

# LAUNCH



## 2011 Interim Report

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)

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## 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)

#### CHAIRMAN'S STATEMENT

I am pleased to announce the audited interim financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2011.

The Group's principle developments in the first half of the year under review are set out as follows:

#### Operating results

During the interim period of 2011, the Group recorded a turnover of RMB382.8 million and net profit of RMB42 million, representing a growth of 22.6% and a decrease of 16.4% respectively compared to the same period last year. The operating result meets our expectation.

According to the provisions of the "Notice of the State Council on the Issue of Certain Policies for Further Encouraging the Development of Software and Integrated Circuit Industries" issued by the State Council (Guo Fa [2011] No.4), in respect of the sale of self-developed and produced software products by the Company and its subsidiary 深圳市元征軟件開發有限公司, such VAT concession policy on software products shall remain in force. At present, since the guideline for the relevant policy has yet to be issued, as at the end of the reporting period, the Company has not implemented the VAT concession policy for the first half of 2011. It is expected that the Company would process the related application in the second half of 2011. The VAT tax refund for the last year of the same period was approximately RMB7,800,000. The VAT tax refund for the full year of 2010 was approximately RMB27,300,000. The Board expects that it would not have a material effect on the full year VAT tax refund.

#### Business Review

##### Market

During the first half of 2011, the global sales of the Group's X431 Electronic EYE reached approximately 30,000 units, representing a growth of 29% year on year, of which sales in the PRC market increased 46%. The global sales of the Group's lifter reached approximately 24,000 units, representing a growth of 55% year on year, of which sales in the PRC market increased 60%. With the rise in steel prices, our profit margin declined slightly. For the second half year, the management will adjust upward the pricing for certain products in anticipation that the profit margin will gradually stabilize.

During the first half of 2011, with refined market management, we enjoyed a more reasonable channel structure and division of labour so as to enhance our work efficiency and market competitiveness. To tap the opportunity of rapid development of the China automobile market, the Group formulated flexible market strategy and increased its authorized distributors to over 200 in the China market. As for foreign market, the Group optimized its sales team in the foreign market and strengthened the management of distributors, with its overseas distributors increased to 70. In addition, the Group signed cooperation agreement with China Unicom, ZTE, etc. for the joint development of car owner's card business based on diagnostic technology, as well as providing customized automobile electronic products for certain domestic car manufacturers.

In June 2011, the Group convened the sixteenth PRC annual conference in Wuhan, Hubei. PRC distributors and main business partners attending the conference highly appreciated the Company's technological capabilities and showed much interest in the Company's new products in the pipeline. The sales result achieved at the annual conference exceeded our expectation. In July, the Group also held the sixteenth conference for overseas distributors in Shanghai. Shanghai plant was recognized by the overseas distributors for its advance production and quality control. Distributors attending the conference have confident in the future development plan of the Group. In view of the above two distributor conferences, the Group is optimistic about its result in the second half of the year.

## **Finance**

For the first half of 2011, sales revenue increased steadily year on year, while the proportion of receivables decreased. Operating management cost was effectively controlled, cash flow was adequate and as bank loans decreased significantly, finance costs were reduced.

## **Technology**

During the first half of 2011, under its IPD R&D systems, the Group successfully developed or has been developing products such as the second generation X431 3G, Pocket Tech, Creader VI, Iphone CR, MD4mycar, iCar, vehicle diagnosis-based services (DBS), central processing chip for diagnosis platform, general diagnosis box software for DBS; while the R&D of inspection products such as X712 4-wheel aligner, 3D 4-wheel aligner; mechanical and electrical Products such as KWB-501, KWB-502, KWB-503 tire balancer, and automobile electronic products such as vehicle meters, reversing radars and tire pressure examining products also achieved breakthrough. In addition, the Group provided 486 versions of software upgrade for end users. Judging from the distributors' comments on the products developed by the Group, the market prospect of products in the pipeline is promising. Currently, orders have been secured for certain products. The launching of such new products will bring more development opportunities and revenue to the Group.

The X-431 3G automotive diagnostic device was honoured with the "Classical Quality Award for Auto Maintenance Equipment and Tools of 2010" by the magazine Auto and Driving Repair of the PRC;

The X-431 3G automotive diagnostic device was also awarded as "Top 20 Maintenance and Repair Tool for 2010" by the magazine MOTOR for Repair and Maintenance of the PRC;

“LAUNCH” was awarded as “Shenzhen Well-known Brand” by the Shenzhen Well-known Brand Evaluation Committee;

Mr. Charles Liu, chief executive officer of the Company, was selected as “Top 10 Figures” by the “慧聰汽車維修保養網”.

## **Production**

With the implementation of enhanced production, the Group achieved significant results in areas such as manufacturing technology, manufacturing procedures, quality management and inventory management, which allowed it to have better cost control, ensured product quality and significantly enhanced efficiency. The production of lifters by the Shanghai plant reached record high, while its production management and R&D system have been optimized and improved. The enhanced production contributed significantly to the growth of the Group’s product sales.

## **Management**

During the first half of 2011, the Group adopted various incentive measures to motivate and inspire the staff, and particularly for its R&D and marketing personnel, for which the Group implemented strict internal appraisal and reward and punishment system, and maintained a high morale generally.

To give full play to the Group’s advantages in technology R&D and product innovation, its R&D team was supplemented with experienced staff and the R&D management team structure was optimized. The IPD R&D system of the Group has been improving and stable, while the morale of R&D team was high.

During the first half of 2011, the Group continued to implement enhanced production and 6S management and procedure management. Also, the Group implemented refined management in human resources management, systematical procedure management, marketing management, general budget management, cost control and management, quality management, efficiency management, R&D management and corporate culture establishment.

During the first half of 2011, the procedural efficiency of the Group’s ERP, CRM, IO and OA systems was enhanced. Moreover, the internal communication was further streamlined and optimized.

## **Prospect**

For the second half of 2011, the Group will continue to strengthen and perfect internal management, implement various incentive systems, and strictly apply the internal appraisal and reward and punishment system. It will also deepen its corporate culture establishment in respect of “innovation, quality, efficiency, professionalism and competitiveness”. The Group will strive to raise the staff’s passion for work and stimulate their potential and morale, which will in turn enhance the competitive advantage of the Group.

As for its development plan, the Group will continue to draw on its core technology in diagnosis accumulated over the years, and provide more advance auto maintenance and diagnosis tool and value-added services to professional users in the automotive aftermarket. Through the use of wireless network technology such as 3G and WiFi, the Group will also expedite the development of vehicle networking application based on diagnostic technology, and gradually develop into a core enterprise of vehicle networking application based on diagnostic technology.

For its domestic and foreign markets, the Group will gradually implement refined management, strengthen the management of receivables, and carry out an elimination system to eliminate the domestic and overseas distributors with worst performance in order to optimize the structure and deployment of distributors and realize the Group's channel advantage. In marketing, the Group will formulate relevant marketing policies according to characteristics of various regions in line with the strategic planning and development of the Group's headquarters. It will also conduct various marketing activities such as various types of exhibitions, annual conferences, promotional activities, technical competitions and professional media to promote awareness towards the differential advantages of the Group's products and enhance the popularity and influence of "LAUNCH". Furthermore, the Group will keep improving its after sale technical service network and provide satisfactory technology and service to the market.

For R&D, the Group will continue to use the IPD R&D systems, recruit experienced R&D talent, optimize the structure of the R&D team and stabilise the team, and strictly apply internal appraisal and incentive system and encourage innovation. With diagnostic technology as the core, the Group will give full play to its technological advantage drawing on its 18 years of experience in the area to expedite the R&D of new products. The Group will leverage on its differential advantages in technology and products to increase the dependence of distributors on it and to win the confidence of end users.

While developing new products and technology, the Group will maintain strict control on R&D, manufacturing and sale costs, and adopt enhanced production and flexible market management and human resources policy to facilitate the Group's healthy and sustainable growth and provide even better return for shareholders and investors.

As for production, the Group will continue to implement enhanced production, optimize manufacturing procedures, enhance production efficiency, ensure product quality, reduce production cost and control inventory effectively to cope with the requirement of a rapidly growing market and achieve higher profit margin for the benefit of shareholders and investors.

**Liu Xin**  
*Chairman*

Shenzhen, the PRC, 31 August 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Financial resources and liquidity**

The Group adheres to a prudent financial management policy and has a healthy financial position. The Group had cash and bank balances of approximately RMB245,000,000 as at 30 June 2011.

As at 30 June 2011, shareholders' equity of the Group amounted to approximately RMB697,000,000. Current assets amounted to approximately RMB695,000,000. The Group's current liabilities amounted to approximately RMB351,000,000, which comprised short term bank borrowings amounted to approximately RMB151,000,000, and the remainder mainly consists of account payables and accruals. The Group's net asset value per share amounted to approximately RMB11.55. The Group's gearing ratio, representing the percentage of bank borrowings over gross asset value was 14%.

### **Pledge of assets**

As at 30 June 2011, apart from the pledged land, property and plant of approximately RMB156,000,000 and bank deposits of approximately RMB60,000, the Group had no other major pledged assets.

### **Major investment**

During the period, the Group did not make substantial acquisition and disposals of its subsidiaries and associated company.

### **Contingent liabilities**

The Group did not have any major contingent liabilities as at 30 June 2011.

### **Capital commitments and future plans for material investments**

The material capital commitment and future plans for material investment or capital assets of the Group as at 30 June 2011 was disclosed in note 13.

### **Employees**

As at 30 June 2011, the Group had 1,265 and 23 employees based in the PRC and overseas respectively. For the six months ended 30 June 2011, the total staff cost net of the remunerations of the Directors and supervisors amounted to approximately RMB46,000,000 (2010: approximately RMB36,000,000). The Group's employment and remuneration policies remained the same as stated in the annual report of the Group for the year ended 31 December 2010.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

### (a) Interests and short positions of Directors, chief executives and supervisors of the Company in the share capital of the Company and its associated corporations

As at 30 June 2011, the Directors, chief executives and supervisors of the Company have the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to the Model Code For Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

#### Long positions in shares

##### *Domestic shares*

Name of Director	Capacity in which shares were held	Number of domestic shares	Approximate percentage of the Company's issued domestic shares	Approximate percentage of the Company's total issued shares
Mr. Liu Xin	Beneficiary owner	13,200,000	40.00%	21.87%
	Interest in a controlled company	13,886,400	42.08% <i>(Note 1)</i>	23.01%
	Interest in a controlled company	1,026,100	3.11% <i>(Note 2)</i>	1.70%
Mr. Liu Jun	Interest in a controlled company	13,886,400	42.08% <i>(Note 3)</i>	23.01%

*Notes:*

- (1) Mr. Liu Xin holds 60.00% interest in 深圳市浪曲科技開發有限公司 (“Shenzhen Langqu”) which holds approximately 42.08% interest in the issued domestic shares of the Company. The corporate interest of Mr. Liu Xin in the Company duplicates with that held by Mr. Liu Jun in the Company. By virtue of Mr. Liu Xin’s holding more than one-third interest in Shenzhen Langqu, Mr. Liu Xin is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued domestic shares of the Company apart from his personal interest of 42.01% interest in the issued domestic shares of the Company.
- (2) Mr. Liu Xin holds 40.00% interest in 深圳市得時域投資有限公司 (“Shenzhen De Shi Yu”) which holds approximately 3.11% interest in the issued domestic shares of the Company. By virtue of Mr. Liu Xin’s holding more than one-third interest in Shenzhen De Shi Yu, Mr. Liu Xin is deemed, under the Part XV of the SFO, to be interested in 3.11% interest in the issued domestic shares of the Company apart from his personal interest of 40.00% interest in the issued domestic shares of the Company.
- (3) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 42.08% interest in the issued domestic shares of the Company. The corporate interest of Mr. Liu Jun in the Company duplicates with that held by Mr. Liu Xin in the Company. By virtue of Mr. Liu Jun’s holding more than one-third interest in Shenzhen Langqu which holds approximately 42.08% interest in the issued domestic shares of the Company, Mr. Liu Jun is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued domestic shares of the Company.

Save as disclosed above, as at the 30 June 2011, none of the Directors, chief executives or supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

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

So far as known to the Directors, as at 30 June 2011, 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 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

**Long positions in shares and underlying shares in the Company**

*(i) Domestic shares*

Name	Capacity in which shares were held	Number of domestic shares	Approximate percentage of the Company's issued domestic shares	Approximate percentage of the Company's total issued shares
Shenzhen Langqu	Interest of corporation controlled by substantial shareholder	13,886,400	42.08% <i>(Note)</i>	23.01%

*Note:*

The legal and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all domestic shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

*(ii) H Shares*

Name	Capacity in which shares were held	Interests in H shares long position	Approximate percentage of the Company's issued H shares	Approximate percentage of the Company's total issued shares
Templeton Asset Management Ltd.	Investment manager	4,374,000	15.99%	7.25%
SPX Corporation	Beneficial owner	2,463,500	9.00%	4.08%

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with all the code provisions stipulated in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee with written terms of reference in compliance with the Code. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Mr. Liu Jun and two independent non-executive Directors, namely Dr Zou Shulin and Mr. Liu Yuan. Mr. Liu Yuan has been appointed as the chairman of the remuneration committee.

## **NOMINATION OF DIRECTORS**

The Company established a nomination committee with written terms of reference in compliance with the Code. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. The nomination committee comprises one executive Director, namely, Mr. Liu Xin and two independent non-executive Directors, namely Dr Zou Shulin and Mr. Liu Yuan. Dr Zou Shulin has been appointed as the chairman of the nomination committee.

## **AUDIT COMMITTEE**

The Company has established the audit committee (the "Audit Committee") in accordance with the requirements of the Code on Corporate Governance Practice ("Code") as set up in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises the three independent non-executive directors, Mr. Pan Zhongmin, Mr. Liu Yuan, and Dr. Zou Shulin.

Three audit committee meetings were held this year to perform the following duties:

- review 2010 annual report, and this interim report of the Group;
- review and supervise the internal control system of the Group.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. The Company has also made specific enquiry of all directors and the Company are not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period.

## COMPETING INTERESTS

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

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

Shenzhen, the PRC  
31 August 2011

*As at the date of this report, 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 and Ms. Liu Xiaohua as non-executive Directors, and Mr. Pan Zhongmin, Mr. Liu Yuan and Dr. Zou Shulin as independent non-executive Directors.*

## INDEPENDENT AUDITOR'S REPORT



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### **To the directors of Launch Tech Company Limited**

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

We have audited the consolidated interim financial statements of Launch Tech Company Limited 深圳市元征科技股份有限公司 and its subsidiaries (together “the Group”) set out on pages 13 to 64, which comprise the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors’ responsibility for the consolidated interim financial statements**

The directors of the Company are responsible for the preparation of the consolidated interim financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated interim financial statements are free from material misstatement.

### **Auditor's responsibility (Continued)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated interim financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated interim financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated interim financial statements.

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

### **Opinion**

In our opinion, the consolidated interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2011 and of the Group's profit and cash flows for the six-month period then ended in accordance with Hong Kong Financial Reporting Standards.

### **Other Matter**

Without modifying our opinion conclusion, we draw your attention to the fact that the comparatives in the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the explanatory information relating to these statements have not been reviewed or audited.

### **BDO Limited**

*Certified Public Accountants*

Ll Wing Yin

Practising Certificate No. P05035

Hong Kong, 31 August 2011

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000 (Unaudited)
<b>Revenue</b>	5	<b>382,751</b>	312,266
Cost of sales		<b>(233,994)</b>	(167,450)
<b>Gross profit</b>		<b>148,757</b>	144,816
Other income	5	<b>8,211</b>	12,940
Selling expenses		<b>(34,785)</b>	(37,763)
Administrative expenses		<b>(34,894)</b>	(38,504)
Research and development expenses		<b>(17,252)</b>	(13,192)
Other operating expenses		<b>(13,638)</b>	–
Finance costs	8	<b>(5,750)</b>	(9,163)
Share of losses of an associate	16	<b>(1,978)</b>	(2,586)
<b>Profit before income tax</b>	6	<b>48,671</b>	56,548
Income tax expense	9	<b>(6,527)</b>	(6,146)
<b>Profit for the period</b>		<b>42,144</b>	50,402
<b>Other comprehensive income</b>			
Exchange gain on translation of financial statements of foreign operations		<b>995</b>	–
<b>Other comprehensive income for the period, net of tax</b>		<b>995</b>	–
<b>Total comprehensive income attributable to owners of the Company</b>		<b>43,139</b>	50,402
		<b>RMB</b>	RMB (Unaudited and restated)
<b>Earnings per share for profit attributable to owners of the Company</b>			
– Basic	11	<b>70 cents</b>	84 cents

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	<i>Notes</i>	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	294,443	258,795
Leasehold land and land use rights	13	20,612	20,875
Goodwill	14	2,161	2,161
Development costs	15	57,154	53,677
Interests in an associate	16	–	1,978
Club membership	17	1,177	1,177
Deferred tax asset	27	15	11
		<b>375,562</b>	338,674
<b>Current assets</b>			
Inventories	18	139,322	96,171
Trade receivables	19	234,672	225,370
Bills receivables	20	18,725	17,371
Other receivables, deposits and prepayments	21	56,412	75,439
Financial asset at fair value through profit or loss	22	–	10,000
Amount due from an associate	23	53	108
Pledged/Restricted bank deposits		60	–
Cash and cash equivalents	24	245,266	355,263
		<b>694,510</b>	779,722
<b>Current liabilities</b>			
Trade payables	25	127,327	106,028
Other payables and accrued charges		68,936	30,050
Income tax payables		3,761	1,836
Bank borrowings	26	150,814	305,393
		<b>350,838</b>	443,307
<b>Net current assets</b>		<b>343,672</b>	336,415
<b>Total assets less current liabilities</b>		<b>719,234</b>	675,089
<b>Non-current liabilities</b>			
Bank borrowings	26	1,931	925
Deferred income		20,000	20,000
		<b>21,931</b>	20,925
<b>Net assets</b>		<b>697,303</b>	654,164
<b>EQUITY</b>			
<b>Equity attributable to the Company's owners</b>			
Share capital	28	60,360	60,360
Reserves	29	636,943	593,804
<b>Total equity</b>		<b>697,303</b>	654,164

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>			
Profit before income tax		48,671	56,548
Adjustments for:			
Interest expenses	8	5,429	8,892
Interest income	5	(857)	(580)
Amortisation of development costs	15	8,019	5,000
Depreciation of property, plant and equipment	12	17,469	12,308
Amortisation charges on leasehold land and land use rights	13	263	526
Loss on disposals of property, plant and equipment		67	–
Provision for impairment on receivables		3,871	10,059
Share of results of an associate	16	1,978	2,586
		<hr/>	<hr/>
Operating profit before working capital changes		84,910	95,339
Increase in inventories		(43,151)	(2,136)
(Increase)/Decrease in trade receivables		(14,490)	466
(Increase)/Decrease in bills receivables		(1,354)	663
Decrease in other receivables, deposits and prepayments		20,344	70,377
Decrease in amount due from an associate		55	91
Increase/(Decrease) in trade payables		21,299	(22,241)
Increase/(Decrease) in other payables and accrued charges		38,886	(3,353)
		<hr/>	<hr/>
Cash generated from operations		106,499	139,206
Interest paid		(5,429)	(8,892)
Income tax paid		(4,606)	(6,162)
		<hr/>	<hr/>
<i>Net cash generated from operating activities</i>		<b>96,464</b>	124,152

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)***for the six months ended 30 June 2011*

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>
<b>Cash flows from investing activities</b>		
Increase in pledged bank deposits	<b>(60)</b>	–
Purchases of property, plant and equipment	<b>(53,822)</b>	(3,781)
Expenditure on development activities	<b>(11,496)</b>	(7,453)
Proceeds from disposals of property, plant and equipment	<b>660</b>	–
Proceeds from disposals of financial asset at fair value through profit or loss	<b>10,000</b>	–
Interest received	<b>857</b>	348
	<hr/>	<hr/>
<i>Net cash used in investing activities</i>	<b>(53,861)</b>	(10,886)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Drawdown of bank loans	<b>101,509</b>	350,000
Repayments of bank loans	<b>(255,166)</b>	(410,856)
Dividends paid	–	(18,108)
	<hr/>	<hr/>
<i>Net cash used in from financing activities</i>	<b>(153,657)</b>	(78,964)
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(111,054)</b>	34,302
<b>Cash and cash equivalents at 1 January</b>	<b>355,263</b>	242,348
Effect of foreign exchange rate changes, on cash held	<b>1,057</b>	–
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 June, comprising cash at banks and in hand</b>	<b>245,266</b>	276,650
	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2011

	Equity attributable to owners of the Company						Proposed final dividend	Total equity
	Share capital	Share* premium	Statutory* surplus reserve	Public* welfare fund	Translation* reserve	Retained* profits		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	60,360	284,210	19,380	19,380	(931)	166,341	18,108	566,848
2009 final dividend paid	-	-	-	-	-	-	(18,108)	(18,108)
Profit for the period	-	-	-	-	-	50,402	-	50,402
Other comprehensive income								
– Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	50,402	-	50,402
At 30 June 2010 (unaudited)	<u>60,360</u>	<u>284,210</u>	<u>19,380</u>	<u>19,380</u>	<u>(931)</u>	<u>216,743</u>	<u>-</u>	<u>599,142</u>
At 1 January 2011	60,360	284,210	19,380	19,380	(599)	271,433	-	654,164
Profit for the period	-	-	-	-	-	42,144	-	42,144
Other comprehensive income								
– Exchange loss on translation of financial statements of foreign operations	-	-	-	-	995	-	-	995
Total comprehensive income for the period	-	-	-	-	995	42,144	-	43,139
At 30 June 2011	<u>60,360</u>	<u>284,210</u>	<u>19,380</u>	<u>19,380</u>	<u>396</u>	<u>313,577</u>	<u>-</u>	<u>697,303</u>

\* These reserve accounts comprise the reserves of RMB636,943,000 in the consolidated statement of financial position.

## **NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*for the six months ended 30 June 2011*

### **1. General information**

Launch Tech Company Limited (the “Company”) was established in Shenzhen, the People’s Republic of China (the “PRC”) as a joint stock limited company. The address of the Company’s registered office is 2-8 Floors, Xin Yan Building, Bagua Number Four Road, Futian District, Shenzhen, the PRC and its principal place of business is Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC.

The Company’s overseas listed foreign invested shares (“H Shares”) had been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since October 2002. On 19 April 2010, a special general meeting and class meetings were held by the shareholders to approve the transfer of listing of the existing H Shares of the Company from GEM to the Main Board of the Stock Exchange (the “Transfer of Listing”). On 10 January 2011 and 14 March 2011, the Transfer of Listing has been approved by the China Securities Regulatory Commission and the Stock Exchange respectively. Further details are set out in the announcement of the Company dated 14 March 2011.

The H Shares of the Company have been listed on the Main Board of the Stock Exchange since 28 March 2011.

The principal activities of the Company and its subsidiaries (the “Group”) are the provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

The consolidated interim financial statements for the six months ended 30 June 2011 (the “Interim Financial Statements”) were approved for issue by the board of directors on 31 August 2011.

### **2. Summary of significant accounting policies**

#### **2.1 Basis of preparation**

The Interim Financial Statements on pages 13 to 64 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Interim Financial Statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The significant accounting policies that have been used in the preparation of the Interim Financial Statements are summarised below. These policies have been consistently applied to all the periods presented unless otherwise stated. The adoption of new or amended of HKFRSs and the impacts on the Group’s Interim Financial Statements, if any, are disclosed in note 3.

The Interim Financial Statements have also been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

The consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six months ended 30 June 2010 are unaudited.

It should be noted that accounting estimates and assumptions are used in preparation of the Interim Financial Statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

## **2.2 Basis of consolidation**

The Interim Financial Statements comprise the financial statements of the Group made up to 30 June. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Interim Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

### ***Business combination from 1 January 2010***

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

### ***Business combination prior to 1 January 2010***

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

### **2.3 Subsidiaries**

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Acquisition of subsidiaries (other than those under common control) is accounted for by applying the acquisition method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are stated at their fair value, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

### **2.4 Associates**

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate in the period in which the investment is acquired.

Under the equity method, the Group's interests in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss includes the Group's share of the post-acquisition, post-tax results of the associate for the period, including any impairment loss on goodwill relating to the investment in associate recognised for the period.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are adopted by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interests in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interests in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

## **2.5 Foreign currency translation**

The Interim Financial Statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In Interim Financial Statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rate at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into RMB at the closing rate. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

## **2.6 Revenue recognition**

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when goods are delivered and the customer has accepted the goods.
- (ii) Revenue from the sale of software systems is recognised when the software system has been delivered and installed and the customer has examined and accepted the software system.
- (iii) Revenue from technical services is recognised when the services are rendered.
- (iv) Interest income is recognised on a time-proportion basis using the effective interest method.
- (v) Rental income under operating leases is recognised in profit or loss on a straight-line basis over the lease terms.

## **2.7 Borrowing costs**

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

## 2.8 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is stated at cost less any impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.12).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

## 2.9 Intangible assets (other than goodwill) and research and development costs

### *Intangible assets (other than goodwill)*

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. The development costs capitalised, which include cost of materials and direct labour, are amortised on a straight-line basis over the estimated useful lives of the products or processes up to eight years from the date of commencement of commercial operation.

Intangible asset such as club membership with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

### *Research and development costs*

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes are recognised as intangible assets, provided that they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;

- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Other development costs not capitalised are recognised as an expense in the period as incurred.

Club membership and capitalised development costs assets are tested for impairment as described below in note 2.12.

## **2.10 Property, plant and equipment**

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold interest in the land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction-in-progress (“CIP”) represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, taking into account their estimated residual value and using the straight-line method, at the following rates per annum:

Buildings	4%-5%
Leasehold improvements	19%-20%
Mould and equipment	9%-20%
Motor vehicles	19%-20%

The assets’ estimated residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

## **2.11 Leasehold land and land use rights**

Leasehold land and land use rights represent up-front payments to acquire the land use rights/land under an operating lease. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from use of the land.

## **2.12 Impairment of non-financial assets**

The Group's goodwill on acquisition of subsidiaries, property, plant and equipment, leasehold land and land use rights, club membership, development costs and interests in an associate are subject to impairment testing.

Goodwill and other intangible assets which are not yet available for use are tested for impairment at each reporting date, irrespective of whether there is any indication that they are impaired. All other individual assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the assets.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### **2.13 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### **(i) *Operating lease charges as the lessee***

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

#### **(ii) *Assets leased out under operating leases as the lessor***

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

## 2.14 Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

### *Financial assets at fair value through profit or loss*

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

### *Impairment of financial assets*

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the Group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

***Financial assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss for the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss for the period in which the reversal occurs.

## **2.15 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in equity if they relate to items that are charged or credit directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **2.16 Inventories**

Inventories comprise raw materials, supplies and purchased goods. Cost is determined using weighted average method and in the case of work in progress and finished goods, include all expenses directly attributable to the manufacturing process as well as appropriate portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. At the reporting date, inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

## **2.17 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

## **2.18 Share capital**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

## **2.19 Retirement benefit costs**

Retirement benefits to employees are provided through a defined contribution plan.

The employees of the Company and its subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government.

The Company and its subsidiaries are required to contribute 8.0% to 22.5% of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

## **2.20 Financial liabilities**

The Group's financial liabilities include bank borrowings, trade and other payables and accrued charges.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

### ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### ***Trade and other payables and accrued charges***

These payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

## 2.21 Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;
- (ii) the group and the party are subject to common control;
- (iii) the party is an associate of the group or a joint venture in which the group is a venturer;
- (iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2.22 Government grants

Non-refundable government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognised as other income in the statement of comprehensive income and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

## 2.23 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 Adoption of new or amended HKFRS

In the current period, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Interim Financial Statements beginning on 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
Amendments to HKAS 34	Interim Financial Reporting

The adoption of the new HKFRSs has no significant impact on the Interim Financial Statements.

The Group has not early adopted certain new or revised standards that have been issued at the time of preparing the Interim Financial Statements but not yet effective. The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are also currently assessing the possible impact of the new or revised standards but are not yet in a position to state whether they would have material impact on the results and the financial position of the Group.

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>

## 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *(i) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.12. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the estimates used in assessing impairment for goodwill are set out in note 14.

#### *(ii) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at each reporting date.

#### *(iii) Estimated impairment of receivables and other receivables*

The policy for the impairment provision of receivables and other receivables of the Group is based on analysis of the ageing and, where appropriate, other relevant aspects of accounts. Management also considers the relevant risks in particular business sectors in the impairment assessment process. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. Management will reassess the provision at each reporting date. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

(iv) *PRC income tax and value added tax*

Despite in the opinion of the Company's directors the Group had complied with all relevant tax law and regulations as applicable including PRC income tax and value added tax law and regulations, judgement was made in respect of such assessment. Penalties and/or additional provision may arise in case of non-compliance of which the amount cannot be estimated reliably for the purpose of these financial statements.

#### 4.2 Critical judgements in applying the Group's accounting policies

(i) *Research and development activities*

Careful judgement by the Company's directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and developments of new products are continuously monitored by the Group's management.

#### 5. Revenue, other income and segment information

Revenue from the Group's principal activities, which is also the Group's turnover, represents the net amount received and receivable for goods and software systems sold and services rendered, net of value-added tax ("VAT") and/or business tax.

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Revenue	<b>382,751</b>	312,266
Other income		
Interest income on financial assets stated at amortised cost		
– Bank interest income	857	580
VAT refunds	–	7,855
Non-refundable government subsidies*	1,543	250
Rental income	3,673	3,268
Others	2,138	987
	<b>8,211</b>	12,940

\* Non-refundable government subsidies were received from the PRC government for subsidising the Group in conducting and launching projects relating to research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

The Group has identified its operating segment and prepared segment information based on the regular internal financial information report to the Company's executive directors for their decision about resources allocation to the Group's business components and review of these components' performance. There is only one business component in internal reporting to the executive directors, which is providing products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries.

The directors assess segment profit or loss using a measure of operating profit. The measurement policies the Group uses for internal reporting to the executive directors are the same as those used in its Interim Financial Statements prepared under HKFRSs, except that certain items are not included in arriving at the operating results of the operating segment (rental income and corporate expenses).

Segment assets include all assets with the exception of corporate assets and club membership which are not directly attributable to the business activities of operating segment as these assets are managed on a group basis.

Segment liabilities include trade payables, other payables, deferred income and accrued charges attributable to the manufacturing and sales activities of the business segment and bank borrowings managed directly by the segment.

This operating segment is monitored and strategic decisions are made on the basis of segment operating results. Revenue reported below represents revenue generated from external customers. There were no inter-segment sales during the six months ended 30 June 2011 and 2010.

The following table presents reportable segment assets and liabilities of the Group's operating segment:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
<b>Reportable segment assets</b>	<b>1,068,895</b>	1,117,219
Interests in an associate	—	1,978
	<b>=====</b>	<b>=====</b>
<b>Reportable segment liabilities</b>	<b>372,769</b>	464,232
	<b>=====</b>	<b>=====</b>

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Additions to non-current segment assets	<b>65,318</b>	11,234

The revenue, profit and other information of the Group's operating segment are summarised as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
<b>Reportable segment revenue</b>	<b>382,751</b>	312,266
<b>Reportable segment profit</b>	<b>46,837</b>	53,598
Interest income	<b>857</b>	580
Interest expenses	<b>(5,429)</b>	(8,892)
Depreciation of property, plant and equipment and amortisation of development costs	<b>(25,488)</b>	(17,308)
Amortisation charge on leasehold land and land use rights	<b>(263)</b>	(526)
Loss on disposal of property, plant and equipment	<b>(67)</b>	-
Impairment of trade and other receivables	<b>(3,871)</b>	(10,059)

The Group's reportable segment profit reconciles to the Group's profit before income tax as presented in the Interim Financial Statements as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
<b>Reportable segment profit</b>	<b>46,837</b>	53,598
Rental income	<b>3,673</b>	3,268
Corporate expenses	<b>(1,839)</b>	(318)
<b>Profit before income tax</b>	<b>48,671</b>	56,548

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
<b>Revenue from external customers</b>		
Local (country of domicile):		
– The PRC, other than Hong Kong	<b>239,511</b>	170,839
Europe	<b>50,336</b>	52,535
America	<b>56,358</b>	72,181
Others	<b>36,546</b>	16,711
	<b>143,240</b>	141,427
Total	<b>382,751</b>	312,266
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000

**Non-current assets**

Local (country of domicile):		
– The PRC, other than Hong Kong	<b>375,151</b>	338,325
Europe	<b>396</b>	338
Total	<b>375,547</b>	338,663

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets including property, plant and equipment, leasehold land and land use rights is based on the physical location of the asset and location of operations in case of goodwill, development costs, interests in an associate and club membership.

## 6. Profit before income tax

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Profit before income tax has been arrived at after charging/(crediting) the following items:		
Staff costs		
Directors' and supervisors' remuneration (note 7)	<b>1,133</b>	685
Other staff costs	<b>38,161</b>	31,864
Retirement benefits under defined contribution scheme	<b>7,768</b>	4,539
	<b>47,062</b>	37,088
Less: Staff costs capitalised as development costs (note 15)	<b>(6,740)</b>	(6,064)
	<b>40,322</b>	31,024
Research expenditure for current period charged to profit or loss	<b>9,233</b>	8,192
Add: Amortisation of development costs (note 15)	<b>8,019</b>	5,000
Research and development expenses	<b>17,252</b>	13,192
Depreciation of property, plant and equipment	<b>17,469</b>	12,308
Operating lease charges on land and buildings	<b>3,686</b>	2,516
Amortisation charge on leasehold land and land use rights	<b>263</b>	526
Loss on disposal of property, plant and equipment	<b>67</b>	–
Auditors' remuneration	<b>2,100</b>	1,436
Net exchange losses	<b>7,151</b>	155
Impairment of trade and other receivables	<b>3,871</b>	10,059

The Group's cost of inventories recognised as expenses during the periods ended 30 June 2011 and 2010 is equal to the cost of sales shown in the consolidated statement of comprehensive income.

## 7. Directors' and supervisors' remuneration

	Fees <i>RMB'000</i>	Salaries, allowances and other benefits <i>RMB'000</i>	Retirement benefits costs <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the six months ended 30 June 2011</b>				
<i>Executive directors</i>				
Mr. Liu Xin	–	431	11	442
Mr. Liu Jun	–	173	11	184
Mr. Huang Zhao Huan (appointed on 28 March 2011)	–	75	6	81
Mr. Jiang Shiwen (appointed on 28 March 2011)	–	129	6	135
Mr. Liu Ping (resigned on 28 March 2011)	–	88	–	88
<i>Non-executive director</i>				
Ms. Liu Yong	–	–	–	–
Ms. Liu Xiaohua	–	–	–	–
<i>Independent non-executive directors</i>				
Dr. Zou Shulin	–	–	–	–
Mr. Liu Yuan	–	–	–	–
Mr. Pan Zhongmin (appointed on 28 March 2011)	–	–	–	–
Mr. Jiang Chao (resigned on 28 March 2011)	–	–	–	–
<i>Supervisors</i>				
Mr. Sun Zhongwen	–	–	–	–
Mr. Du Xuan	–	–	–	–
Mr. Wang Xi Lin	–	192	11	203
	–	1,088	45	1,133

	Fees <i>RMB'000</i> (Unaudited)	Salaries, allowances and other benefits <i>RMB'000</i> (Unaudited)	Retirement benefits costs <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
For the six months ended 30 June 2010				
<i>Executive directors</i>				
Mr. Liu Xin	–	210	3	213
Mr. Liu Jun	–	171	3	174
Mr. Liu Ping (appointed on 18 March 2010)	–	101	–	101
Professor Wang Xue Zhi (resigned on 18 March 2010)	–	–	–	–
<i>Non-executive director</i>				
Ms. Liu Yong	–	–	–	–
<i>Independent non-executive directors</i>				
Dr. Zou Shulin (appointed on 18 March 2010)	–	–	–	–
Mr. Jiang Chao (appointed on 18 March 2010)	–	–	–	–
Mr. Liu Yuan (appointed on 18 March 2010)	–	–	–	–
Mr. Zhang Xiao Yu (resigned on 18 March 2010)	–	–	–	–
Professor Hu Zi Zheng (resigned on 18 March 2010)	–	–	–	–
<i>Supervisors</i>				
Mr. Wang Xi Lin	–	195	2	197
Mr. Sun Zhongwen (appointed on 18 March 2010)	–	–	–	–
Mr. Du Xuan (appointed on 18 March 2010)	–	–	–	–
Ms. Hou Wen Tao (resigned on 18 March 2010)	–	–	–	–
Mr. Guo Jian Yuan (resigned on 18 March 2010)	–	–	–	–
	–	677	8	685
	<u>–</u>	<u>677</u>	<u>8</u>	<u>685</u>

## 8. Finance costs

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
		(Unaudited)
Interest charges on bank loans stated at amortised cost:		
– wholly repayable within five years	<b>5,429</b>	8,892
Bank charges	<b>321</b>	271
	<u><b>5,750</b></u>	<u>9,163</u>

## 9. Income tax expense

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
		(Unaudited)
Enterprise income tax – PRC		
– current period	<b>4,924</b>	6,146
– under-provision for prior periods	<b>1,202</b>	–
Income tax – overseas	<b>405</b>	–
Deferred tax (note 27)	<b>(4)</b>	–
	<hr/>	<hr/>
Total income tax expense	<b>6,527</b>	<b>6,146</b>
	<hr/> <hr/>	<hr/> <hr/>

PRC enterprise income tax ("EIT") has been provided based on the estimated taxable income for PRC taxation purposes at the rates of taxation prevailing in the provinces in which the Group operates. The Company's overseas subsidiary is subject to income tax at the rate of 32% (Six months ended 30 June 2010: 32%).

Pursuant to the PRC Corporate Income Tax Law which was effective from 1 January 2008, a unified income tax rate has been applied to Company and 深圳市元征軟件開發有限公司 ("Launch Software"), one of the subsidiaries of the Company established in the PRC. In respect of tax rate that applies to the Company and Launch Software, they enjoyed a preferential tax rate of 15% in the past and the tax rate will be transitioned to 25% over five years.

Launch Software and 上海元征機械設備有限責任公司 ("Launch Shanghai"), another subsidiary of the Company established in the PRC, which previously enjoyed the preference of tax holidays continue to enjoy original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

On 29 October 2009, the Company continued to be recognised as a high technology enterprise and is thereby subject to a preferential tax rate of 15% for 3 financial years from 2009 to 2011. Accordingly, income tax rate applicable to the Company for the period was 15% (Six months ended 30 June 2010: 15%).

Launch Software was originally subject to income tax at the rate of 25% (Six months ended 30 June 2010: 22%). It was entitled to the tax holiday of "two-year exemption and three-year 50% reduction" from the first profitable year of operation. 2006 was the first profit-making year for Launch Software and was the first year of its tax holiday. The tax holiday was expired on 2010. On 6 September 2010, Launch Software was recognised as a high technology enterprise and is thereby subject to a preferential tax of 15% for the 3 financial years from 2011 to 2013. Accordingly, the income tax rate applicable to Launch Software for the period was 15% (Six months ended 30 June 2010: 11%).

Launch Shanghai is subject to income tax at the rate of 25% (Six months ended 30 June 2010: 25%). It is entitled to the tax holiday of “two-year exemption and three-year 50% reduction” from its first profitable year of operation. As 2008 was the first year for Launch Shanghai to entitle to the tax exemption, the income tax rate applicable to Launch Shanghai for the period was 12.5% (Six months ended 30 June 2010: 12.5%).

Reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Profit before income tax	<b>48,671</b>	56,548
Tax at the rates applicable in the respective jurisdictions	<b>6,236</b>	13,177
Tax effect attributable to tax exemption	–	(6,583)
Tax effect of non-deductible expenses	<b>1,042</b>	2,486
Utilisation of tax losses previously not recognised	<b>(5,082)</b>	(2,934)
Under-provision of EIT in respect of prior years	<b>1,202</b>	–
Tax losses not recognised as deferred tax assets	<b>3,129</b>	–
Income tax expense	<b>6,527</b>	6,146

## **10. Dividends**

No interim dividend was proposed for the six months ended 30 June 2011 (Six months ended 30 June 2010: Nil).

## **11. Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB42,144,000 for the six months ended 30 June 2011 (Six months ended 30 June 2010: RMB50,402,000 (unaudited)) and on weighted average number of 60,360,000 (Six months ended 30 June 2010: 60,360,000 (unaudited and restated)) shares in issue during the six months ended 30 June 2011. The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the share consolidation on 15 February 2011 as mentioned in note 28 and the comparative figure has been restated accordingly.

No diluted earnings per share has been presented as there had been no potential ordinary shares in both periods.

## 12. Property, plant and equipment

	Construction in progress RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Mould and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2010						
Cost	7,399	165,729	4,454	152,526	18,247	348,355
Accumulated depreciation	–	(24,587)	(3,471)	(55,623)	(11,969)	(95,650)
Net book amount	<u>7,399</u>	<u>141,142</u>	<u>983</u>	<u>96,903</u>	<u>6,278</u>	<u>252,705</u>
Period ended 30 June 2010						
Opening net book amount	7,399	141,142	983	96,903	6,278	252,705
Additions	445	–	–	1,710	1,626	3,781
Depreciation	–	(2,488)	(156)	(8,633)	(1,031)	(12,308)
Closing net book amount (Unaudited)	<u>7,844</u>	<u>138,654</u>	<u>827</u>	<u>89,980</u>	<u>6,873</u>	<u>244,178</u>
At 30 June 2010						
Cost	7,844	165,729	4,454	154,236	19,873	352,136
Accumulated depreciation	–	(27,075)	(3,627)	(64,256)	(13,000)	(107,958)
Net book amount (Unaudited)	<u>7,844</u>	<u>138,654</u>	<u>827</u>	<u>89,980</u>	<u>6,873</u>	<u>244,178</u>
At 1 January 2011						
Cost	8,511	172,506	4,464	179,414	19,593	384,488
Accumulated depreciation	–	(31,421)	(3,796)	(77,128)	(13,348)	(125,693)
Net book amount	<u>8,511</u>	<u>141,085</u>	<u>668</u>	<u>102,286</u>	<u>6,245</u>	<u>258,795</u>
Period ended 30 June 2011						
Opening net book amount	8,511	141,085	668	102,286	6,245	258,795
Additions	27,968	388	–	21,735	3,731	53,822
Disposals	–	–	(11)	(698)	(18)	(727)
Depreciation	–	(3,619)	(76)	(12,632)	(1,142)	(17,469)
Reclassifications	(4,353)	4,353	–	–	–	–
Exchange realignment	–	–	–	22	–	22
Closing net book amount	<u>32,126</u>	<u>142,207</u>	<u>581</u>	<u>110,713</u>	<u>8,816</u>	<u>294,443</u>
At 30 June 2011						
Cost	32,126	177,247	4,247	199,721	23,251	436,592
Accumulated depreciation	–	(35,040)	(3,666)	(89,008)	(14,435)	(142,149)
Net book amount	<u>32,126</u>	<u>142,207</u>	<u>581</u>	<u>110,713</u>	<u>8,816</u>	<u>294,443</u>

Bank borrowings are secured by certain of the Group's buildings with carrying amount of RMB135,421,000 (31 December 2010: RMB134,092,000).

### 13. Leasehold land and land use rights

These are up-front payments to acquire the leasehold land and land use rights and their carrying amount are analysed as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Opening carrying amount at 1 January	<b>20,875</b>	21,401
Charge of prepaid operating lease payment	<b>(263)</b>	(526)
	<hr/>	<hr/>
Closing carrying amount at 30 June	<b><u>20,612</u></b>	<b><u>20,875</u></b>

Bank borrowings are secured by the land of the Group with carrying amount of RMB20,612,000 (31 December 2010: RMB20,875,000).

### 14. Goodwill

	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Gross carrying amount	<b>2,221</b>	2,221
Accumulated amortisation	<b>(60)</b>	(60)
	<hr/>	<hr/>
Closing net carrying amount	<b><u>2,161</u></b>	<b><u>2,161</u></b>

The goodwill at 30 June 2011 comprises goodwill arising from the acquisitions of Launch Software and Launch Europe GmbH amounting to approximately RMB1.2 million and RMB1.0 million respectively at the respective dates of acquisition.

The carrying amount of goodwill is allocating to the cash generating unit of the provision of products and services serving the automotive aftermarket and the automobile industry. Based on the impairment assessment of the recoverable amount of goodwill using the value-in-use calculations, covering a four-year cash-flow projections up to year 2015, in the opinion of the directors, no impairment provision is considered necessary for the balance of the Group's goodwill as at 30 June 2011 (31 December 2010: Nil).

The key assumptions used for value in use calculation were as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Growth rate	<b>10.00%</b>	10.00%
Discount rate	<b>5.86%</b>	5.99%

The key assumptions also include stable profit margins, which have been determined based on past performance. The discount rate used is pre-tax and reflect specific risk relating the cash generating unit of the provision of products and services serving the automotive aftermarket and the automobile industry.

Apart from the considerations described above in determining the value in use of cash generating unit above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

#### 15. Development costs

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Opening carrying amount at 1 January	<b>53,677</b>	51,522
Development labour cost capitalised	<b>6,740</b>	6,064
Development expenses capitalised	<b>4,756</b>	1,389
Amortisation charge	<b>(8,019)</b>	(5,000)
Closing carrying amount at 30 June	<b>57,154</b>	53,975
Gross carrying amount	<b>133,881</b>	114,095
Accumulated amortisation	<b>(76,727)</b>	(60,120)
Closing carrying amount at 30 June	<b>57,154</b>	53,975

All amortisation is included in "research and development expenses" in the statement of comprehensive income.

## 16. Interests in an associate

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Opening carrying amount at 1 January	<b>1,978</b>	7,186
Share of associate's results	<b>(1,978)</b>	(2,586)
	<hr/>	<hr/>
Closing carrying amount at 30 June	<b>–</b>	4,600
	<hr/> <hr/>	<hr/> <hr/>

Particulars of the associate at 30 June 2011 are as follows:

Name	Registered capital	Fully paid capital	Place of registration and operation	Percentage of interest held by the Company
上海元征愛思開汽車服務有限公司 (“SK Launch”)	RMB218,500,000	RMB218,500,000	PRC	8.75%

During the period ended 30 June 2011, the Company failed to pay the committed additional capital of RMB11,040,000 in proportion to its shareholding in SK Launch. The additional capital was injected by the major shareholder of SK Launch eventually, and the shareholding held by the Group was diluted from 13.8% to 8.75% during the period ended 30 June 2011.

Based on the impairment assessment of the recoverable amount of interests in an associate using the value-in-use calculations, in the opinion of the directors, full provision is considered necessary for the Group's interests in SK Launch as at 30 June 2011.

The summarised financial information of the associate extracted from its PRC management accounts are as follows:

	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Assets	<b>82,414</b>	93,657
Liabilities	<b>13,649</b>	10,363
	<hr/>	<hr/>
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Revenue	<b>17,471</b>	24,018
Loss for the period	<b>(25,569)</b>	(18,739)
	<hr/> <hr/>	<hr/> <hr/>

## 17. Club membership

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Lifetime club membership, at cost	<u>1,177</u>	<u>1,177</u>

The Group plans to hold this membership for the foreseeable future.

## 18. Inventories

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Raw materials	80,272	47,207
Work in progress	22,668	14,846
Finished goods	<u>36,382</u>	<u>34,118</u>
	<u><b>139,322</b></u>	<u><b>96,171</b></u>

## 19. Trade receivables

The fair values of trade receivables are as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Trade receivables	253,164	240,644
Less: provision for impairment of trade receivables	<u>(18,492)</u>	<u>(15,274)</u>
	<u><b>234,672</b></u>	<u><b>225,370</b></u>

The Group's credit terms are one to six months for its trade customers. The following is the ageing analysis of trade receivables, based on the invoice dates, as at 30 June 2011:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within 6 months	<b>108,247</b>	88,276
Over 6 months but less than 1 year	<b>21,965</b>	63,490
Over 1 year but less than 2 years	<b>90,627</b>	64,308
Over 2 years	<b>13,833</b>	9,296
	<b><u>234,672</u></b>	<u>225,370</u>

The movement in the provision for impairment of trade receivables is as follows:

	<b>Six months ended 30 June</b>	
	<b>2011 RMB'000</b>	2010 RMB'000 (Unaudited)
Balance at 1 January	<b>15,274</b>	12,286
Amount written off	<b>(1,970)</b>	–
Impairment loss charged to the statement of comprehensive income	<b>5,188</b>	10,059
Balance at 30 June	<b><u>18,492</u></b>	<u>22,345</u>

At each reporting date, the Group's trade receivables were individually and collectively determined for impairment purposes. The individually impaired receivables are recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. Consequently, specific impairment provision was recognised.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The Group does not hold any collateral over these balances, whether determined on individual or collective basis.

The ageing analysis of trade receivables that are not impaired as at the reporting date is as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Neither past due nor impaired	<b>108,247</b>	88,276
Overdue within 1 year	<b>126,425</b>	137,094
	<b><u>234,672</u></b>	<b><u>225,370</u></b>

As at 30 June 2011, the Group's trade receivables of RMB108,247,000 (31 December 2010: RMB88,276,000) that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that the Group had continuing business relationships with these customers including sales to and settlements from these customers in general, which in the opinion of the directors have no indications of default. The Group does not hold any collateral over these balances.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
United States dollars ("US\$")	<b><u>190,226</u></b>	<b><u>175,841</u></b>

## 20. Bills receivables

The fair values of bills receivables are as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Bills receivables aged within 6 months	<b><u>18,725</u></b>	<b><u>17,371</u></b>

## 21. Other receivables, deposits and prepayments

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Deposits	399	375
Prepayments	4,680	1,564
Other receivables	32,880	56,777
Software tax refundable	–	4,411
Value added tax	24,983	20,864
	<u>62,942</u>	<u>83,991</u>
Less: provision for impairment on prepayments and other receivables	(6,530)	(8,552)
	<u><b>56,412</b></u>	<u><b>75,439</b></u>

The movement in the provision for impairment on prepayments and other receivables is as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
Balance at 1 January	8,552	8,401
Amount written off	(705)	–
Impairment loss recovered	(1,317)	–
	<u>6,530</u>	<u>8,401</u>
Balance at 30 June	<u><b>6,530</b></u>	<u><b>8,401</b></u>

Other receivables are assessed to be impaired individually at each reporting date and impairment losses of the Group amounting to RMB6,530,000 (31 December 2010: RMB8,552,000) has been made as at 30 June 2011. The individually impaired receivables are recognised based on the indication of financial difficulties and default in payments. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

Included in other receivables are advances to the staff of the Group which amounted to RMB3,930,000 (31 December 2010: RMB3,324,000) in aggregate. Such advances are unsecured, interest-free and repayable on demand.

## 22. Financial asset at fair value through profit or loss

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Fair value through profit or loss		
– Financial asset held for trading	–	10,000
	<u>                    </u>	<u>                    </u>

In the opinion of the directors, the carrying amount of the financial asset held for trading approximates to its fair value as it was acquired close to the reporting date.

The financial asset held for trading was disposed of during the six months ended 30 June 2011.

## 23. Amount due from an associate

The amount due is unsecured, interest-free and repayable on demand.

## 24. Cash and cash equivalents

Included in bank and cash balances of the Group is RMB232,966,000 (31 December 2010: RMB319,246,000) of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

At the reporting date, the cash and bank balances of the Group are denominated in RMB of RMB233,325,000 (31 December 2010: RMB320,813,000), US\$ of RMB9,448,000 (31 December 2010: RMB33,289,000), Euro ("EUR") of RMB2,492,000 (31 December 2010: RMB1,160,000) and other currencies of RMB1,000 (31 December 2010: RMB1,000).

## 25. Trade payables

The ageing analysis of trade payables as at 30 June 2011 is as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within 6 months	<b>121,306</b>	97,422
Over 6 months but less than 1 year	<b>3,737</b>	4,657
Over 1 year but less than 2 years	<b>2,284</b>	3,949
	<u>                    </u>	<u>                    </u>
	<b>127,327</b>	106,028
	<u>                    </u>	<u>                    </u>

## 26. Bank borrowings

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Bank loans		
Secured	<b>150,000</b>	305,000
Unsecured	<b>2,745</b>	1,318
	<b>152,745</b>	306,318
Less: Current portion due within one year included under current liabilities	<b>(150,814)</b>	(305,393)
Non-current portion included under non-current liabilities	<b>1,931</b>	925

As at 30 June 2011, the Group's borrowings were repayable as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within one year	<b>150,814</b>	305,393
In the second year	<b>702</b>	264
In the third to the fifth year	<b>1,229</b>	661
	<b>152,745</b>	306,318

All bank borrowings are repayable in one to five years since the draw down date. Bank borrowings for the Group of RMB50,000,000 (31 December 2010: RMB211,318,000) bear fixed interest rate from 4.86% to 5.31% (31 December 2010: 4.86% to 5.31%) per annum. The remaining borrowings bear floating rates ranging from 4.86% to 6.95% (31 December 2010: 4.86% to 6.95%) per annum.

At 30 June 2011, the banking facilities of the Group were secured by land and buildings of the Group as detailed in notes 8 and 9 as well as the personal guarantee provided by certain shareholders/directors. Such banking facilities granted to the Group amounted to RMB708,744,000 (31 December 2010: RMB708,523,000) and the Group had utilised an aggregate amount of RMB152,745,000 as at 30 June 2011 (31 December 2010: RMB306,318,000).

Included in borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
EUR	<u><b>2,745</b></u>	<u>1,318</u>

## 27. Deferred tax

Details of the deferred tax assets recognised and movements during the current and prior period:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
		(Unaudited)
At 1 January	<b>11</b>	–
Credited to profit or loss	<b>4</b>	–
	<u>          </u>	<u>          </u>
At 30 June	<u><b>15</b></u>	<u>–</u>

At the reporting date, the Group's unused tax losses available for offset against future profits, not recognised as deferred tax asset, is analysed as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Unused tax losses	<u><b>164,609</b></u>	<u>194,758</u>

The deferred tax asset is not recognised as it is uncertain whether future taxable profit will be available for utilising the accumulated tax losses. Under the current tax legislation in the PRC, the tax losses can be carried forward for five years from the year when the corresponding loss were incurred.

As at 30 June 2011, the Group did not have any material unprovided deferred tax liabilities (31 December 2010: Nil).

## 28. Share capital

	Number of shares		Registered, issued and fully paid and RMB '000
	Domestic and unlisted foreign shares '000	H Shares '000	
Share capital of RMB0.1 each at 1 January 2010, 30 June 2010 and 1 January 2011	330,000	273,600	60,360
Shares Consolidation (note (b))	<u>(297,000)</u>	<u>(246,240)</u>	<u>–</u>
Share capital of RMB1 each at 30 June 2011	<b><u>33,000</u></b>	<b><u>27,360</u></b>	<b><u>60,360</u></b>

*Note:*

- (a) Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investor, domestic and unlisted foreign shares and H Shares rank pari passu in all respects with each other.
- (b) Pursuant to a special resolution of the Company passed on 19 April 2010, every ten domestic and unlisted foreign shares and H Shares of RMB0.1 each of the Company was approved to consolidate into one consolidated share of RMB1 each (the “Shares Consolidation”). The Shares Consolidation was effective on 15 February 2011.

As a result of the Shares Consolidation, the registered, issued and fully paid share capital of the Company became RMB60,360,000 divided into 33,000,000 domestic and unlisted foreign shares per RMB1 each and 27,360,000 H Shares per RMB1 each.

## 29. Reserves

The amounts of the Group’s reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity of the Interim Financial Statements. Nature and purpose of the statutory surplus reserve, public welfare fund and retained profits are explained below.

### (i) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

**(ii) Statutory surplus reserve**

The Company's Articles of Association requires the appropriation of 10% of profit after income tax each period to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, under normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital. The transfer to the statutory surplus reserve is based on the net profit in the financial statements prepared under PRC accounting standards.

**(iii) Public welfare fund**

Public welfare fund represents the appropriation of profit after income tax according to the requirements of the Company's Articles of Association and the PRC Company Law. According to the requirements, the Company shall make allocation from profit after income tax at the rate of 5% to 10% to the public welfare fund. The public welfare fund can only be utilised on capital items for employees' collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The public welfare fund forms part of the shareholders' equity but is not distributable other than in liquidation. The transfer to the public welfare fund was based on the net profit in the financial statements prepared under PRC accounting standards in the past. However, there is no longer statutory requirement for appropriation and therefore, no appropriation is made for the current period. The appropriation is subject to the shareholders' approval in the annual shareholders meeting of the Company.

**(iv) Retained profits**

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after income tax for the period and retained profits brought forward determined under PRC accounting regulations and that determined under Hong Kong generally accepted accounting principles after deduction of the current period's appropriations to the statutory surplus reserve and public welfare fund.

### 30. Operating lease commitments

As at 30 June 2011, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	<b>30 June 2011</b>	31 December 2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within one year	<b>2,323</b>	2,211
In the second year to fifth year	<b>5,163</b>	4,851
After the fifth year	<b>1,172</b>	1,450
	<b><u>8,658</u></b>	<u>8,512</u>

The Group leases a number of properties under operating leases. The leases run for an initial period of one to seven (31 December 2010: one to seven) years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

### 31. Future operating lease arrangements

As at 30 June 2011, the Group had future aggregate minimum lease receipts in respect of land and buildings under non-cancellable operating leases as follows:

	<b>30 June 2011</b>	31 December 2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within one year	<b>9,769</b>	9,581
In the second year to fifth year	<b>7,094</b>	5,552
	<b><u>16,863</u></b>	<u>15,133</u>

The Group leases certain portion of the buildings under operating lease arrangements which run for an initial period of one to four (31 December 2010: one to four) years. The terms of the leases generally also require the tenants to pay security deposits. There is no arrangement of contingent rental receivables.

### 32. Capital commitments

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Capital expenditure contracted but not provided for:		
– expenditures on CIP	<b>56,338</b>	15,249
– acquisition of plant and equipment	<b>509</b>	–
– capital injection to an associate	–	11,040
	<hr/> <b>56,847</b> <hr/>	<hr/> 26,289 <hr/>

### 33. Share option scheme

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 21 March 2002 (the "Share Option Scheme"), the Company, for the purpose of encouraging the participants to perform their best in achieving the goals of the Group, may grant options to employees including any directors of the Company or its subsidiaries to subscribe for the H Shares in the Company. An offer for the grant of options must be accepted within 28 days from the date of offer, and a consideration of RMB1.00 is payable by each of the participants on acceptance of the grant of options. The Share Option Scheme will remain valid for a period of ten years commencing on 21 March 2002. An option may be exercised at any time during a period to be notified by the directors of the Company to each grantee provided that the period within which the option must be exercised shall be not less than two years and not more than 10 years from the date of grant. The subscription price for H Shares under the Share Option Scheme will be determined by the directors and notified to each grantee and will be no less than the highest of (a) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a H Share.

However, for employees who are PRC nationals and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

- (i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and
- (ii) The China Securities Regulatory Commission or other relevant government authorities in the PRC have approved the new issue of H Shares upon the exercise of any options which may be granted under the Share Option Scheme.

The total number of H Shares subject to the Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of issued H Shares of the Company in issue from time to time. The total number of H Shares available for issue under options granted under the Share Option Scheme and any other schemes, must not in aggregate, exceed 10% of the number of H Shares of the Company in issue from time to time. The Company may seek approval from shareholders in general meeting for renewing the 10% limit or for granting further options beyond the 10% limit, provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before such approval is sought.

No employee of the Company or its subsidiaries shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12-month period up to the date of grant, shall not exceed 1% of the H Shares in issue at the date of grant.

No option has been granted by the Company under the Share Option Scheme since its adoption.

#### **34. Retirement plans**

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group is required to contribute 8.0% to 22.5% of the basic salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirement plans are responsible for the entire present obligation to retired employees.

#### **35. Related party transactions**

Save as disclosed elsewhere in the Interim Financial Statements, the Group has the following related party transactions during the period:

The directors are of the opinion that the key management personnel were the directors and the supervisors of the Company and certain highest paid employees, details of whose emoluments are set out in note 7.

The Group did not enter into any material related party transactions during the period other than as disclosed above and elsewhere in the financial statements.

#### **36. Financial risk management and policies**

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk, which result from both its operating and investing activities.

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to these risks. Generally, the Group employs a conservative strategy regarding its risk management. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. The Group does not hold any derivative financial instruments for speculative purpose.

The Group's financial assets and financial liabilities are set out in note 2.14 and 2.20 to the financial statements respectively.

**(i) Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no significant interest bearing assets apart from cash and bank deposits. The Group currently has bank borrowings with fixed and floating interest rates as disclosed in note 26.

***Sensitivity analysis***

At 30 June 2011, the Group was exposed to changes in market interest rates through their bank deposits and borrowings, which are subject to variable interest rates. The following table illustrates the sensitivity of the net result for the period and equity to a reasonably possible change in interest rates of +1% and -1% (Six months ended 30 June 2010: +1 and -1%), with effect from the beginning of the period. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's bank deposits and borrowings held at each reporting date. All other variables are held constant.

	<b>For the six months ended 30 June</b>			
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>+ 1 %</b>	<b>- 1 %</b>	<b>+ 1 %</b>	<b>- 1 %</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
			(Unaudited)	(Unaudited)
Net profit/(loss) for the period and retained earnings	<b>926</b>	<b>(926)</b>	<b>(223)</b>	<b>223</b>

**(ii) Foreign currency risk**

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to certain trade receivables, certain cash and cash equivalents and certain bank borrowings in currencies other than the functional currency of the group entity to which the balances relate.

The Group mainly operates in the PRC and Germany. The functional currency of the Company and its subsidiaries are mainly RMB and EUR with certain transactions being settled in US\$ and EUR. However, the Group mainly exposes to foreign currency risk arising from the Group's financial assets and liabilities denominated in US\$.

The overall net exposure in respect of the carrying amount of the Group's foreign currency denominated financial assets and liabilities in net position, translated into RMB at the closing rate, are as follows:

	30 June 2011 <i>RMB'000</i>	31 December 2010 <i>RMB'000</i>	30 June 2010 <i>RMB'000</i> (Unaudited)
<i>Net financial assets</i>			
US\$	<u>199,873</u>	<u>198,130</u>	<u>219,092</u>

### ***Sensitivity analysis***

A 5% strengthening/weakening of RMB against US\$ as at the respective reporting dates would (decrease)/increase the profit after income tax by the amount shown below. This analysis has been determined based on the assumed percentages changes in foreign currency exchange rates taking place at the beginning of the period and held constant throughout the period. It also assumes that all other variables, in particular interest rates, remain constant.

	Increase/ (Decrease)	Increase/(Decrease) in profit for the period and retained earnings	
		For the six months ended 30 June 2011 <i>RMB'000</i>	2010 <i>RMB'000</i> (Unaudited)
If RMB strengthen against US\$	5%	<b>(9,984)</b>	(10,955)
If RMB weaken against US\$	(5%)	<b>9,984</b>	10,955

### **(iii) Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Classes of financial assets – carrying amount		
Trade and bills receivables	<b>253,397</b>	242,741
Other receivables and deposits	<b>26,749</b>	48,600
Amount due from associate	<b>53</b>	108
Pledged/Restricted bank deposits	<b>60</b>	–
Cash and bank balances	<b>245,266</b>	355,263
	<b>525,525</b>	646,712

The credit risk on pledged bank deposits and cash and cash equivalents is limited because the counterparties are banks with high credit-ratings.

It is the Group's policy that receivable balances are monitored on an ongoing basis. The allowance for impairment has been made to reduce the exposure to the credit risk in relation to the receivables. Other than this there are no significant concentrations of credit risk within the Group in relation to other financial assets. None of the financial assets of the Group are secured by collateral or other credit enhancements.

See note 19 to these financial statements for further details of the Group's exposures to credit risk on trade receivables.

**(iv) Liquidity risk**

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group exercised liquidity risk management policy by maintaining sufficient cash level and the availability of adequate amount of committed credit facilities.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay.

### 30 June 2011

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	In the second year	In the third year to the fifth year
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	127,327	127,327	127,327	–	–
Other payables and accrued charges	68,936	68,936	68,936	–	–
Bank borrowings	152,745	160,095	157,954	821	1,320
	<u>349,008</u>	<u>356,358</u>	<u>354,217</u>	<u>821</u>	<u>1,320</u>

### 31 December 2010

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	In the second year	In the third year to the fifth year
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	106,028	106,028	106,028	–	–
Other payables and accrued charges	30,050	30,050	30,050	–	–
Bank borrowings	306,318	310,848	309,814	373	661
	<u>442,396</u>	<u>446,926</u>	<u>445,892</u>	<u>373</u>	<u>661</u>

(v) **Summary of financial assets and liabilities by category**

The carrying amounts presented in the statement of financial position related to following categories of financial assets and liabilities: See notes 2.14 and 2.20 for explanations about how the category of financial instruments affects their subsequent measurement.

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Financial assets		
Cash and cash equivalents	<b>245,266</b>	355,263
Fair value through profit or loss		
Held for trading	–	10,000
Loans and receivables		
Trade receivables	<b>234,672</b>	225,370
Bills receivables	<b>18,725</b>	17,371
Other receivables and deposits	<b>26,749</b>	48,600
Amount due from an associate	<b>53</b>	108
Pledged/Restricted bank deposits	<b>60</b>	–
	<b>525,525</b>	656,712
Financial liabilities at amortised cost		
Trade payables	<b>127,327</b>	106,028
Other payables and accrued charges	<b>68,936</b>	30,050
Bank borrowings	<b>152,745</b>	306,318
	<b>349,008</b>	442,396

### 37. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern;
- (ii) to provide an adequate return to shareholders;
- (iii) to support the Group's sustainable growth; and
- (iv) to provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The net debt-to-adjusted capital ratio at the reporting date was as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
<b>Current liabilities</b>		
Trade payables	<b>127,327</b>	106,028
Other payables and accrued charges	<b>68,936</b>	30,050
Bank borrowings	<b>150,814</b>	305,393
	<b>347,077</b>	441,471
<b>Non-current liabilities</b>		
Bank borrowings	<b>1,931</b>	925
Total debt	<b>349,008</b>	442,396
Less: Cash and cash equivalents	<b>(245,266)</b>	(355,263)
Net debt	<b>103,742</b>	87,133
Total equity	<b>697,303</b>	654,164
Debt-to-adjusted capital ratio	<b>15%</b>	13%