AND OPERATING COMMITMENT

As at 30 June 2021, the Company did not have any significant capital and lease commitment.

15. POST-BALANCE SHEET EVENT

There is no material post-balance sheet event which is required to be disclosed but has not been disclosed.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2021, the Group's revenue was approximately RMB642,000,000, representing an increase of approximately 64% from RMB391,000,000 in the corresponding period last year. The increase in revenue was mainly attributable to the full strength of the e-commerce channels and the significant growth in overseas offline sales. Of which, sales revenue from e-commerce channels was RMB178,00,000, representing an increase of approximately 153% from RMB70,000,000 in the corresponding period last year; and sales revenue from overseas offline sales was RMB233,000,000, representing an increase of approximately 52% from RMB154,000,000 in the corresponding period last year.

For the six months ended 30 June 2021, the Group's gross profit was approximately RMB257,000,000, representing an increase of approximately 49% from the corresponding period last year, while the consolidated gross profit margin decreased by 4.1% to approximately 40.1%. The decrease in gross profit margin was mainly attributable to the global shortage of semiconductors, high freight rate and significant increases in price of raw materials including chips, which led to higher costs since the beginning of the year.

For the six months ended 30 June 2021, the Group's net profit attributable to equity holders of the parent company was RMB47,000,000, compared to net loss of RMB26,000,000 in the same period last year. The significant increase in net profit turning loss into profit was mainly attributable to the increase in gross profit. The net profit margin was approximately 7.3%, compared to -6.6% in the same period last year.

BUSINESS REVIEW

In the first half of 2021, the global economic recovery was generally positive, with the continuous implementation of quantitative easing policies in many countries and in-depth regional trade cooperation, the world ushered a restorative growth.

As the first major economy in the world to recover from the impact of the pandemic, China's economy continued to recover steadily with improving production trends. According to the data released by the National Bureau of Statistics, China's GDP in the first half of 2021 was RMB5.32 billion, increased by 12.7% year-on-year, demonstrating strong resilience and vigor. In terms of overseas, benefitting from higher vaccination rates and massive financial support measures, developed economies were able to ease their social distancing restrictions and gradually get their economic development on track, with major developed countries in Europe and the United States all recording year-on-year GDP growth in the first half of 2021. However, some emerging markets and developing economies are still suffering from the COVID-19 pandemic, which is providing opportunities for new waves of outbreaks and mutated viruses, and the accompanying restrictions are acting as a stumbling block to economic recovery. Despite the markedly divergent and uneven economic recovery, the overall automotive market performed well in 2021. According to the statistics in the Global Automotive Production and Sales Database of the GGII, the global vehicle sales volume in the first half of 2021 was approximately 40.97 million units, increased

by 26% year-on-year. Benefitting from the recovery of the automobile market and steady growth in global major economies, the Group's sales revenue for the first half of 2021 increased by 64% over the corresponding period last year to RMB642,000,000.

Despite the pandemic, the Group insisted on seeking to develop amid stability, focusing on our existing strengths and core competencies, looking to the global market with a foothold in China, and strategically seizing the opportunities presented by the development of cross-border e-commerce channels, thus ensuring that we achieved better results in the first half of 2021. We believe that in the post-pandemic era, the Group will strive for better results through continuous efforts.

Automotive diagnostic equipment

For the six months ended 30 June 2021, the automotive diagnostic equipment segment recorded a revenue of RMB429,000,000, representing an increase of 73% over the same period last year, and the segment accounted for 67% of the total revenue of the Group. Of which, revenue from e-commerce channels was RMB176,000,000, increased by 153% year-on-year; revenue from overseas offline channels was RMB166,000,000, increased by 95% year-on-year. During the period, the new generation of high-end Pad VII has been successfully unveiled, with further upgraded hardware configuration and performance, faster-running speed, more storage space, higher recognition rate and accuracy, as well as support for advanced functions such as dual Wifi wireless full-function diagnosis, super remote diagnosis, topography, intelligent maintenance guide, etc., with expandable modules for oscilloscopes, sensors, borescopes, tire pressure guns, ADAS calibration, etc., comprehensively driving up product unit price and user experience. The tire pressure monitoring sensors self-developed by Launch have been successively mass-produced and have opened the Europe and America markets. While steadily optimizing and upgrading its core products, the Company has been actively expanding new businesses: we have developed the "Cloud Diagnosis" (雲診車) function in collaboration with international giants to conduct comprehensive health checks on major vehicle systems and generate pre-screening reports to provide warning and maintenance reminders for major vehicle faults. The Company also launched the GII anti-theft programming device, which can quickly read and write car key chip data to support the anti-theft diagnostic business.

Lift and OEM equipment segments

For the six months ended 30 June 2021, lift and OEM equipment segments recorded revenue of RMB141,000,000, representing an increase of 47% over the same period last year, and the segment accounted for 22% of the total revenue of the Group. The increase in revenue was mainly attributable to the increase in the unit price of life products and the increase in sales volume of OEM products. However, the average gross profit margin of this segment dropped by 10 percentage points year-on-year to 5% due to the high cost of lifts and the reduction in the proportion of high gross margin products shipped as a result of the significant increase in steel prices. In the future, the Group will continue to reduce the production capacity of the low-margin lift business and streamline the product range to increase the average unit price of products. In terms of OEM equipment, the Group will fully utilize its brand and channel advantages to steadily improve its products while actively developing new products in line with market demand, striving to become an industry-leading one-stop supplier of the auto body equipment.

Diagnostic software

For the six months ended 30 June 2021, the diagnosis software segment recorded a revenue of RMB29,000,000, representing an increase of 42% over the same period last year, and the segment accounted for 4% of the total revenue of the Group. Further optimization of the software store improved the user experience for software purchase and renewal, and the implementation of the proactive push marketing strategies on the device significantly increased the willingness of end-users to upgrade and renew their subscriptions. Besides, the successful promotion and application of smart pricing and the year-on-year growth in-stock equipment also contributed to the Group's diagnose software business throughout the year, with its software business revenue rising significantly.

Big data segment

For the six months ended 30 June 2021, the big data platform of the Group collected approximately 110 million vehicle diagnostic reports, and a total of 760 million maintenance diagnostic reports were accumulated, representing an increase of 17% from the end of last year.

Patent of core technologies

As of 30 June 2021, the Group has accumulatively obtained 533 patents authorised by the State, including 407 invention patents; 2,713 patents were pending in application, including 2,481 invention patents, 247 certified software copyrights; and 339 PCT patents.

PROSPECTS AND FUTURE STRATEGIES

Looking ahead to the second half of 2021, the post-pandemic era will continue to affect people's consumption and lives, and the market environment will continue to be affected by uncertainties including the slowdown in global economic growth and trade frictions between the United States and China. Yet, we remain confident and optimistic about the medium to long-term prosperity of China's economy and are firmly convinced of the epoch-making opportunities brought by the electrification, interconnection, intelligence, and sharing of the automobile industry. We believe that the impact of rising raw material prices will gradually fade in the second half of the year, except for the shortage of chips, which will remain unresolved in the near term and affect the order delivery of the Group in the second half of the year. The Group will closely monitor the market and industry trends, focus on business transformation and innovation, and advance its R&D and market plans. Meanwhile, the Group will actively embark on strategic procurement reserves as well as management and control of the supply chain to ensure product supply. The Group will achieve steadily sustainable growth by seizing development opportunities amidst challenges.

The Group will:

1. maintain a high proportion of R&D investment to maintain product diversification while continuing to develop new products with high margins and high demand by leveraging on its strong R&D capabilities;
2. plan actively for the new energy business, expedite the nurturing and growth of new businesses with a focus on new growth areas;
3. continue to expand its global business, increase the proportion of overseas market revenue and market share;
4. deepen and refine management to integrate internal and external resources and continuously improve the quality of operations.

FINANCIAL ANALYSIS

Analysis of financial status during the Reporting Period is as follows:

Profit position

Analysis of profit changes in the first half of the year compared with the same period last year is as follows (in RMB million):

Increase in gross profit due to the increase in sales	84
Increase in credit impairment	-4
Increase in expenses	-7
	<hr/>
	73
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The Group's sales revenue was low in the same period last year, mainly due to the decline in the proportion of overseas business revenue. Due to the substantial increase in R&D expenses as the Company is in the transformation phase in terms of product structure, business model and competitive strategy. Affected by the pandemic, companies have difficulties in business operations and increased credit risk, which has led to large provision for that period.

The increase in current period's revenue was mainly attributable to the full strength of the e-commerce channels and the significant growth in overseas offline sales; notwithstanding the decrease in gross profit margin with higher costs resulting from global shortage of semiconductors, high freight rate and significant increases in price of raw materials including chips, since the beginning of the year, it still can generate remarkable gross profit.

Other income and expenses (RMB million)	Current year	Previous year
Rental income	26	17
Interest income	0.5	0.7
Interest expense	5	8
Depreciation and amortisation	15	12

Position of assets, liabilities and equity interests

Total assets value amounted to RMB1,497,000,000 during the Reporting Period, representing a decrease of 6% from the beginning of the year, which was mainly due to the increase in inventories, construction in progress and intangible assets. Total liabilities amounted to RMB797,000,000, decreased by 6% as compared with the beginning of the year, mainly due to decrease in contracted liabilities and other liabilities including other payables. Total equity interest attributable to shareholders amounted to RMB700,000,000. As at the end of the period, the Company's gearing ratio (total liabilities/interest attributable to shareholder) was 1.14 (At the beginning of the period: 1.14).

Principal Sources and Usage of Fund

During the Period, cash has decreased by approximately RMB54,000,000.

Cash flows from operating activities

The Company's cash inflow from operating activities during the Reporting Period was mainly derived from revenue of goods selling. Cash outflow was mainly related to production and operating activities. The Company's net cash outflow from operating activities for the Reporting Period amounted to RMB9,000,000.

Cash flows from investing activities

Cash inflow from investing activities during the Reporting Period was insignificant. Net cash outflow from investing activities amounted to RMB35,000,000, which was mainly used for capital expenditure on purchase of plant facilities and R&D. The above expenditures were mainly financed by the Company's internal resources.

Cash flows from financing activities

Net cash outflow from financing activities during the Reporting Period amounted to RMB10,000,000 and mainly relating to repayment of bank loans and interests.

NOTES TO OTHER MATERIAL EVENTS

1. Scope of consolidation

During the Reporting Period, there was no other material change in respect of the consolidation except for the newly added subsidiaries YXLH and Launch Information.

2. Review of financial statements for the Reporting Period by the audit committee

The 2021 interim financial statements has been reviewed and confirmed by the audit committee of the Board of the Company.

3. Code on Corporate Governance Practices

During the Reporting Period, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited.

4. Model Code for securities transactions by directors and supervisors

During the Reporting Period, the Company has adopted a set of code of practice regarding securities transactions by directors and supervisors on terms no less exacting than the standards set out in the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiry to all directors and supervisors, the Company confirmed that, each of the Directors and supervisors has complied with the required standards regarding securities transactions by directors set out in the Model Code within the 6 months ended 30 June 2021.

5. Pre-emptive rights

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

6. Major clients and suppliers

Total revenue from the top five customers of the Company was approximately RMB192,000,000, accounting for approximately 31% of total revenue for the period. The largest customer accounted for approximately 10% of the total revenue for the period.

Total purchases from top five suppliers of the Company amounted to RMB142,000,000, accounting for approximately 34% of the total purchases for the period. The largest supplier accounted for approximately 17% of the total purchases for the period.

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

7. Share capital

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares or had any share options granted under the share option scheme.

INTERIM REPORT AND OTHER INFORMATION

This announcement will set out on the websites of the Company (www.cnlaunch.com) and the Stock Exchange (www.hkexnews.hk). Interim report will be despatched to shareholders and will be published on the aforesaid websites in due course.

By Order of the Board
Launch Tech Company Limited*
Liu Xin
Chairman

Shenzhen, the PRC
30 August 2021

As at the date of this announcement, 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, Mr. Peng Jian as non-executive Director, and Ms. Zhang Yan, Mr. Liu Yuan and Mr. Ning Bo as independent non-executive Directors.

* For identification purpose only