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北京京城机电股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

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

(Stock Code: 0187)

ANNOUNCEMENT ON 2016 ANNUAL RESULTS

The Board of Directors (the "Board") of Beijing Jingcheng Machinery Electric Company Limited (the "Company") hereby announces that the preliminary consolidated results as of and ended 31 December 2016 (the "Reporting Period") prepared by the Company and its subsidiaries (the "Group") in accordance with the China Accounting Standards for Business Enterprises are as follows:

I. FINANCIAL DATA

(All amounts are stated in RMB Yuan unless otherwise stated)

CONSOLIDATED BALANCE SHEET

31 December, 2016

Prepared by: Beijing Jingcheng Machinery Electric Company Limited

Unit: RMB Yuan

| Item | Note | Closing balance | Opening balance |
|---|------|-----------------------|-----------------------|
| Current assets: | | | |
| Monetary capital | | 118,829,271.77 | 182,276,574.47 |
| Deposit reservation for balance | | | |
| Loans to banks and other financial institutions | | | |
| Financial assets calculated by fair value with its change included in loss and profit of current year | | | |
| Derivative financial assets | | | |
| Notes receivable | | 16,314,951.71 | 3,228,891.44 |
| Accounts receivable | 10 | 215,185,885.26 | 273,293,153.87 |
| Advanced payment | | 36,211,833.81 | 19,166,811.68 |
| Premiums receivable | | | |
| Reinsurance accounts receivable | | | |
| Receivables from subcontracting reserves | | | |
| Interests receivable | | | |
| Dividends receivable | | | |
| Other receivables | | 4,580,549.80 | 1,776,665.84 |
| Purchase resold financial assets | | | |
| Inventories | | 317,127,619.90 | 390,738,839.19 |
| Divide into assets held for sale | | | |
| Non-current assets due within one year | | | |
| Other current assets | | 54,172,565.88 | 7,082,519.02 |
| Total current assets | | 762,422,678.13 | 877,563,455.51 |

| Item | <i>Note</i> | Closing balance | Opening balance |
|-------------------------------------|-------------|-------------------------|------------------|
| Non-current assets: | | | |
| Loans and advances | | | |
| Financial assets available-for-sale | | | |
| Held-to-maturity investment | | | |
| Long-term receivables | | | |
| Long-term equity investment | | 75,181,681.58 | 68,362,103.21 |
| Investment properties | | | |
| Fixed assets | | 841,900,126.42 | 960,308,435.85 |
| Construction in progress | | | 8,037,077.84 |
| Engineering materials | | | |
| Disposal of fixed assets | | | |
| Productive biological assets | | | |
| Oil and gas assets | | | |
| Intangible assets | | 151,586,583.57 | 156,100,837.99 |
| Development expenditures | | | |
| Goodwill | | 3,679,654.40 | 6,562,344.06 |
| Long-term unamortized expenses | | 14,852,487.39 | 280,524.60 |
| Deferred income tax assets | | 285,691.27 | 277,330.73 |
| Other non-current assets | | | |
| | | <hr/> | <hr/> |
| Total non-current assets | | 1,087,486,224.63 | 1,199,928,654.28 |
| | | <hr/> | <hr/> |
| Total assets | | 1,849,908,902.76 | 2,077,492,109.79 |
| | | <hr/> <hr/> | <hr/> <hr/> |

| Item | <i>Note</i> | Closing balance | Opening balance |
|--|-------------|------------------------|------------------------|
| Current liabilities: | | | |
| Short-term loans | | 190,000,000.00 | 205,844,240.00 |
| Borrowings from central bank | | | |
| Deposits from customers and interbank | | | |
| Loans from banks and other financial institutions | | | |
| Financial liabilities calculated by fair value with its change included in loss and profit of current year | | | |
| Derivative financial liabilities | | | |
| Notes payable | | 30,000,000.00 | |
| Account payables | <i>11</i> | 268,518,401.08 | 398,349,980.01 |
| Accounts collected in advance | | 43,159,742.00 | 29,870,362.75 |
| Financial assets sold for repurchase | | | |
| Handling charges and commissions payable | | | |
| Payroll payable | | 25,073,101.25 | 22,674,924.84 |
| Taxes payable | | 4,755,774.34 | -42,085,395.89 |
| Interests payable | | 26,583.33 | 74,800.00 |
| Dividends payable | | | |
| Other payables | | 167,017,675.53 | 166,579,358.42 |
| Reinsurance accounts payable | | | |
| Reserve funds for insurance contracts | | | |
| Acting trading securities | | | |
| Acting underwriting securities | | | |
| Divide into liabilities held for sale | | | |
| Non-current liabilities due within one year | | 11,000,000.00 | 11,000,000.00 |
| Other current liabilities | | 279,193.40 | |
| Total current liabilities | | 739,830,470.93 | 792,308,270.13 |

| Item | Note | Closing balance | Opening balance |
|--|------|-------------------------|-------------------------|
| Non-current liabilities: | | | |
| Long-term loans | | | |
| Bonds payable | | | |
| Including: preferred shares | | | |
| perpetual capital securities | | | |
| Long-term payables | | | |
| Long-term payroll payable | | 31,163,678.50 | 31,310,282.67 |
| Special payables | | 103,900,000.00 | 103,900,000.00 |
| Estimated liabilities | | 3,129,430.00 | |
| Deferred incomes | | | |
| Deferred income tax liabilities | | | |
| Other non-current liabilities | | | |
| Total non-current liabilities | | 138,193,108.50 | 135,210,282.67 |
| Total Liabilities | | 878,023,579.43 | 927,518,552.80 |
| Owner's equity | | | |
| Share capital | | 422,000,000.00 | 422,000,000.00 |
| Other equity instruments | | | |
| Including: preferred shares | | | |
| perpetual capital securities | | | |
| Capital reserves | | 683,803,181.69 | 683,803,181.69 |
| Less: treasury stocks | | | |
| Other comprehensive incomes | | 2,390,915.53 | 1,068,547.60 |
| Special reserves | | | |
| Surplus reserves | | 45,665,647.68 | 45,665,647.68 |
| Provisions for general risk | | | |
| Undistributed profit | 12 | -588,661,889.61 | -439,874,304.42 |
| Total shareholders' equity attributable to parent company | | 565,197,855.29 | 712,663,072.55 |
| Minority interest | | 406,687,468.04 | 437,310,484.44 |
| Total shareholders' equity | | 971,885,323.33 | 1,149,973,556.99 |
| Total liabilities and shareholders' equity | | 1,849,908,902.76 | 2,077,492,109.79 |

CONSOLIDATED INCOME STATEMENT

Year of 2016

Prepared by: Beijing Jingcheng Machinery Electric Company Limited

Unit: RMB Yuan

| Item | Note | Amount of this year | Amount of previous year |
|--|------|-------------------------|----------------------------|
| I. Total operating incomes | | 889,525,250.25 | 1,076,596,258.89 |
| Including: Operating revenues | 8 | 889,525,250.25 | 1,076,596,258.89 |
| Interest incomes | | | |
| Earned premiums | | | |
| Incomes from handling charge and commission | | | |
| II. Total operating costs | | 1,094,190,076.73 | 1,376,317,634.86 |
| Including: Operating costs | | 791,505,520.14 | 1,015,339,266.43 |
| Interest expenses | | | |
| Handling charges and commissions | | | |
| Surrender value | | | |
| Net payments for insurance claims | | | |
| Net provision for deposit for insurance contracts | | | |
| Bond insurance expenses | | | |
| Reinsurance costs | | | |
| Taxes and surcharges | | 12,487,149.78 | 10,730,945.87 |
| Sales expenses | | 70,892,546.65 | 75,076,845.20 |
| Administrative expenses | | 130,794,181.74 | 162,725,545.83 |
| Financial expenses | | 13,909,666.82 | 13,645,237.16 |
| Assets impairment loss | | 74,601,011.60 | 98,799,794.37 |
| Add: gains from changes in fair value (with “-” for losses) | | | |
| Investment incomes (with “-” for losses) | | 6,819,578.37 | 1,563,597.03 |
| Including: investment incomes from related enterprise and joint venture | | 6,819,578.37 | 1,563,597.03 |
| Currency exchange gains (with “-” for losses) | | | |
| III. Operating profits (with “-” for losses) | | -197,845,248.11 | -298,157,778.94 |
| Add: non-operating revenues | | 22,696,614.78 | 12,940,608.46 |
| Including: gains from disposal of non-current assets | | 886,849.74 | 12,169,408.16 |
| Less: non-operating expenses | | 3,865,912.42 | 5,668,946.00 |
| Including: losses from disposal of non-current assets | | 2,978,412.68 | 123,750.85 |

| Item | Note | Amount of this year | Amount of previous year |
|--|------|------------------------|----------------------------|
| IV. Total profits (with “-” for total losses) | | -179,014,545.75 | -290,886,116.48 |
| Less: income taxes expense | 13 | 1,643,345.83 | 5,833,101.10 |
| V. Net profits (with “-” for net losses) | | -180,657,891.58 | -296,719,217.58 |
| Net profits attributable to shareholders of parent company | | -148,787,585.19 | -207,817,373.56 |
| Minority interests | | -31,870,306.39 | -88,901,844.02 |
| VI. Other net comprehensive incomes after-tax | | 2,569,657.92 | 1,933,450.21 |
| Other net comprehensive incomes after-tax attributable to owners of parent company | | 1,322,367.93 | 949,814.60 |
| (I) Other comprehensive incomes that can not be reclassified into loss and profit in the future. | | | |
| 1. Changes recalculating and setting the net liabilities or net assets of benefit plan | | | |
| 2. Under equity law, share enjoyed in other comprehensive incomes in the invested unit that cannot be reclassified into loss and profit in the future | | | |
| (II) Other comprehensive incomes that can be reclassified into loss and profit in the future. | | 1,322,367.93 | 949,814.60 |
| 1. Under equity law, share enjoyed in other comprehensive incomes in the invested unit that can be reclassified into loss and profit in the future | | | |
| 2. Profit and loss on the change in fair value of financial assets available-for-sale | | | |
| 3. Held-to-maturity investment reclassified to loss and profit of available-for-sale financial assets | | | |
| 4. Valid part of hedging loss and profit of cash flow | | | |
| 5. Converted difference in foreign currency statements | | 1,322,367.93 | 949,814.60 |
| 6. Others | | | |
| Other net comprehensive incomes after-tax attributable to minority shareholders | | 1,247,289.99 | 983,635.61 |
| VII. Total comprehensive incomes | | -178,088,233.66 | -294,785,767.37 |
| Total comprehensive incomes attributable to shareholders of parent company | | -147,465,217.26 | -206,867,558.96 |
| Total comprehensive incomes attributable to minority shareholders | | -30,623,016.40 | -87,918,208.41 |
| VIII. Earnings per share: | | | |
| (1) Basic earnings per share | 14 | -0.35 | -0.49 |
| (2) Diluted earnings per share | | -0.35 | -0.49 |

Notes to Consolidated Financial statements

1. Basis for preparation of a financial statements

The Group prepared the financial statements on the basis of continuous operation, as per the actually incurred transaction and events as well as related disclosure made according to Accounting Standards for Business Enterprises issued by the Ministry of Finance and relevant provisions and as required by Companies Ordinance of Hong Kong and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and based on the accounting policies and accounting estimates in “Important Accounting Policies and Accounting Estimates”.

2. Declaration on Compliance with the Accounting Standards for Business Enterprises

The Company declares that the financial statements prepared comply with the Accounting Standards for Business Enterprises, which reflect the financial position, performance result and cash flow of the Company truly and completely.

3. Accounting Period

The accounting period of the Group commences from January 1 to December 31 of each calendar year.

4. Recording Currency

RMB is recording currency for the Company and its subsidiaries, except for BTIC AMERICA CORPORATION and Jingcheng Holding (Hong Kong) Co., Ltd. which use USD as their recording currency.

5. The currency used for preparation of these financial statements by the Group is RMB.

6. Accounting Treatment Method for Business Merger under Common Control and Different Control

The Group, as the merging party, obtained assets and liabilities through business merger under common control, which are measured at date of merging according to the book value of merged party in the consolidated financial statements of final controlling party. The balance between the book value of the net assets obtained and the book value of the consideration paid shall be used to adjust the capital reserves; where the capital reserves are not sufficient to be offset, the retained earnings shall be adjusted.

The identifiable assets, liabilities and contingent liabilities acquired by the acquiree in the business merger not under common control are measured at fair value at the acquisition date. The cost for merging is the sum of book value of cash or non-cash assets paid, liabilities issued or assumed, equity securities issued, etc. for obtaining the control power of the acquiree and various direct expenses in business merger (in the business merger realized step by step through several transactions, the cost for merging is the sum of the cost for each single transaction). Positive balance between the cost of merging and the fair value of the identifiable net assets of the acquiree obtained by the Group on the acquisition date shall be recognized as goodwill; if the cost of merging is less than the fair value of the identifiable net assets of the acquiree obtained, the fair value of various identifiable assets, liabilities and contingent liabilities obtained in business merger and the fair value of non-cash assets or equity security issued in the consideration of merger shall be re-checked first. If the rechecked cost of merging is still less than the fair value of identifiable net assets of the acquiree obtained, the balance shall be included into current non-operating income.

7. Preparation Method of Consolidated Financial Statements

The Group incorporates all subsidiaries controlled by it and structured entities into consolidated financial statements.

When preparing consolidated financial statements, if the accounting policy or the accounting period adopted is inconsistent between the subsidiaries and the Company, the financial statements of subsidiaries shall be adjusted according to the accounting policy or the accounting period of the Company when preparing the consolidated financial statement.

All significant internal transactions, current balances and unrealized profits within the scope of the merger are offset in preparing consolidated statements. Shares in owners' equity of subsidiaries but not attributed to the parent company, net profit and loss for the current period, other comprehensive income and shares attributed to minority equity in total comprehensive income shall be listed in consolidated financial statements as minority equity, profit and loss of minority shareholders, other comprehensive income attributed to minority shareholders and total comprehensive income attributed to minority shareholders.

Operating results and cash flows of subsidiaries which are acquired by business merger under common control are included into consolidated financial statements on the beginning of the current period of the merger. Upon the preparation of comparative consolidated financial statements, any adjustments to relevant items in financial statements of the previous year are considered as the subject of reports formed after merger as if it might have exist since the time when final controlling party begin to take the control.

If equity of the invested entity under the common control is obtained step by step through several transactions, which results in business merger, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the report period of acquiring the control. For example, if equity of the invested entity under the common control is obtained step by step through several transactions, which results in business merger, such equity shall be adjusted in the preparation of consolidated financial statements as if they might have exist as the current state from the time when final controlling party takes the control. When preparing comparative accounts, relevant assets and liabilities of the acquiree are included in comparative accounts of consolidated financial statements of the Group according to the restriction that the time above shall be later than the time when the Group and the acquiree are under the common control of final controlling party, moreover, increased net assets resulting from the merger are adjusted as relevant items under owners' equity. In order to avoid repeated calculation of value of net assets of the merged party, the long-term equity investment held by the Group before the merger is achieved, the changes in relevant profits and losses, other comprehensive incomes and other net asset that have been recognized in the period from the later date, when the long-term equity investment is acquired and when the Group and the acquiree are under the final control of the same party, to the merger date, shall respectively be applied to write off the opening retained earnings or current profits and losses during the period of comparative statement.

As for subsidiaries acquired by business merger under the different control, operating results and cash flows shall be incorporated into consolidated financial statements from the date when the Group takes the control. In preparing consolidated financial statements, adjustments to financial statements of subsidiaries are based on the fair value of identifiable assets, liabilities or contingent liabilities, which is identified at the purchase date.

Under the circumstance that the equity of invested entity is obtained under the different control through multiple transactions step by step, which results in business merger, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the report period for acquiring the control. For instance, under the circumstance that the business merger is realized under the different control through multiple transactions step by step, the equity of the acquiree obtained before the purchase date shall be recalculated as per the fair value of the equity on the purchase date when preparing the consolidated financial statements, with the balance between the fair value and its book value included into the current investment profits; if the equity of the acquiree held before the purchase date involves other comprehensive income calculated under the equity method and other change of the owner's equity except net profits and incomes, other comprehensive incomes and profit allocation, the relevant other comprehensive incomes and other change of owners' equity shall be transferred into current income of the purchase date, except other comprehensive incomes arising out from that the acquiree remeasures change of the net liabilities or net assets of the set benefit plan.

The Group disposes of the long-term equity investment against subsidiaries partially without losing control right; in the consolidated financial statements, as for the balance between the disposing amount and the net asset continuously calculated from the purchase date or date of merging of the subsidiary enjoyed correspondingly in disposing long-term equity investment, capital premium or share premium shall be adjusted; if the capital reserves are not sufficient for offset, the retained earnings shall be adjusted.

Where control right over the invested entity is lost due to the disposal of partial equity investment of the Group or other reasons, the residual equity will be re-calculated based on the fair value thereof on the day the control is lost when preparing the consolidated financial statements. The balance from the sum of the consideration obtained from the equity disposal and the fair value of the residual equity minus the net assets of the original subsidiaries calculated continuously in proportion to the original holdings from the purchase date or date of merging shall be recorded into the investment income of the current period in which the control right is lost, with goodwill written off simultaneously. Other comprehensive incomes related with the equity investment of the original subsidiaries shall be converted to the current investment profit and loss when losing the control right.

When the Group disposes of equity investment of the subsidiaries step by step through multiple transactions till losing the control right, if various transaction from disposal of equity investment of subsidiaries till losing the control right belongs to package deal, accounting treatment shall be conducted for each transaction as the transaction that disposes of subsidiary with loss of control right; Nonetheless, before loss of control right, the balance between each price disposal and the net asset share of such subsidiary enjoyed correspondingly in asset disposal is recognized in the other comprehensive income in the consolidated financial statements and turned into the current profit and loss when losing control right.

8. Turnover

The turnover shall include the received and receivable net sales value of different types of cryogenic storage-transport vessels and spare parts and net value of service provision, and their analysis is shown as follows:

| Item | Amount in the Current Year | Amount in the Previous Year |
|---|-------------------------------|--------------------------------|
| Seamless steel gas cylinders | 488,346,102.32 | 520,020,428.88 |
| Winding cylinders | 155,820,802.53 | 141,525,779.70 |
| Cryogenic gas cylinders | 60,332,826.66 | 116,927,446.22 |
| Cryogenic devices for storage and transportation | 63,767,750.90 | 70,270,824.89 |
| Others | 95,439,593.65 | 188,772,839.85 |
| Gross Sales | 863,707,076.06 | 1,037,517,319.54 |
| Minus: Sales Tax and Other Additional Charges | 12,487,149.78 | 10,730,945.87 |
| Total | 851,219,926.28 | 1,026,786,373.67 |

9. Segmental Information

Nil

10. Accounts receivable

(1) Accounts receivable

| Items | Closing balance | Opening balance |
|-------------------------------|-----------------------|-----------------------|
| Accounts receivable | 236,593,334.39 | 288,885,774.81 |
| Less: provision for bad debts | 21,407,449.13 | 15,592,620.94 |
| Net amount | 215,185,885.26 | 273,293,153.87 |

(2) Analysis on the age of accounts receivable

| Aging | Receivables | Closing Balance | Proportion of Withdrawing (%) |
|-------------------|-----------------------|----------------------|----------------------------------|
| | | Bad Debt Reserves | |
| Within 1 Year | 168,459,143.80 | 1,684,591.43 | 1.00 |
| 1-2 Years | 17,304,999.74 | 1,730,499.98 | 10.00 |
| 2-3 Years | 33,814,665.70 | 6,762,933.14 | 20.00 |
| 3-4 Years | 9,734,919.15 | 4,867,459.58 | 50.00 |
| 4-5 Years | 4,588,205.00 | 3,670,564.00 | 80.00 |
| More than 5 Years | 2,691,401.00 | 2,691,401.00 | 100.00 |
| Total | 236,593,334.39 | 21,407,449.13 | — |

| Aging | Receivables | Opening Balance | Proportion of Withdrawing (%) |
|-------------------|-----------------------|----------------------|----------------------------------|
| | | Bad Debt Reserves | |
| Within One Year | 215,162,586.59 | 2,151,625.87 | 1.00 |
| 1-2 Years | 50,006,694.43 | 5,000,669.45 | 10.00 |
| 2-3 Years | 15,789,647.69 | 3,157,929.54 | 20.00 |
| 3-4 Years | 5,210,443.80 | 2,605,221.90 | 50.00 |
| 4-5 Years | 196,140.60 | 156,912.48 | 80.00 |
| More than 5 Years | 2,520,261.70 | 2,520,261.70 | 100.00 |
| Total | 288,885,774.81 | 15,592,620.94 | — |

11. Accounts payable

(1) Accounts payable

| Item | Closing Balance | Opening Balance |
|------------------------|-----------------------|-----------------------|
| Material Payment, etc. | 215,997,537.29 | 255,505,466.51 |
| Project Payment | 52,520,863.79 | 142,844,513.50 |
| Total | 268,518,401.08 | 398,349,980.01 |

(2) Aging analysis of accounts payable

| Item | Closing Amount | Opening Amount |
|-------------------|------------------------------|------------------------------|
| Within 1 Year | 170,792,265.42 | 337,795,661.58 |
| 1 to 2 Years | 87,809,198.38 | 47,459,433.08 |
| 2 to 3 Years | 6,809,605.43 | 4,759,163.51 |
| More than 3 Years | 3,107,331.85 | 8,335,721.84 |
| Total | <u>268,518,401.08</u> | <u>398,349,980.01</u> |

- (3) Large-amount accounts payable with the age of more than one year mainly includes the balance for settlement and the guarantee deposit since the Company is in lack of capital and has caused delayed payment. However, the Company has adopted the method of roll-over payment regarding the debts which is recognized by the suppliers because the Group has been a long-term and stable customer with reputable image on the market to the suppliers.

(4) Significant Payables with the Aging over 1 Year

| Name of Company | Closing Balance | Reasons for Unrepayment or Carrying over |
|---|----------------------------|---|
| BUCC (Tianjin) Pressure Equipment Manufacturing Co., Ltd. | 3,942,184.76 | Unsettled |
| Beijing Guangnan Technological Development Co., Ltd. | 1,733,987.50 | Unsettled |
| Beijing Yitong Huizhi Compressor Manufacturing Co., Ltd. | 1,227,872.00 | Unsettled |
| No.1 Branch of Global Industrial Supply Co., Ltd. | 1,202,227.27 | Unsettled |
| Beijing Yatai Hongda Commerce Co., Ltd. | 1,016,602.92 | Unsettled |
| Total | <u>9,122,874.45</u> | — |

12. Undistributed Profits

| Item | Current Year | Previous Year |
|---|------------------------|-----------------|
| Closing Balance for the Previous Year | -439,874,304.42 | -232,056,930.86 |
| Plus: Adjustment of Opening Undistributed Profits | 0.00 | 0.00 |
| Wherein: Retroactive Adjustment as Newly | | |
| Stipulated in Accounting | | |
| Standards for Business Enterprises | | |
| Changes of Accounting Policies | 0.00 | 0.00 |
| Correction of Major Early Error | 0.00 | 0.00 |
| Change in Scope of Merger under | 0.00 | 0.00 |
| the Common Control | 0.00 | 0.00 |
| Other Adjustment Factors | 0.00 | 0.00 |
| Opening Balance for the Current Year | -439,874,304.42 | -232,056,930.86 |
| Plus: Net Profits Attributable to Parent | | |
| Company in the Current Year | -148,787,585.19 | -207,817,373.56 |
| Less: Appropriation of Statutory Surplus Reserve | 0.00 | 0.00 |
| Appropriation of Discretionary Surplus Reserves | | |
| Extraction of General Risk Reserves | 0.00 | 0.00 |
| Common Stock Dividends Payable | 0.00 | 0.00 |
| Common Stock Dividends Transferred | | |
| into Capital | 0.00 | 0.00 |
| Closing Balance for the Current Year | -588,661,889.61 | -439,874,304.42 |

13. Income Taxes Expense

| Item | Amount in the Current Year | Amount in the Previous Year |
|-------------------------------------|-------------------------------|--------------------------------|
| Income Tax Expense for the Current | | |
| Period-Corporate Income | 1,651,706.37 | 1,054,544.72 |
| 1. China | 1,202,216.89 | -437,362.84 |
| 2. Hong Kong | 0.00 | 0.00 |
| 3. Other Regions (USA) | 416,472.29 | 1,491,907.56 |
| 4. Over-measurement in the Previous | | |
| Years (Under-measurement) | 33,017.19 | 0.00 |
| Deferred Income Taxes Expense | -8,360.54 | 4,778,556.38 |
| Total | 1,643,345.83 | 5,833,101.10 |

14. Earnings per share

(1) Basic earnings per share

Basic earnings per share is calculated by having the combined net profit attributable to the shareholders of ordinary shares of the parent company being divided by the weighted average for the outstanding ordinary shares issued by the parent company.

| Items | Current year | Previous year |
|--|-----------------|-----------------|
| Consolidated net profit attributable to the shareholders of ordinary shares of the parent company | -148,787,585.19 | -207,817,373.56 |
| Consolidated net profit attributable to the shareholders of ordinary shares of the parent company (after deducting the non-recurring gains and losses) | -164,874,525.62 | -216,232,928.23 |
| Weighted average for the outstanding ordinary shares issued by the parent company | 422,000,000.00 | 422,000,000.00 |
| Basic earnings per share (Yuan/share) | -0.35 | -0.49 |
| Basic earnings per share (Yuan/share) (after deducting the non-recurring gains and losses) | -0.39 | -0.51 |

The process of calculating the weighted average for the outstanding ordinary shares:

| Items | Current year | Previous year |
|---|-----------------------|-----------------------|
| Number of outstanding ordinary shares issued at the beginning of the year | 422,000,000.00 | 422,000,000.00 |
| Adjustment made to the public reserve being converted into additional capital | | |
| | <hr/> | <hr/> |
| Number of outstanding ordinary shares issued at the end of the year | <u>422,000,000.00</u> | <u>422,000,000.00</u> |

(2) Diluted earnings per share

| Items | Current year | Previous year |
|--|-----------------|-----------------|
| Consolidated net profit attributable to the shareholders of ordinary shares of the parent company upon adjustment | -148,787,585.19 | -207,817,373.56 |
| Consolidated net profit attributable to the shareholders of ordinary shares of the parent company upon adjustment (after deducting the non-recurring gains and losses) | -164,874,525.62 | -216,232,928.23 |
| Weighted average for the outstanding ordinary shares issued by the parent Company upon adjustment | 422,000,000.00 | 422,000,000.00 |
| Diluted earnings per share (Yuan/share) | -0.35 | -0.49 |
| Diluted earnings per share (Yuan/share) (after deducting the non-recurring gains and losses) | -0.39 | -0.51 |

15. Dividend

In 2016, there was no paid or suggested dividend, and since the end of reporting period, there has been no suggested dividend (2015: Nil).

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. Chairman's Report

(1) Review

In 2016, the Chinese government actively practiced the new development concept and accelerated the process of building a well-off society in an all-round way. Supply side reform has taken important steps, and operation of the economy enters a new norm. By closely following the “13th Five-Year” strategy, the Company promoted reform, adjustment, transformation and upgrading, and continued to adhere to quality improvement and efficiency enhancement. It strived to develop market and accelerate product research and development, establish and improve sound systems and process in order to build a pragmatic and efficient operating structure.

Firstly, it formulated its “13th Five-Year” strategy which specifies clear goals and objectives for development.

The Company has formulated its “13th Five-Year” strategy which specifies development direction and clear goals, that is, to fully use the advantages of production resources of traditional products, establish and optimize product plan, enhance the level of intelligent products manufacturing, and transform from traditional manufacturing to advanced and intelligent manufacturing. It actively explores joint venture and cooperation in the area of natural gas and partnered with gas source companies to extend to the upstream of the industrial chain. It was involved in the operation and management of filling stations and inspection stations and extend to the downstream of the industrial chain, and strived to transform from manufacturing to service-oriented and from providing standalone products to supplying system solutions.

Secondly, it made effective use of the capital market to promote industrial restructuring and resource revitalization.

A strategic cooperation agreement was entered into with Yuecheng Elderly Care in relation to the Wufangqiao land development project, completed site visit and preliminary technical assessment for Type IV cylinder technology project, a letter of intent for strategic cooperation was signed and the parties are actively negotiating for recycling of land and real estate resources. Jiangsu Tianhai now has the ability to produce DOT cylinders and has finished relocation of certain equipment.

Thirdly, it developed market despite the trends and managed to achieve satisfactory results

Its domestic fire-fighting cylinders, especially subway fire-fighting cylinders, still hold a leading position in the market. Stimulated by both the government's "coal to gas" policy and its domestic promotion strategies, its domestic fire-fighting cylinders sales recorded significant year-on-year growth. The sales of its Type III cylinders achieved a historic breakthrough. Its systematic and intelligent products opened a new chapter, and it successfully commenced sales of CNG integrated frame bundles in South America.

Fourthly, it completed the formulation of its product plan for the "13th Five-Year" period and accelerated the application of results of scientific and technological innovation.

Under the background of devising the strategic positioning in the capital city, easing the non-capital functions and creating the "advanced and intelligent" industrial structure, the Company formulated the "13th Five-Year" product planning and achieved certain results in accelerating the application of results of scientific and technological innovation. For example, Tianjin Tianhai completed with high efficiency the project approval process of Tianjin Tianhai's air energy storage project for A1 pressure vessel. The Company completed the development and certification of 117 products and 9 factories. It formulated and implemented the Measures for the Administration of Specialized Technical Personnel and the New Product Development and Technological Innovation Reward Management System, which specifies the technical personnel promotion channel, provide protection for the career development planning and remuneration of technical personnel and lay a solid foundation for the continuous development of its technological innovations.

Fifthly, it fully implemented measures to conduct quality improvement and efficiency enhancement and deepened its cost management.

Through various measures such as the decrease in procurement price, cost is lowered; through the measures of changing the sales strategy and enhancing the effort in collecting receivables from clients, accounts receivable is greatly decreased; it adopts the way of "deciding on production volume based on sales volume" to actively digest the amount of inventory; without prejudice to its normal production operation, it deepened the potential of human resources and streamlined and optimized the staff structure such that the number of employees decreased by 23.3%, which greatly reduced the labour cost.

(2) Outlook

The guiding ideology of the development of the Company is to accelerate the reform, adjustment, transformation and upgrading, integrate sales teams and actively develop market, speed up talent recruitment and continue to downsize and improve efficiency, strictly control receivables, broaden financing channels, continue to carry out in-depth cost management, actively develop common values of the organisation and establish a good corporate culture, drive up and overcome all difficulties to promote the realization of its various tasks for 2017, by following its "13th Five-Year" strategies and using reform and innovations as the driving force, enhancing operation and management as protection and developing new business as support.

Firstly, it will firmly implement its “13th Five-Year” strategies and accelerate the reform, adjustment, transformation and upgrading.

First of all, it will fully integrate its strategies with annual budget, and divide its strategic goals and measures into annual business objectives within budget in order to maximize the guiding role of comprehensive budgeting in its operation.

In addition, it will strengthen and improve operation management, strengthen budget execution deviation analysis, problem solving and improvement tracking, and establish a monthly business communication meeting mechanism, in order to enhance the quality and efficiency of information communication between the headquarters and its affiliated enterprises.

Also, it will optimise its performance appraisal indicator system, adhere to the philosophy of “performance first and cash is king”, increase the weight of receivables and inventory in performance assessment, and facilitate the implementation of its competition strategies. Furthermore, it will maximize the utilisation of resource by the formulation and implementation of comprehensive budgets and the optimisation of the allocation of various types of resources.

Finally, it will improve the strategic management system, deepen industry analysis and research, combine with operational supervisions, track of the execution of strategies, examine and assess the implementation of strategies to ensure the effective implementation of the Company’s strategies.

Secondly, it will adhere to market-based research and development and expand the economic benefits of new products.

First of all, it will focus on key business and strategic products based on its strategic positioning, put efforts to develop domestic and overseas markets, maintain close relationship with customers, and keep up with projects, in order to expand its market share. It will focus on order quality to pave the way for profitable growth. At the corporate level, it will focus on developing and maintaining major customers, coordinating and consolidating customer relations and establishing cooperation by using its resources and advantages.

Moreover, it will enhance the core competitiveness of products to meet customer needs, while improving its ability in customer management and guiding customer consumption. It will adopt effective management measures to strictly control risks. It will strengthen the development of the sales team to ensure its salespersons’ loyalty to the Company and business skills.

In addition, it will seize the market opportunities brought by the “coal to gas” policy to generally improve the market share of its low temperature tanks, cryogenic tanks and filling stations and active build a business model of tank, station and gas integrated operation. It

will develop the application of natural gas in power generation, distributed energy, fuel cell and vehicle and marine, and adjust its product structure to meet market needs.

Also, it will treat the “13th Five-Year” product plan as its top priority by strengthening the organization, coordination and strict implementation of the annual plan to ensure the launch of new products. It will also strengthen systematic research of key products, processes and standardization to create systematic solutions. It will optimise research and development organization structure, build a market-oriented research and development system, and implement innovative remuneration and assessment mechanism to stimulate the enthusiasm of scientific and technical personnel. It will strengthen the reporting and assessment of major scientific and research projects and implement process monitoring and effectiveness evaluation to ensure the projects will improve its research and development capability, product quality and performance.

Finally, it will put emphasis on the application of results of new product research and development. The sales department shall actively develop new markets, new business formats and new areas and include product sales revenue in the assessment system by considering overall revenue and also revenue structure.

Thirdly, it shall facilitate quality improvement and efficiency enhancement, deepen its cost management and improve operation quality.

It will continue to strengthen the leading role of performance assessment by linking remuneration closely to performance. The difference between the remuneration of management of loss-making enterprises and profitable ones shall be large enough to break egalitarianism and stimulate enthusiasm. The reasonableness of the changes in average employee salaries of the subsidiaries of the Company shall be re-examined based on the change in labour cost in relative terms.

In line with the overall budget for 2017, it will further calculate the budget for sales expenses, administrative expense and finance cost, respectively, make adjustments from time to time, issue early warnings and conduct strict control based on the sales revenue. It will further conduct cost reduction measures in respect of labour cost, procurement cost and technology advance. It will continue to arrange production based on orders received, and maintain appropriate volume of inventory to avoid creating new backlog of inventory. For the exiting backlog of inventory, it shall conduct careful analysis and utilize them in specified uses. It will regulate contract management and collect amounts due as agreed in contracts to avoid additional overdue receivables. For the recovery of the existing overdue receivables, it will set a schedule and roadmap and make collection calls accordingly.

All functional departments of the Company shall enhance service awareness, value creation awareness and risks control awareness and strengthen their support for the sales department and subsidiaries of the Company. They shall take the initiative to the grassroots level to understand the practical problems and effectively coordinate and resolve difficulties, in order to contribute to the improvement in the operation of the Company.

Fourthly, it will improve information management.

In the internet era, companies no longer sell products only, but also attempt to realize added-value by providing aftersales services, distribution and other follow-up services using the way of internet+ in order to improve core competitiveness. In 2017, the Company shall further make use of management software to enable smoother communication and sharing of information between the Group and its subsidiaries.

It will build a transparent platform and intelligent supply and procurement system to seek and compare quotations before procurement, achieve procurement transparency and establish a standard process of supplier management and procurement, which will assist in making decisions on procurement by collecting data on procurement and products and will achieve efficient procurement management through intelligent reminder and enquiries.

It will establish a sound customer and agent credit rating management system and improve the contract order management system. It will determine the cooperation proposal for intelligent gas cylinders and internet+ projects, and will promote electronic tags for steel cylinders to domestic and overseas major customers (gas companies and automobile manufacturers).

Fifthly, it will strive to improve the capability of management and employees to build the core talent advantage.

First of all, to establish an internal organizational system and operational mechanism, performance appraisal mechanism and salary and welfare system meeting the requirements for market competition, in order to provide a career development platform for its management and employees to grow with the Company and share the fruits of development, to create a good corporate culture and to retain staff with strong prospects, competitive remuneration and loyalty. It has established a team of talents with both ability and integrity, core competence and professional quality in respect of research and development, sales, management, operation and production.

Secondly, to establish a core talent pool and human resource management system, which has enabled more reasonable personnel reserve, targeted training, target focus and talent selection, improved organizational efficiency and assisted it in human resource decision-making and management.

Furthermore, to adopt flexible recruitment methods and combines talent recruitment and internal cultivation, and to prepare efficient and practical human resource solutions to quickly recruit experts on Type IV cylinders and hydrogen technology, competent marketing staff and project managers to support the development of the Company.

II. Principal Operation during the Reporting Period

Due to the impact of the price difference between oil and gas and the electric vehicle subsidy policy, the demand for natural gas substantially declined in 2016. The government has strengthened the supervision of environmental protection and the new energy products have a promising outlook in the long run. However, the market was adversely affected in the short term. In view of huge challenges and by closely following the “13th Five-Year” strategy, the Company promoted reform and adjustment and transformation and upgrading, and continued to conduct quality improvement and efficiency enhancement. It strived to develop market and accelerate product research and development so as to curb the downward trend.

During the Reporting Period, the Company adopted the following major measures:

1. Regulate the operation of the Company and improve its corporate governance

During the Reporting Period, the Company amended its corporate rules including the Management Measures for Executive Performance Assessment in accordance with the requirements of the relevant laws and regulations to improve the incentive and restraint mechanism of senior management, which has realized the effective combination of remuneration distribution, performance assessment, corporate performance and shareholders' value, fully motivated the Company and its senior management and ensured its compliance operation. It convened general meetings and the meetings of the Board and of the Supervisory Committee in strict accordance with the procedures set out in the Articles of Association. It strictly fulfilled its information disclosure obligations to ensure the truthfulness, timeliness, accuracy and completeness of the disclosure. It enhanced the transparency of information disclosure to safeguard the interests of the Shareholders as a whole.

2. Strictly implement “double reductions” to lower finance cost

Without prejudice to its normal corporate operation, the Company continued to vigorously implement refined management strategy and strictly implemented the “quality improvement and efficiency enhancement” and “double reductions” (being reduction of inventory and overdue receivables) programs to lower and save finance cost. It set goals, made classification, prepared plans and conducted special assessment, and the costs, accounts receivable and inventory were greatly reduced.

3. Kuancheng joint venture project

Following investigations and negotiations with Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd. (“Kuancheng Shenghua”), the Company decided to cooperate with Kuancheng Shenghua. A letter of intent of strategic cooperation has been signed, and agreements have been reached in relation to cooperation method, investment and shareholding percentage, corporate structure, sales right and the date of project commencement. For details, please refer to the announcement of the Company dated 14 November 2016 in relation to the entering into a letter of intent of strategic cooperation

between Langfang Tianhai High Pressure Containers Co., Ltd., an indirect subsidiary of the Company, between Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd. (No. Lin 2016-044). The signing of the letter of intent of strategic cooperation met the needs of strategic development of the Company, realized the industrial transfer of the traditional cylinder products of the Company, and made reasonable use of land resources. The Company's cooperation with a private company under the guidance by the letter of intent of strategic cooperation will complete each other with their own strengths, and will help to improve its product competitiveness and profitability and facilitate the mixed-ownership reform.

Risk warnings: The letter of intent has been signed by the parties through friendly negotiations based on the intent of cooperation, and the details of the cooperation in respect of the letter of intent are subject to the relevant cooperation contract to be further entered into. In addition, the transfer and relocation of product lines is still subject to further in-depth feasibility research at the technical level. There are still uncertainties about whether the cooperation will proceed smoothly.

4. *Wufangqiao land development project*

On 29 December 2016, the Company entered into a letter of intent of strategic cooperation with Yuecheng Elderly Care in relation to the change of land nature, compensation and share capital of the joint venture. The signing of the letter of intent is to meet the requirements of the policy for the transfer of Beijing's functions not relating to capital and industrial structural adjustment in Beijing. The strategic positioning of the Company also requires high-end industry elements that meet local development plans. The letter of intent will be conducive to the rational utilisation of land resources and facilitate the upgrading of old plants and industrial transformation of the Company. The letter of intent of strategic cooperation, once materialised, is expected to have positive impact on the results of the Company for 2017. For details, please refer to the announcement of the Company dated 29 December 2016 in relation to the signing of the letter of intent of strategic cooperation between Beijing Tianhai Industry Co. Ltd., an indirect subsidiary of the Company, and Yuecheng Elderly Business Investment Co., Ltd. (No. Lin 2016-052).

Risk warnings: The letter of intent of strategic cooperation represents a written confirmation between the parties in relation to the cooperation and the principles for future cooperation projects, and a basic framework letter of intent entered into between the parties for the purpose of future cooperation. It does not cover all matters involved in the plan in details. However, the principal terms of the letter of intent of strategic cooperation stated in the announcement (the "Key Terms") are binding on the parties and shall not be altered unless agreed by the parties through negotiations. Save for the Key Terms, the other terms of the letter of intent are not binding on the parties. The detailed terms of the cooperation shall be agreed upon by the parties in accordance with the principles and purposes of this letter of intent and is subject to the signing of the formal agreement. In case of any differences between the terms of the letter of intent and those of the formal agreement,

the latter shall prevail. The formal agreement to be entered into shall be subject to the relevant decision-making and approval procedures of the Company. As such, there exist uncertainties.

5. *Development and certification of new products and quality system review*

In 2016, the Company continued to cultivate new source of growth using product innovation as the driving force to promote its sustainable development. In accordance with its technology development plan for 2016, the Company mainly carried out and finished the development and certification of key new products including aluminum liner carbon fiber full-winding compound gas cylinders for military, aluminum liner carbon fiber full-winding hydrogen storage cylinders for vehicles as hydrogen fuel storage container, and the steel cylinder frame and supply system of natural gas vehicles.

It finished the renewal of ISO/TS16949:2009 certificates for Beijing Tianhai, Langfang Tianhai and Minghui Tianhai, the registration of change in address of Beijing Tianhai for ISO9001:2008, the renewal of ISO9001, ISO14001, and OHSAS18001 certificates, the DOT certification for Jiangsu Tianhai, and the quality system review for Type III cylinders and Type II pressure vessels.

6. *Delisting risk warning*

The Company's net profit attributable to shareholders of the Company for 2015 was negative, and its net profit attributable to shareholders of the Company for 2016 will be negative. In accordance with the relevant requirements of the Rules Governing the Listing of Securities on the Shanghai Stock Exchange, a delisting risk warning has been issued for its A shares following the disclosure of its annual report for 2016. Date of commencement of delisting risk warning period for A shares: following the disclosure of its 2016 annual report of the Company (after 18 March 2017). Following the issue of the delisting risk warning, the A stock short name has become *ST京城 (stock code: 600860), and the maximum daily movement limit for A shares is 5%. Following the issue of the delisting risk warning for A shares, the A shares will be traded on the risk warning board.

III. Analysis of principal business

(1) Table of movement analysis on the related items in income statement and cash flow statement

Unit: Yuan Currency: RMB

| Item | Current year | Corresponding period of last year | Change (%) |
|--|-----------------------|--|-------------------|
| Operating income | 889,525,250.25 | 1,076,596,258.89 | -17.38 |
| Operating cost | 791,505,520.14 | 1,015,339,266.43 | -22.05 |
| Selling expense | 70,892,546.65 | 75,076,845.20 | -5.57 |
| Administrative expense | 130,794,181.74 | 162,725,545.83 | -19.62 |
| Finance cost | 13,909,666.82 | 13,645,237.16 | 1.94 |
| Net cash flows generated from operating activities | -13,041,823.62 | 145,654,400.12 | -108.95 |
| Net cash flows generated from investing activities | -23,812,220.42 | -12,645,538.74 | Not applicable |
| Net cash flows generated from financing activities | -38,909,015.21 | -85,729,740.42 | Not applicable |
| Research and development expense | 10,773,928.97 | 14,150,447.32 | -23.86 |
| Investment income | 6,819,578.37 | 1,563,597.03 | 336.15 |
| Non-operating income | 22,696,614.78 | 12,940,608.46 | 75.39 |
| Non-operating expenses | 3,865,912.42 | 5,668,946.00 | -31.81 |
| Other net comprehensive income after tax | 2,569,657.92 | 1,933,450.21 | 32.91 |

(2) Analysis of income and cost

(1) Analysis of the factors driving changes in business income

During the Reporting Period, the sales of gas storage and transportation equipment dropped as compared to 2015, the main reason is that the fluctuation of downstream industries had impacts on the profitability of traditional industrial gas cylinder products. In 2016, affected by the decline of industries smelting, shipbuilding and construction industries, in which the industrial gas was used, the demand for the industrial gas declined, leading to the excess production capacity of seamless steel gas cylinders for industrial uses. The competition in the traditional market of seamless steel gas cylinders for industrial use became increasingly fierce, leading to the decline in performance of traditional industrial gas cylinders. Transportation expenses, labor costs and energy and power related expenses increased, leading to the decline of profits.

(2) Analysis of the factors influencing the product income of the Company which principally engaged in the sales of products

- ① As there is severe excess domestic production capacity within the industry, in order to compete for the limited market demand, a reduction on selling price was needed.
- ② Transportation expenses, labor costs and energy and power related expenses increased, leading to the decline of profits.

(i) Principal business by industry, by product and by region

Unit: Yuan Currency: RMB

| Principal businesses by product | | | | | | |
|--|------------------|----------------|-------------------------|--|--|---|
| By product | Operating income | Operating cost | Gross profit margin (%) | Increase/decrease in operating income over last year (%) | Increase/decrease in operating cost over last year (%) | Increase/decrease in gross profit margin over last year (%) |
| Seamless steel gas cylinders | 488,346,102.32 | 412,839,439.29 | 15.46 | -6.09 | -11.26 | Increase of 4.92 percentage points |
| Winding cylinders | 155,820,802.53 | 152,533,284.73 | 2.11 | 10.10 | 18.33 | Decrease of 6.81 percentage points |
| Cryogenic gas cylinders | 60,332,826.66 | 54,305,190.50 | 9.99 | -48.40 | -61.56 | Increase of 30.81 percentage points |
| Cryogenic devices for storage and transportation | 63,767,750.90 | 72,077,223.53 | -13.03 | -9.25 | 12.16 | Decrease of 21.58 percentage points |
| Others | 95,439,593.65 | 83,685,962.29 | 12.32 | -49.44 | -52.75 | Increase of 6.13 percentage points |
| Total | 863,707,076.06 | 775,441,100.34 | 10.22 | -16.75 | -20.61 | Increase of 4.36 percentage points |

| Principal business by region | | | | | | |
|------------------------------|------------------|----------------|-------------------------|--|--|---|
| By region | Operating income | Operating cost | Gross profit margin (%) | Increase/decrease in operating income over last year (%) | Increase/decrease in operating cost over last year (%) | Increase/decrease in gross profit margin over last year (%) |
| Domestic | 517,904,447.35 | 482,608,650.02 | 6.82 | -13.32 | -16.88 | Increase of 4.00 percentage points |
| Overseas | 345,802,628.71 | 292,832,450.32 | 15.32 | -21.42 | -26.07 | Increase of 5.33 percentage points |
| Total | 863,707,076.06 | 775,441,100.34 | 10.22 | -16.75 | -20.61 | Increase of 4.36 percentage points |

Description of principal business by industry, by product and by region

The domestic operating income dropped by 13.32% as compared with the corresponding period of last year, which was mainly affected by the decline in the operating income of steel gas cylinder and LNG gas cylinder. For the international market, with the gradual recovery of the economy in the US and Europe, the Company's business in the overseas market is steadily increasing in the second half of the year, although the operating income dropped by 21.42% as compared with the corresponding period of last year.

To explore new markets, the Company has been actively developing new products. The sales volume of new products such as system integration cylinder products, Type III cylinder, Type IV cylinder and "coal to gas" products grew significantly that the sales exceeded RMB50 million.

(ii) Analysis of production and sales volume

√ Applicable ☐ Not Applicable

| Principal product | Production volume | Sales volume | Inventory volume | Increase/decrease in production volume over last year (%) | Increase/decrease in sales volume over last year (%) | Increase/decrease in inventory volume over last year (%) |
|------------------------------|-------------------|--------------|------------------|---|--|--|
| Seamless steel gas cylinders | 1,053,005 | 1,203,130 | 71,068 | -0.90% | 13% | -7.8% |
| Winding cylinders | 58,873 | 59,503 | 13,080 | -20.23% | -21% | -2.3% |
| Cryogenic gas cylinders | 7,837 | 7,920 | 522 | 16.67% | 1.2% | -21% |

Description of production and sales volume

As the domestic and foreign economic environment in 2016 was complicated, most industries did not show a sign of recovery. The sales volume of Tianhai Industry's industrial steel gas cylinders and cryogenic gas cylinders slightly increased as compared with the corresponding period of last year while the sales volume of winding cylinders dropped. Looking at the inventory statistics, the inventory volume of principal products in 2016 significantly decreased as compared with the corresponding period of last year. The sales volume of our new product, the Type III cylinder which is also the key product of the Company in 2017, increased by 20 times.

(iii) Cost analysis*Unit: RMB Yuan*

| By product | Component of cost | Current period | By product | | | Change in amount over last year (%) | Scenario Note |
|--|--------------------|----------------|---|-----------------------------------|--|-------------------------------------|---------------|
| | | | Proportion over total cost for the current period (%) | Corresponding period of last year | Proportion over total cost for the corresponding period of last year (%) | | |
| Seamless steel gas cylinders | Materials | 222,933,297.22 | 54.00 | 324,808,577.71 | 69.82 | -31.36 | |
| | Labour cost | 37,155,549.54 | 9.00 | 31,448,094.89 | 6.76 | 18.15 | |
| | Manufacturing cost | 152,750,592.54 | 37.00 | 108,951,831.71 | 23.42 | 40.20 | |
| | | | | | | | |
| | Total | 412,839,439.29 | 100.00 | 465,208,504.31 | 100.00 | -11.26 | |
| Winding cylinders | Materials | 88,469,305.14 | 58.00 | 61,022,089.07 | 47.34 | 44.98 | |
| | Labour cost | 18,303,994.17 | 12.00 | 24,246,419.42 | 18.81 | -24.51 | |
| | Manufacturing cost | 45,759,985.42 | 30.00 | 43,633,242.82 | 33.85 | 4.87 | |
| | | | | | | | |
| | Total | 152,533,284.73 | 100.00 | 128,901,751.30 | 100.00 | 18.33 | |
| Cryogenic gas cylinders | Materials | 34,212,270.02 | 63.00 | 85,088,081.32 | 60.23 | -59.79 | |
| | Labour cost | 4,344,415.24 | 8.00 | 14,183,701.42 | 10.04 | -69.37 | |
| | Manufacturing cost | 15,748,505.25 | 29.00 | 42,000,143.75 | 29.73 | -62.50 | |
| | | | | | | | |
| | Total | 54,305,190.50 | 100.00 | 141,271,926.49 | 100.00 | -61.56 | |
| Cryogenic devices for storage and transportation | Materials | 44,687,878.59 | 62.00 | 30,717,675.59 | 47.80 | 45.48 | |
| | Labour cost | 10,090,811.29 | 14.00 | 10,892,564.88 | 16.95 | -7.36 | |
| | Manufacturing cost | 17,298,533.65 | 24.00 | 22,652,679.18 | 35.25 | -23.64 | |
| | | | | | | | |
| | Total | 72,077,223.53 | 100.00 | 64,262,919.65 | 100.00 | 12.16 | |

Other information on cost analysis

The “Funds Allocation System”, “Fund Utilization Management System,”, “External Invoice Management Approach” and “Management Approach of Repayment of Debts by Goods” are established and implemented, systems and procedures such as “Materials Procurement Management System”, “Procurement Contract Payment System” and “OA Funds and Budget Management System” are amended and enhanced such that relevant businesses are regulated and risks of control are lowered. The accumulated reduction in costs by RMB2,697 million was due to the procurement price reduction. The number of staff of the Group decreased by 318, or 23.3%, from 2,002 in the beginning of the year to 1,684, which greatly reduced the labour cost.

(iv) Information on major customers and major suppliers

Sales to five largest customers amounted to RMB142,604,100, representing 16.03% of total annual sales, of which sales to related parties were RMBNil, representing 0% of total annual sales.

Procurement from five largest suppliers amounted to RMB182,382,100, representing 26.88% of total annual procurement cost, of which procurement from related parties were RMB65,844,500, representing 9.70% of total annual procurement cost.

(3) Expenses

| Item | Current year | Corresponding period of last year | Change (%) |
|------------------------|-----------------------|--|-------------------|
| Selling expense | 70,892,546.65 | 75,076,845.20 | -5.57 |
| Administrative expense | 130,794,181.74 | 162,725,545.83 | -19.62 |
| Finance cost | 13,909,666.82 | 13,645,237.16 | 1.94 |

(4) Research and development expenditure

Breakdown of research and development expenditure

| | |
|--|---------------|
| Research and development expenditure recorded in expenses during the period | 10,773,928.97 |
| Research and development expenditure capitalised during the period | |
| Total research and development expenditure | 10,773,928.97 |
| Percentage of total research and development expenditure over operating income (%) | 1.21 |
| Number of research and development staff | 62 |
| Number of research and development staff over total number of staff (%) | |
| Percentage of research and development expenditure capitalised (%) | |

Description

During the Reporting Period, combining the 13th Five-year Plan of Tianhai companies and the technology development plan for 2016, various key research and development projects were formulated to continue to transform towards the gas storage and transportation equipment manufacturing and service areas. Taking the three leading industries, “cylinder, can, station”, as the core, the capabilities of independent product research and development as well as technological innovation were further strengthened. Products such as the 35MPa high pressure Type III aluminum liner carbon fiber full-winding compound gas cylinder for hydrogen fuel vehicles, large volume Type III gas cylinder for natural gas vehicles, various kinds of seamless steel gas cylinder and welding cylinder for fire-fighting, large volume LNG gas cylinder for vehicles, LNG tank container, LNG tank for vessels, “coal to gas” gasification station and L-CNG filling station were developed. In the meantime, the Company has systematic solutions and service capabilities for natural gas, hydrogen and industrial gas storage and transportation equipment. In 2016, nearly a hundred of tasks in various products’ research and development, certification and services were completed.

(5) Cash flows

| Item | Current year | Corresponding period of last year | Change (%) |
|--|-----------------------|--------------------------------------|----------------|
| Cash inflows from operating activities | 657,865,810.63 | 959,857,929.16 | -31.46 |
| Cash outflows from operating activities | 670,907,634.25 | 814,203,529.04 | -17.60 |
| Net cash flows generated from operating activities | -13,041,823.62 | 145,654,400.12 | -108.95 |
| Cash inflows from investing activities | 3,000.00 | 83,300.00 | -96.40 |
| Cash outflows from investing activities | 23,815,220.42 | 12,728,838.74 | 87.10 |
| Net cash flows generated from investing activities | -23,812,220.42 | -12,645,538.74 | Not applicable |
| Cash inflows from financing activities | 238,332,769.00 | 508,675,565.00 | -53.15 |
| Cash outflows from financing activities | 277,241,784.21 | 594,405,305.42 | -53.36 |
| Net cash flows generated from financing activities | -38,909,015.21 | -85,729,740.42 | Not applicable |

Description:

1. Net cash flows from operating activities decreased by RMB158,696,200 as compared to the corresponding period of last year, mainly due to the significant decrease in net cash flows from operating activities during the period, as the decrease in cash inflows from operating activities was much higher than the decrease in cash outflows from operating activities during the period;
2. Net cash flows generated from investing activities decreased by RMB11,166,700 as compared to the corresponding period of last year, mainly due to the settlement of the outstanding payment for the LNG industry base project and the investment in Type III cylinders during the period;
3. Net cash flows generated from financing activities increased by RMB46,820,700 as compared to the corresponding period of last year, mainly because the net repayment of borrowings made during the period was lower than that during the corresponding period of last year.

(6) Description of material change in profit due to non-principal business

☐ Applicable ☒ Not Applicable

IV. Analysis of assets and liabilities

Assets and liabilities

Unit: RMB Yuan

| Name of item | Balance at the end of the current period | Balance at the end of the current period over total assets (%) | Balance at the end of the previous period | Balance at the end of the previous period over total assets (%) | Change in amount over the previous period (%) | Description |
|-----------------------------|--|--|---|---|---|---|
| Monetary funds | 118,829,271.77 | 6.42 | 182,276,574.47 | 8.77 | -34.81 | Mainly due to the repayment of bank borrowings and loan from the holding company, and the significant decrease in cash inflows from operating activities during the year |
| Notes receivable | 16,314,951.71 | 0.88 | 3,228,891.44 | 0.16 | 405.28 | Mainly due to the decrease in notes endorsed and transferred for goods payment and the increase in notes received during the period |
| Prepayments | 36,211,833.81 | 1.96 | 19,166,811.68 | 0.92 | 88.93 | Mainly due to the increase in prepayments as a result of the payment policy of steel suppliers during the period |
| Other receivables | 4,580,549.80 | 0.25 | 1,776,665.84 | 0.09 | 157.82 | Mainly due to the increase in export tax refund |
| Other current assets | 54,172,565.88 | 2.93 | 7,082,519.02 | 0.34 | 664.88 | Mainly due to the reversal of provision for value-added tax in accordance with the value-added tax accounting treatment rules issued by the Ministry of Finance |
| Construction in progress | | | 8,037,077.84 | 0.39 | -100.00 | Mainly due to the transfer of construction in progress to fixed assets upon completion |
| Long-term deferred expenses | 14,852,487.39 | 0.80 | 280,524.60 | 0.01 | 5,194.54 | Mainly due to the recognition of recycling cylinders as long-term deferred expenses during the period |
| Notes payable | 30,000,000.00 | 1.62 | | | | Mainly due to the issuance of bank acceptance bills by the subsidiaries of the Company during the year |
| Accounts payable | 268,518,401.08 | 14.52 | 398,349,980.01 | 19.17 | -32.59 | Mainly due to the decrease in procurement volume as a result of the decline in the production of the Company, as well as the Company's adoption of debt restructuring policy to settle goods payment. |
| Advances from customers | 43,159,742.00 | 2.33 | 29,870,362.75 | 1.44 | 44.49 | Mainly due to the Company's adoption of preferential policies for customers who made advance payment, without adjusting sell price despite the increase in steel price |
| Taxes payable | 4,755,774.34 | 0.26 | -42,085,395.89 | -2.03 | -111.3 | Mainly due to the transfer of provision for value-added tax to other current assets in accordance with the value-added tax accounting treatment rules issued by the Ministry of Finance |
| Interest payable | 26,583.33 | 0.00 | 74,800.00 | 0.00 | -64.46 | Mainly due to the decrease in loans and resulting decrease in interest payable |
| Other current liabilities | 279,193.40 | 0.02 | | | | Mainly due to the incorporation of value-added tax for which revenue has been recognized but the relevant obligation to pay value-added tax has not yet occurred and which is required to be recognised as output tax in accordance with the value-added tax accounting treatment rules issued by the Ministry of Finance |
| Other comprehensive income | 2,390,915.53 | 0.13 | 1,068,547.60 | 0.05 | 123.75 | Mainly due to the change in exchange rate |
| Undistributed profit | -588,661,889.61 | -31.82 | -439,874,304.42 | -21.17 | 33.83 | Mainly due to the increase in loss for the year |

Major restricted assets at the end of the Reporting Period

| Item | Book Value at the end of year | Reasons for restriction |
|-------------------|----------------------------------|---|
| Monetary funds | 16,248,660.00 | Bill margin, letter of credit |
| Fixed assets | 95,720,999.35 | Pledged to secure bank borrowings and bills |
| Intangible assets | 17,807,844.08 | Pledged to secure bank borrowings and bills |

V. Analysis of industry operation

The principal business of the Company is the manufacturing of gas storage and transportation equipment. For specific industry-related information, please refer to the sections headed “Business Summary of the Company” and “Management Discussion and Analysis” in this year’s annual report.

VI. Analysis of investments

1. General analysis of external equity investments

☐ Applicable ☒ Not Applicable

During the Reporting Period, the Company had no new external equity investments.

(1) Material equity investments

☐ Applicable ☒ Not Applicable

(2) Material non-equity investments

☐ Applicable ☒ Not Applicable

(3) Financial assets measured at fair value

☐ Applicable ☒ Not Applicable

VII. Material disposal of assets and equity interest

☐ Applicable ☒ Not Applicable

VIII. Analysis of major subsidiaries and associates

☒ Applicable ☐ Not Applicable

| Company name | Business nature | Principal products or services | Business nature | Principal products or services | Registered capital | Total assets | Net assets | Net profit |
|---|------------------------|---|------------------------|---|--------------------|------------------|----------------|-----------------|
| Beijing Tianhai Industry Co. Ltd. | Production | Production and sale of gas cylinders accumulator shells, pressure vessels and auxiliary equipment, etc. | Production | Production and sale of gas cylinders accumulator shells, pressure vessels and auxiliary equipment, etc. | US\$61,401,800 | 1,846,663,538.40 | 613,395,422.31 | -183,732,615.62 |
| Jingcheng Holding (Hong Kong) Company Limited | Trading and investment | Import and export trade, investment holding and consultancy services, etc. | Trading and investment | Import and export trade, investment holding and consultancy services, etc. | HK\$1,000 | 160,501,355.89 | 160,120,941.70 | 70,806.99 |

IX. Structured entities under the control of the Company

☐ Applicable ☒ Not Applicable

X. Industry structure and trends

1. Competition within the industry

In 2016, China's economic situation has not much improvement. The economic growth and recovery in China and most international economies for 2016 were weak. While the PRC manufacturing industry was struggling and seeking way out amid the difficult and highly uncertain market and policy environment, the consumption of industrial gas, in particular those of large industrial users did not rise but fell in 2016. Most of the industry peers have shifted their focus from industrial cylinders to other areas. As for natural gas, under the pressure of severe environment pollution, the Chinese government adjusted the target percentage of natural gas consumption specified in China's 13th Five-Year Plan by raising planned natural gas consumption as a percentage of primary energy consumption in the next five years to more than 10%.

(1) Industrial gas market:

Statistics shows that the air separation unit operating rate in the PRC was 52.88% as at the end of 2016, representing a decrease of 0.34% from previous period. Sampling data shows that 54% enterprises had air separation unit operating rates at medium-and low-level and low level, representing an increase of 2% from last period, of which the percentage of the enterprises with air separation unit operating rates at medium-and low-level decreased by 1%, and the percentage of the enterprises with high level of air separation unit operating rates was 27%, remaining flat compared with that of last period. The percentage of the enterprises with high air separation unit operating rates was 19%, representing a decrease of 2% from last period.

(2) Natural gas market:

Under the guidance of the government's policy to deepen reform, the development environment for the natural gas industry will experience significant changes. This year was an important year for the implementation of the plan for the 13th Five-Year period (2016 to 2020) and a critical period for China to build a well-off society in an all-round way and realize the Chinese Dream of the great rejuvenation of the Chinese nation. During the special period, energy development will face unprecedented opportunities and challenges, and natural gas plays a very important role in China's energy revolution.

With the mounting pressure on environmental protection, the trend of low carbon energy consumption in the world is becoming more and more obvious. Natural gas will become an important bridge for global energy to transform from high carbon emission to low carbon emission, and its growth rate will be much higher than that of coal and oil. During the 13th Five-Year period, energy structure optimization and environmental pollution control at the national level will become the main driving force of natural gas consumption. In accordance with the Action Plan for Energy Development Strategy (2014-2020) issued by the State Council, by 2020 the percentage of natural gas consumption as a percentage of primary energy consumption will increase to over 10%.

As stated in the Several Opinions of the National Development and Reform Commission on Establishing a Long-term Mechanism to Guarantee the Steady Supply of Natural Gas, by 2020 China's natural gas supply capacity will reach 400 billion cubic metres, and hopefully 420 billion cubic metres. The Action Plan for Energy Development Strategy (2014-2020) further stipulates that by 2020 China's conventional gas production volume will reach 185 billion cubic metres while the production volume of shale gas and coalbed methane are targeting to exceed 30 billion cubic metres and reach 30 billion cubic metres, respectively, and that the government will actively and steadily carry out coal gas demonstration projects.

(3) Gas storage and transportation market:

Many private capital, listed companies and upstream raw material manufacturers entered the gas storage and transportation industry in recent years. In particular, with frenzied investments in the natural gas market in the past few years, the competition landscape is deteriorating. China now has 33 CNG cylinder manufacturers with a total annual capacity of over 2 million units and more than 80 LNG cylinder manufacturers with a total annual capacity of nearly 500,000 units. There has been fierce industry competition as the production capacity is much higher than the demand. However, the period of economic downturn is the key period for reshaping industry landscape and for enterprises to take the leading position by improving competitiveness. The industrial gas industry remained depressed and the LNG industry continued its downward trend due to low oil price. However, the future development of LNG is still rather promising as China faces the pressure for environment protection and treating smog. China's resolution on adjusting energy structure is unwavering. As the plan for natural gas application continued to be implemented, there is sufficient supply of natural gas in the PRC. Non-piped natural gas will further develop, and many private enterprises in several provinces voluntarily invested in the LNG industry. Automobile manufacturers have a growing demand for light vehicles and modular system solutions for spare parts, which is beneficial for the high-end vehicle gas market.

2. Industry development trend

In 2017, the industrial gas market will grow steadily. Due to many factors such as the restrictions imposed on production and traffic in 2016, the prices of industrial gases experienced wide fluctuations. In particular, the price of liquid argon experienced radical changes in the fourth quarter of 2016. As these temporary factors disappeared, however, the prices of industrial gases will restore to reasonable levels and their market demand will remain relatively stable. The consumption of industrial gas usually grew at a pace 2 times that of GDP growth, and the expected positive economic situations in the PRC in 2017 is conducive to the healthy development of the industrial gas industry.

On 5 January 2017, the National Development and Reform Commission and the National Energy Administration formally issued the 13th Five-year Plan for Energy Development.

The Plan proposed that by 2020 total energy consumption be controlled at less than 5 billion tons of standard coal, in line with the Outline of the National Economic and Social Development Plan. As for annual average growth rate, total energy consumption during the 13th Five-Year Period is expected to grow at an average annual rate of 2.5%, 1.1 percentage points lower than that during the 12th Five-Year Period and in line the new trend of energy consumption under the new normal.

The Plan proposed that during the 13th Five-Year Period the percentage of non-fossil energy consumption increased to more than 15%; the percentage of natural gas consumption increased to 10%; and the percentage of coal consumption lowered to below 58%. As calculated in accordance with the relevant planned indicators, the growth of non-fossil energy and natural gas will be 3 times that of coal and account for over 68% of the additional total energy consumption. It can be said that the low carbon clean energy will account for the majority of additional energy supply during the 13th Five-Year Period.

As such, China attaches much greater importance to natural gas development in the 13th Five-Year Plan, which indicated that natural gas industry and its upstream and downstream industries will receive policy support and will have room for better market development.

XI. Development strategies of the Company

Strategic positioning: To build the world's leading gas storage and transportation equipment manufacturing and service enterprise

Overall strategic thinking:

- (1) Change of the concept of development, from the expansion of scale to the pursuit of quality and performance.
- (2) Change from a standalone cylinder manufacturer to a system solution provider and services provider.
- (3) Research and development of high-end products, and upgrade of the existing products by leveraging the Internet of Things and Internet + technologies to improve the competitiveness of future products.
- (4) Revitalization of land and property resources to promote the transformation and upgrade of the Company.

XII. Operating plan

2017 is an important year for the Company to implement the "13th Five-Year" strategies. Firstly, for principal business, the Company will continue to strengthen the traditional product market, maintain its leading edge in product technology, improve product quality and enhance profitability; adjust the spatial layout, revitalize enterprises' production capacity, enhance the level of intelligent manufacturing and do upstream and downstream expansion within the industry; highlight key business and key products, and go all out to develop domestic and overseas sales markets; enlarge the effort in and expenditure on technological innovation, enhance the technological content and added value of products and accelerate the application of results of scientific and technological innovation. Secondly, for reasonable use of land resources, the Company will promote the revitalization and development of land resources, which can benefit the sustainable development of enterprises.

XIII. Potential risks

(1) Risks from the constant expansion of production capacity in the industry to the operating results

Due to the optimism for domestic natural gas markets, large investment companies set up factories to produce the natural gas storage and transportation equipment, and existing factories continued to expand the production scale, creating serious excess production capacity and making an increasingly competitive industry. According to industry association statistics, in the PRC, currently there are over 80 enterprises with LNG cylinder production qualifications with total annual capacity of nearly 500,000 units, and more than 30 CNG cylinder manufacturers with total annual capacity of over 2 million units. The production capacity is far greater than demand, resulting in fierce competition. As such, the Company will face strong pressure in its operation in 2017.

(2) Risk relating to the decrease in oil price and the “gas-to-electricity” policy affecting product profitability

Due to continuous significant decrease in fuel oil price in the PRC and failure to adjust the PRC natural gas price in a timely manner, the economic advantages of natural gas vehicles are no longer obvious. In addition, as the PRC economy entered the new normal and its economic growth slowed, the growth of automobiles also slowed down, resulting in the decrease in the demand for operating vehicles. Furthermore, the government strongly promoted new energy vehicles by providing large subsidies and administrative measures, the “gas-to-electricity” policy was adopted in certain areas, leading to the decline in the procurement volume of natural gas vehicles. With the substantial decrease in the sales volume of vehicle natural gas, the sales of vehicle natural gas cylinders were also adversely affected. The development of natural gas storage and transportation industry will continue to be constrained.

XIV. Analysis of financial position and operating results of the Company

1. Analysis of operating results

During the Reporting Period, total profit of the Company increased by RMB111,871,600 over the same period last year. Operating income decreased by 17.38% over the same period last year; operating cost decreased by 22.05% over the same period last year; and operating profit increased by RMB100,312,500 year-on-year.

Increase in product profitability: On one hand, as the market gradually recovered, the increase in material prices had led to the increase in finished goods. On the other hand, the Company implemented strict control over the procurement of materials and mainly consumed inventory in the year. As a result, production cost was less affected by the increase in the price of raw materials in the second half of the year. Further, the Company lowered labour cost through downsizing, and its hourly rated decreased.

During the Reporting Period, expenses decreased by RMB35,851,200 over the same period last year, mainly due to the decrease in sales revenue and the decrease in selling expenses directly relating to sales revenue in the year, such as: the significant decrease in expenses including transportation cost, warehousing and storage fees and travel expenses; the decrease in administrative expense: on one hand, as a result of the pilot implementation of the conversion of business tax to value-added tax, the relevant taxes previously recognised as administrative expense, including property tax, land use tax, travel tax, stamp tax and other related taxes, are included in taxes and surcharges, which resulted in the decrease in administrative expense of RMB8,298,200. Moreover, the Company conducted strict performance appraisal, and management's remuneration included in administrative expense during the period decreased by RMB8,431,400 year-on-year.

During the Reporting Period, impairment loss on assets decreased by RMB24,198,800 over the same period last year, 1. provision for inventory impairment loss decreased; As the market picked up, product prices have risen. In addition, the Company lowered hourly rate through downsizing, and mainly consumed raw material inventory. As such, it was less affected by the increase in the prices of raw materials in the second half of the year. As a result, the difference between the net realisable value of inventory and inventory cost narrowed, and the provision for inventory impairment loss made during the year was lower than that of last year. 2. Provision for impairment of fixed assets: During the year, certain subsidiaries of the Company valued their fixed assets for which there is evidence of impairment. According to the valuation results, provision for impairment of RMB37,730,000 was made for certain machinery and electrical equipment. 3. During the year, following impairment testing of goodwill arising from business combination not under common control, provision for impairment of RMB2,880,000 was made.

Investment income increased by RMB5,256,000 during the Reporting Period, mainly due to the substantial improvement in the profitability of Shandong Tianhai High Pressure Containers Co., Ltd., a joint venture of the Company.

Non-operating income increased by RMB9,756,000 during the Reporting Period, mainly due to the receipt of government subsidies including the subsidy received under the Policy of Tianjin Port Free Trade Zone for Facilitating Enterprises Affected by 12 August Incident to Conduct Self-help and Resume Production, and the subsidy granted by the Development and Reform Commission of Chaoyang District of Beijing to polluting enterprises in the second batch for disposal of polluting business in 2015. In addition, the Company adopted debt restructuring policy for suppliers to settle goods payment, which increased the gain on debt restructuring and, accordingly, non-operating income.

2. *Analysis of assets, liabilities and shareholders' equity*

Total assets and total liabilities as at the end of the Reporting Period both decreased from the beginning of the year.

As at the end of the Reporting Period, total assets were RMB1,849,908,900, representing a decrease of 10.95% as compared with the beginning of the year, of which: monetary funds decreased by 34.81%, accounts receivable decreased by 21.26%, inventories decreased by 18.84%, fixed assets decreased by 12.33%, construction in progress decreased by 100%, and long-term equity investment increased by 9.98%.

Total liabilities were RMB878,023,600, representing a decrease of 5.34% as compared with the beginning of the year, of which short-term borrowings decreased by 7.7% and accounts payable decreased by 32.59%.

Total shareholders' equity amounted to RMB971,885,300, representing a decrease of RMB178,088,200 or 15.49% as compared with the beginning of the year, mainly due to net loss for the year of RMB180,657,900.

3. *Analysis of financial position*

By implementing its prudent financial policies, the Company established a strict risk control system for investment, financing and cash management to maintain a sound capital structure and solid financing channels. The Company kept its loan scale under strict control such that it can satisfy the capital need of operating activities while minimizing its finance cost and preventing against financial risks in a timely manner by fully utilizing financial instruments, for purposes of achieving sustainable development of the Company and maximizing its shareholders' value.

| | 2016 | 2015 |
|-------------------|---------|---------|
| (1) Gearing ratio | 47.46% | 44.65% |
| (2) Quick ratio | 60.19% | 61.44% |
| (3) Current ratio | 103.05% | 110.76% |

4. *Bank loans*

The Company seriously implemented its annual capital budget plan in accordance with the market conditions and requirement of customers to control the bank loan scale strictly. The Company fully utilized financial tools to timely reduce finance cost and prevent against financial risks. In so doing, the Company improved the profit of the Company and shareholders while satisfying the capital need of operating activities. As at the end of the Reporting Period, the Company had short-term loan amounting to RMB190,000,000, representing a decrease of 7.7% as compared with the beginning of the year. Long-term loan was nil.

5. *Foreign exchange risk management*

The Company held a relatively small amount of deposits in foreign currencies. In addition to the payment of dividends of H shares and fees payable to the Hong Kong Stock Exchange and paper for information disclosure, the partial export and import business of the Company is settled in US dollars and Jingcheng Hong Kong and Tianhai America adopt US dollars as their recording currency. Therefore, the Company is exposed to the foreign exchange risk arising from the fluctuation of exchange rate between RMB and US dollars. The Company actively adopted such measures to reduce the foreign exchange risk.

XV. Principal Sources of Fund and Its Use

1. *Cash flows from operating activities*

The Company's cash inflows during the Reporting Period are mainly derived from the income of product sales. Cash outflow was mainly related to the production and operating activities. The Company's cash inflows from operating activities during the Reporting Period amounted to RMB657,865,800, while cash outflow amounted to RMB670,907,600. Net cash flow during the Reporting Period from operating activities amounted to RMB-13,041,800.

2. *Cash flows from investment activities*

Cash inflows from investment activities during the Reporting Period amounted to RMB3,000 while cash outflows from investment activities amounted to RMB23,815,200 which was mainly used for capital expense on the purchase of fixed assets. Net cash flows from investment activities during the Reporting Period amounted to RMB-23,812,200.

3. *Cash flows from financing activities*

Cash inflows from financing activities during the Reporting Period amounted to RMB238,332,800, which was mainly derived from bank loans. Cash outflows from financing activities during the Reporting Period amounted to RMB277,241,800, which was mainly due to the repayment of bank loans and borrowings from banks and Jingcheng Holding and interest. Net cash flow from financing activities for the Reporting Period amounted to RMB-38,909,000.

In 2016, net cash flows from operating activities decreased by RMB158,696,200 as compared to the corresponding period of last year, mainly due to the significant decrease in net cash flows from operating activities during the period, as the decrease in cash inflows from operating activities was much higher than the decrease in cash outflows from operating activities during the period. Net cash flows generated from investing activities decreased by RMB11,166,700 as compared to the corresponding period of last year, mainly due to the settlement of the outstanding payment for the LNG industry base project and the investment in Type III cylinders during the period. Net cash flows generated from financing activities increased by RMB46,820,700 as compared to the corresponding period of last year, mainly because the net repayment of borrowings made during the year was lower than that during the corresponding period of last year.

During the Reporting Period, the Company mainly financed its operations through internally generated cash flows and bank loans.

XVI. Capital Structure

The Company's capital structure consists of shareholders' equity and liabilities during the Reporting Period. Shareholders' equity amounted to RMB971,885,300, of which minority interests amounted to RMB406,687,500, and total liabilities amounted to RMB878,023,600. Total assets amounted to RMB1,849,908,900. As at the end of the year, the Company's gearing ratio was 47.46%.

Capital structure by liquidity

| | | |
|-----------------------------|----------------|-----------------------------|
| Total current liabilities | RMB739,830,500 | Percentage of assets 39.99% |
| Total shareholders' equity | RMB971,885,300 | Percentage of assets 52.54% |
| Of which: minority interest | RMB406,687,500 | Percentage of assets 21.98% |

XVII. Contingent Liabilities

As at the end of the Reporting Period, the Company did not have any significant contingent liabilities.

XVIII. Details of the Group's charge on assets

| Item | Book value at the end of year | Reason for restriction |
|-------------------|--------------------------------------|---|
| Monetary funds | 16,248,660.00 | Bill margin, letter of credit |
| Fixed assets | 95,720,999.35 | Pledged to secure bank borrowings and bills |
| Intangible assets | 17,807,844.08 | Pledged to secure bank borrowings and bills |

XIX. Fund requirement for maintaining existing business and establishing a project company in process

The Company has no newly added large amount investment projects under construction in 2016. The outstanding project payment (for Minghui Tianhai) can be basically made with privately-owned funds.

XX. Explanation of the Board on “Non-Standard Auditors’ Report” issued by the auditors

Not applicable

XXI. Profit distribution plan or plan to convert surplus reserves into share capital

1. Formulation, implementation or adjustment of cash dividend policy

Not applicable

2. Dividends distribution plan or pre-arranged plan or plan to convert surplus reserves into share capital in the previous three years (inclusive of the Reporting Period)

Unit: Yuan Currency: RMB

| Year of distribution | Number of shares to be distributed for every ten shares (share) | Amount to be distributed for every ten shares (RMB) (tax inclusive) | Number of shares to be converted into share capital for every ten shares (share) | Amount of cash dividend (inclusive of tax) | Net profit attributable to ordinary shareholders of listed company in the consolidated financial statement during the year of distribution | Percentage of the net profit attributable to ordinary shareholders of the listed companies in the consolidated financial statement (%) |
|----------------------|---|---|--|--|--|--|
| 2016 | 0 | 0 | 0 | 0 | -148,787,585.19 | 0 |
| 2015 | 0 | 0 | 0 | 0 | -207,817,373.56 | 0 |
| 2014 | 0 | 0 | 0 | 0 | 21,416,206.70 | 0 |

3. Repurchase of shares under cash offer included in cash dividend

None

4. If the Company records profits and the parent company records a positive undistributed profit during the Reporting Period but there is no resolution for cash dividend, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

Not applicable

III. EXPLANATION ON OTHER IMPORTANT MATTERS

1. Receipt of government subsidies

| Item | Amount for the year | Source |
|--|---------------------|---|
| Government subsidies for “double independent” enterprises | 750,296.00 | Government subsidies for “double independent” enterprises |
| Energy audit award from Beijing Energy Conservation and Environmental Protection Centre | 1,485,396.00 | Energy audit award from Beijing Energy Conservation and Environmental Protection Centre |
| Patent funds of Chaoyang District | 251,390.00 | Finance Bureau of Chaoyang district – The subsidy for the patent right for hi-tech enterprises, Chao Zhi Fu [2016] No. 11 – Notice on the Funds for Patented Technology Industrialization Projects of Chaoyang District in 2016, The Approach of Patent Funds and Incentives of Chaoyang District, Chao Zheng Fa [2010] No. 8, The Management Approach of Patent Funds of Beijing |
| The subsidy for guidance of the energy saving development by the Chaoyang district | 0 | The subsidy for guidance of the energy saving development by the Chaoyang district |
| Incentives for the implementation of intellectual property policies | 17,300.00 | Incentives for the implementation of intellectual property policies |
| The subsidy for the employment of disabled | 0 | The subsidy for the employment of disabled |
| Supporting fund for short-term export credit insurance | 52,015.00 | Supporting fund for short-term export credit insurance of Beijing Municipal Commission of Commerce |
| Beijing government subsidies for the development of foreign trade and economic cooperation | 430,674.00 | Regulations on the Implementation of Project Funds for the Development of Foreign Trade of Beijing, Beijing Municipal Commission of Commerce’s Notice on the Provision of the Guidance Funds for the Development of Foreign Trade and Economic Cooperation and the List of Enterprises Proposed to be Supported by the Assurance Services Platform |

| Item | Amount for the year | Source |
|---|----------------------------|---|
| The Development and Reform Commission of Chaoyang District of Beijing's subsidy for the adjustment and exit of polluting enterprises in 2015 | 3,000,000.00 | The Management Approach of Incentives for the Adjustment and Exit of Industrial Polluting Enterprises |
| The Policy of Tianjin Port Free Trade Zone for Facilitating Enterprises Affected by 12 August Incident to Conduct Self-help and Resume Production | 1,239,961.93 | Jin Bao Guan Fa [2015] No. 57 |
| Stabilizing employment subsidy | 167,600.00 | Ji Ren She Fa [2015] No. 57 |
| Social insurance subsidy | 92,930.98 | The Approval Form from the Application of Social Insurance by College Graduates who are employed by the small and medium enterprises in Langfang City |
| Employment subsidy | 75,111.72 | The Approval Form from the Application of Social Insurance by College Graduates who are employed by the small and medium enterprises in Langfang City |
| Financial incentives for response to projects | 43,906.00 | The Management Approach of Financial Incentives for the Pilot City Work for the Electricity Demand Side Management of Beijing |
| Financial incentives for projects related to the winter demand in 2015 | 17,183.00 | The Beijing Development and Reform Commission's Notice on Organization and Declaration of the Fourth Batch of Pilot City Projects for the Electricity Demand Side Management of Beijing |
| Total | <u>7,623,764.63</u> | — |

2. Changes of the subsidiaries that included in the consolidation scope during the Reporting Period

None.

3. During the Reporting Period, the Company's subsidiaries were subject to an applicable enterprise income tax rate of 25%.

4. Review of financial statements for the Reporting Period by the Audit Committee

The Audit Committee of the Board of the Company has reviewed and confirmed the annual results for 2016.

5. Corporate Governance Code

The Company has always complied with the Listing Rules of Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited during the Reporting Period.

The Company has adopted the code provisions contained in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Mr. Fan Yong, an independent non-executive Director, was absent from the annual general meeting of the Company held on 16 June 2016 for his other engagements.

6. Model Code for Securities Transactions by Directors and Supervisors

During the Reporting Period, the Company has adopted the model code of conduct regarding securities transactions by directors and supervisors on terms no less exacting than the required standards set in the Model Code in Appendix 10 of the Listing Rules. After making specific enquiries to all directors and supervisors, the Company confirmed that, each of directors and supervisors has complied with the required standards on securities transactions by directors and supervisors as set in the Model Code for the 12 months ended 31 December 2016.

7. Share capital

- (1) During the Reporting Period, there was no change in the total number of shares and shareholding structure of the Company.
- (2) During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

IV. ANNUAL REPORT AND OTHER INFORMATION

The announcement will be published on the websites of the Company (www.btic.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk). The annual report in entirety will be published on the websites of the Company and the Hong Kong Stock Exchange on 25 April 2017.

By Order of the Board
Beijing Jingcheng Machinery Electric Company Limited
Wang Jun
Chairman

Beijing, China
17 March 2017

As at the date of this announcement, the board of directors of the Company comprises Mr. Wang Jun, Mr. Chen Changge, Mr. Li Junjie and Mr. Du Yuexi as executive directors, Mr. Xia Zhonghua, Ms. Jin Chunyu and Mr. Fu Hongquan as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.