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京城機電股份
JINGCHENG MAC

北 京 京 城 機 電 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 2017 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 2017 (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, 2017

Prepared by: Beijing Jingcheng Machinery Electric Company Limited *Unit: RMB Yuan*

Item	*Note*	Closing balance	Opening balance
Current assets:			
Cash at bank and on hand		**78,367,503.16**	118,829,271.77
Settlement reserve			
Loans to banks and other financial institutions			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		**27,812,323.12**	16,314,951.71
Accounts receivable	*10*	**354,933,043.81**	215,185,885.26
Advances to suppliers		**49,912,905.26**	36,211,833.81
Premiums receivable			
Reinsurance premium receivable			
Reinsurance contract reserves receivable			
Interests receivable			
Dividends receivable		**8,756,869.09**	
Other receivables		**4,134,431.37**	4,580,549.80
Financial assets purchased under agreements to resell			
Inventories		**389,219,002.78**	317,127,619.90
Divide into assets held for sale			
Non-current assets due within one year			
Other current assets		**56,240,621.78**	54,172,565.88
Total current assets		**969,376,700.37**	762,422,678.13

Item	*Note*	**Closing balance**	Opening balance
Non-current assets:			
Loans and advances			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		**71,694,482.47**	75,181,681.58
Investment properties			
Fixed assets		**657,289,324.75**	841,900,126.42
Construction in progress		**68,468,558.01**	
Construction materials			
Disposal of fixed assets			
Bearer biological assets			
Oil and gas assets			
Intangible assets		**139,749,967.30**	151,586,583.57
Development expenditures			
Goodwill		**3,679,654.40**	3,679,654.40
Long-term deferred expenses		**14,514,756.50**	14,852,487.39
Deferred income tax assets		**288,577.32**	285,691.27
Other non-current assets			
Total non-current assets		**955,685,320.75**	1,087,486,224.63
Total assets		**1,925,062,021.12**	1,849,908,902.76

Item	*Note*	**Closing balance**	Opening balance
Current liabilities:			
Short-term borrowings		**285,000,000.00**	190,000,000.00
Borrowings from the central bank			
Deposits and placements from other financial institutions			
Placements from banks and other financial institutions			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable	*11*	**3,000,000.00**	30,000,000.00
Accounts payable		**257,850,663.86**	268,518,401.08
Advances from customers		**45,878,250.70**	43,159,742.00
Financial assets sold under agreements to repurchase			
Fees and commissions payable			
Employee benefits payable		**36,862,542.56**	25,073,101.25
Taxes payable		**16,683,209.97**	4,755,774.34
Interest payable		**446,534.71**	26,583.33
Dividends payable			
Other payables		**90,542,182.64**	167,017,675.53
Reinsurance amounts payable			
Reserve of insurance contract			
Securities brokering			
Securities underwriting			
Divide into liabilities held for sale			
Non-current liabilities due within one year		**11,000,000.00**	11,000,000.00
Other current liabilities		**5,380,893.08**	279,193.40
Total current liabilities		**752,644,277.52**	739,830,470.93

Item	*Note*	**Closing balance**	Opening balance
Non-current liabilities:			
Long-term borrowings		**5,060,000.00**	
Bonds payable			
Including: Preferred shares			
Perpetual bond			
Long-term payables			
Long-term employee benefits payable		**32,871,892.94**	31,163,678.50
Special payables		**103,900,000.00**	103,900,000.00
Provisions		**4,243,554.25**	3,129,430.00
Deferred incomes		**2,000,000.00**	
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**148,075,447.19**	138,193,108.50
Total liabilities		**900,719,724.71**	878,023,579.43
Owner's equity:			
Capital stock		**422,000,000.00**	422,000,000.00
Other equity instruments			
Including: preferred shares			
Perpetual bond			
Capital reserves		**687,349,089.60**	683,803,181.69
Less: treasury stocks			
Other comprehensive incomes		**1,154,074.87**	2,390,915.53
Special reserves			
Surplus reserves		**45,665,647.68**	45,665,647.68
Provisions for general risk			
Undistributed profit	*12*	**-567,793,525.60**	-588,661,889.61
Total shareholders’ equity attributable to parent company		**588,375,286.55**	565,197,855.29
Non-controlling interest		**435,967,009.86**	406,687,468.04
Total stockholders’ equity		**1,024,342,296.41**	971,885,323.33
Total liabilities and stockholders’ equity		**1,925,062,021.12**	1,849,908,902.76

CONSOLIDATED INCOME STATEMENT

Year of 2017

Prepared by: Beijing Jingcheng Machinery Electric Company Limited *Unit: RMB Yuan*

Item	*Note*	**Amount of this year**	Amount of previous year
I. Total operating revenue		**1,203,496,955.02**	889,525,250.25
Including: Operating revenues	*8*	**1,203,496,955.02**	889,525,250.25
Interest incomes			
Earned premiums			
Fees and commissions incomes			
II. Total operating cost		**1,262,017,863.96**	1,094,190,076.73
Including: Operating cost		**1,008,933,698.75**	791,505,520.14
Interest expenses			
Fees and commissions expenses			
Cash surrender amount			
Net expenses of claim settlement			
Net provision for insurance contract reserves			
Policyholder dividend expenses			
Expenses for reinsurance accepted			
Taxes and surcharges		**16,443,274.58**	12,487,149.78
Selling expenses		**65,404,323.80**	70,892,546.65
Administrative expenses		**119,314,949.33**	130,794,181.74
Financial expenses		**24,439,493.07**	13,909,666.82
Assets impairment losses		**27,482,124.43**	74,601,011.60
Add: gains from changes of fair value (with “-” for losses)			
Investment incomes (with “-” for losses)		**-4,586,130.02**	6,819,578.37
Including: Investment incomes from affiliated enterprises and joint ventures		**-4,586,130.02**	6,819,578.37
Exchange gains (with “-” for losses)			
Incomes of assets disposal (with “-” for losses)		**66,140,181.07**	-2,091,562.94
Other earnings			
III. Operating profit (with “-” for losses)		**3,033,142.11**	-199,936,811.05
Add: non-operating income		**48,430,029.67**	21,809,765.04
Less: non-operating expenses		**19,826,854.16**	887,499.74
IV. Total profits (with “-” for total losses)		**31,636,317.62**	-179,014,545.75
Less: income tax expenses	*13*	**8,490,684.72**	1,643,345.83

Item		Note	Amount of this year	Amount of previous year
V.	**Net profits(with "-" for net losses)**		**23,145,632.90**	-180,657,891.58
	(I) Classified according to operating continuity:			
	1. Net profit from continuing operations (with "-" for net losses)		**23,145,632.90**	-180,657,891.58
	2. Net profit from discontinuing operations (with "-" for net losses)			
	(II) Classified according to attribution of the ownership:			
	1. Non-controlling interests profit and loss (with "-" for net losses)		**2,277,268.89**	-31,870,306.39
	2. Net profit attributable to the parent company's shareholders (with "-" for net losses)		**20,868,364.01**	-148,787,585.19
VI.	**Other net comprehensive incomes after-tax**		**-2,424,859.82**	2,569,657.92
	Other net after-tax comprehensive income attributable to the owner of the parent company		**-1,236,840.66**	1,322,367.93
	(I) Other comprehensive income that cannot be reclassified through profit or loss in the future			
	1. Changes recalculating and setting the net liabilities or net assets of the benefit plan			
	2. Under the equity method, share enjoyed in other comprehensive incomes in the invested entity 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.		**-1,236,840.66**	1,322,367.93
	1. Under the equity method, share enjoyed in other comprehensive incomes in the invested entity that can be reclassified into loss and profit in the future			
	2. Change loss and profit of fair value of financial assets available-for-sale			
	3. Mature 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 for foreign currency		**-1,236,840.66**	1,322,367.93
	6. Others			
	Other comprehensive income attributable to minority shareholders after-tax		**-1,188,019.16**	1,247,289.99
VII.	**Total comprehensive incomes**		**20,720,773.08**	-178,088,233.66
	Total comprehensive incomes attributable to shareholders of the parent company		**19,631,523.35**	-147,465,217.26
	Total comprehensive income attributable to minority shareholders		**1,089,249.73**	-30,623,016.40
VIII.	**Earnings per share:**			
	(I) Basic earnings per share	*14*	**0.05**	-0.35
	(II) Diluted earnings per share		**0.05**	-0.35

Notes to Consolidated Financial statements

1. Basis for preparation of financial statements

The Group prepared the financial statements on the basis of going concern, 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 (Chapter 622 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and based on the accounting policies and accounting estimates of the Group. Specific accounting policies and accounting estimates will indicate: accounting policies developed by the Group according to characteristics of actual production and operation and accounting estimates including business cycle, the recognition and measurement of provisions for bad debts from receivables, the measurement of inventory dispatched, fixed assets classification and depreciation methods, amortization of intangible assets, conditions for capitalizing R&D expenses, recognition and measurement of incomes, impairment of long term assets and provisions, etc.

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, results of operation and cash flow of the Company and the Group truly and completely.

3. Accounting Period

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

4. Recording Currency

RMB is the recording currency for the Company and its subsidiaries, except for BTIC AMERICA CORPORATION and Jingcheng Holding (Hong Kong) Co., Ltd. ("Jingcheng HK') 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 the merged party in the consolidated financial statements of the ultimate 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.

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 non-controlling interests in total comprehensive income shall be listed in consolidated financial statements as non-controlling interests, non-controlling interests profit and loss, other comprehensive income attributable to minority shareholders and total comprehensive income attributable 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 for 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 investee 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 investee 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 transaction 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. (1) 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 current year	Amount in previous year
Total sales	**1,166,472,219.97**	863,707,076.06
Less: Sales tax and other surcharges	**16,443,274.58**	12,487,149.78
Total	**1,150,028,945.39**	851,219,926.28

(2) Tax

Item	Amount in current year	Amount in previous year
Gross sales	**8,496,222.40**	1,651,706.37
Less: sales tax and other additional charges	**-5,537.68**	-8,360.54
Total	**8,490,684.72**	1,643,345.83

9. Segmental Information

Nil

10. Accounts receivable

(1) Accounts receivable

Project name	Closing balance	Opening balance
Accounts receivable	**387,475,764.82**	236,593,334.39
Less: bad debt provision	**32,542,721.01**	21,407,449.13
Net amount	**354,933,043.81**	215,185,885.26

(2) Aging analysis of accounts receivable

Aging	Closing balance	Opening balance
Within one year	**305,057,924.90**	166,774,552.37
One to two years	**29,272,340.64**	15,574,499.76
Two to three years	**6,330,440.36**	27,051,732.56
Three to four years	**12,540,964.74**	4,867,459.57
Four to five years	**1,731,373.17**	917,641.00
More than five years	**0.00**	0.00
Total	**354,933,043.81**	215,185,885.26

11. Accounts payable

(1) Accounts payable

Item	Closing balance	Opening balance
Material payment, etc.	**247,106,828.24**	215,997,537.29
Project payment	**10,743,835.62**	52,520,863.79
Total	**257,850,663.86**	268,518,401.08

(2) Aging analysis of accounts payable

Item	Closing amount	Opening amount
Within one year	**192,243,087.10**	170,792,265.42
One to two years	**8,401,700.79**	87,809,198.38
Two to three years	**53,054,070.96**	6,809,605.43
More than three years	**4,151,805.01**	3,107,331.85
Total	**257,850,663.86**	268,518,401.08

(3) Significant payables with the aging over 1 year:

Company name	Closing balance	Reasons for unrepayment or carrying over
Tianjin Lebeier Catering Management Co., Ltd.	**1,728,956.00**	Unsettled
Lanxi Haide Machine Tool Manufacturing Co., Ltd.	**1,717,948.71**	Unsettled
Tianjin Bintai Energy Development Co., Ltd.	**1,304,844.55**	Unsettled
Global Industrial Supply Co., Ltd.	**1,202,227.27**	Unsettled
Cangzhou Huiyou Wire & Cable Co., Ltd.	**1,173,071.46**	Unsettled
Total	**7,127,047.99**	—

The basis of aging analysis of the Group is presented based on the relevant transaction dates.

12. Undistributed Profits

Current amount

Item	Current Year	Previous Year
Closing balance of the previous year	**-588,661,889.61**	-439,874,304.42
Add: adjustment of opening undistributed profits	**0.00**	0.00
Including: Retroactive adjustment as newly stipulated in *Accounting Standards for Business Enterprises*	**0.00**	0.00
Changes in accounting policies	**0.00**	0.00
Correction of major early errors	**0.00**	0.00
Change in scope of consolidation under the common control	**0.00**	0.00
Other adjustment factors	**0.00**	0.00
Opening balance of the current year	**-588,661,889.61**	-439,874,304.42
Add: Net profits attributable to parent company in the current year	**20,868,364.01**	-148,787,585.19
Less: Appropriation of statutory surplus reserve	**0.00**	0.00
Appropriation of discretionary surplus reserves	**0.00**	0.00
Appropriation of general risk provision	**0.00**	0.00
Ordinary share dividends payable	**0.00**	0.00
Ordinary share dividends transferred into share capital	**0.00**	0.00
Closing balance of the current year	**-567,793,525.60**	-588,661,889.61

13. Income Tax Expense

Item	Amount in the Current Year	Amount in the Previous Year
Income tax expense for the current period-corporate income	**8,496,222.40**	1,651,706.37
1. China	**7,012,223.88**	1,202,216.89
2. Hong Kong	**0.00**	0.00
3. Other regions (USA)	**1,464,427.75**	416,472.29
4. Over-measurement in the previous years (under-measurement)	**19,570.77**	33,017.19
Deferred income tax expenses	**-5,537.68**	-8,360.54
Total	**8,490,684.72**	1,643,345.83

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	**20,868,364.01**	-148,787,585.19
Consolidated net profit attributable to the shareholders of ordinary shares of the parent company (after deducting the non-recurring gains and losses)	**-60,775,640.60**	-164,874,525.62
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)	**0.05**	-0.35
Basic earnings per share (Yuan/share) (after deducting the non-recurring gains and losses)	**-0.14**	-0.39

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		
Number of outstanding ordinary shares issued at the end of the year	**422,000,000.00**	422,000,000.00

(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	**20,868,364.01**	-148,787,585.19
Consolidated net profit attributable to the shareholders of ordinary shares of the parent company upon adjustment (after deducting the non-recurring gains and losses)	**-60,775,640.60**	-164,874,525.62
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)	**0.05**	-0.35
Diluted earnings per share (Yuan/share) (after deducting the non-recurring gains and losses)	**-0.14**	-0.39

15. Dividend

In 2017, there was no paid or suggested dividend, and since the end of reporting period, there has been no suggested dividend (2016: Nil).

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. Chairman's Report

(1) Review

2017, the second year of the "13th Five-Year" strategy being implemented, and was the crucial year to consolidate and make adjustment in accordance with national industry policies was full of challenges. Upholding the strategic positioning "to build the world's leading gas storage and transportation equipment manufacturing and service enterprise", the Company carried out business under two major principles, namely "cost reduction, innovation and cessation of loss" and "reform and adjustment". Deepened reform and innovation and accelerated product structure transformation and upgrading, the Company strived to seek internal growth potential from all aspects, realizing the completion and achievement of all levels, such as development and production operation, product research as well as corporate governance.

1. Substantial improvement of the results of the principal business

   Beijing Tianhai Industry Co., Ltd ("Tianhai Industrial" or "Beijing Tianhai") achieved operating income of RMB1,204 million, representing an increase of 35.52% over the same period of the preceding year. The total profit amounted to RMB23.5059 million, which successively completed the task of turning losses into gains in respect of the principal business, and the Company's principal business is developing positively and healthily in a stable and high-quality manner.

2. Implementation of multiple measures to reduce costs

   In 2017, the Company continued to reduce costs through reduction of purchase cost, discounted payments and increased technology activities, and strived to further lower product cost expenditures and enhance products profitability overall through substantial reduction of period charge.

   In particular, the accumulated purchase amount saved for the year amounted to approximately RMB18.53 million in respect of purchase, and the Company greatly promoted the operation of the Sunshine Procurement Platform at the same time so that the purchase cost could be further reduced. By conducting extensive measures for cost reduction in respect of technology advance, the gross profit margin of top five series products, including aluminum liner, accumulator, winding cylinders, cryogenic tanks and normal cryogenic gas cylinders, achieved a positive figure as compared with the same period of the preceding year. With the enhancement of comprehensive budget management and strict control of costs, the expenses reduced by RMB6.4376 million over the same period of the preceding year.

3. Reform adjustment under strategic guidance with remarkable effects

   On 7 April 2017, Beijing Tianhai and Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd. ("Kuancheng Shenghua") collaborated to incorporate Kuancheng Tianhai Pressure Vessel Co., Ltd. ("Kuancheng Tianhai") by capital contribution. Currently, Kuancheng Tianhai has completed installation of production line and equipment test, obtained manufacturing license for products and has officially commenced operation. In December 2017, Langfang Tianhai High Pressure Containers Co., Ltd. ("Langfang Tianhai") and Beijing Liandong Jintai Investment Company Limited have completed the delivery procedure of property assets of Langfang Tianhai, and the registration of the real property ownership transfer in respect of such assets has been completed. The Company has also received a total of RMB230 million as the consideration of transfer and the compensation fee. The gain from the property resource transfer project of Langfang Tianhai has greatly helped the Company turn profitable.

4. Fruitful achievements in key research and development projects and certification programs

   The Company made fruitful achievements in hydrogen industry, and made significant progress on numerous new product developments. Jiangsu Tianhai Special Equipment Co., Ltd. passed the TC factory certification and obtained the certificate; Tianjin Tianhai High Pressure Container Co., Ltd. ("Tianjin Tianhai") completed the renewal of DOT and TS and obtained the TS16949 certificate.

5. Scientific planning and integrated arrangement on the promotion of healthy development of cadre and staff teams

   The Company attached great importance to the building of talent teams, and carried out work closely following the "13th Five-Year" human resource planning and the main tasks of "division of talents and core construction". Aiming at realization of strategic planning goal, the Company constructed a strategic human resource management system, implemented the mechanism of human resource efficiency management, and preliminarily completed the construction of core talent selection model. The Company implemented organization structural adjustment in accordance with the Company's need, further modified the situation of low efficiency positions, undefined sections and unclear power and responsibility. Meanwhile, personnel dismissed from the Company were well treated. The smooth dismiss of personnel laid a solid foundation for the further transformation and upgrading of enterprise.

(2) Outlook

In 2018, the Company will closely follow its goals and tasks, and deepen the reformat of its system and mechanism. Under the guidance of "13th five-year plan" strategy, it will be committed to implementing the deployment of "four battles", namely, enhancing the effort in the reform of adjustment and transformation and upgrade, expanding and consolidating the market, driving development with innovation, promoting an in-depth integration between information and industry. By keeping the reform and innovation in mind, the Company takes on responsibility and strives for a full completion of each goal and task during 2018.

1. Firmly promote the reform and adjustment

   Comprehensively make a layout and optimize the resource structure. In 2018, the Company will continue to follow corporate development strategies to develop cutting-edge products. By clinging to strength instead of weakness and adhering to the control of development pace, it focuses on developing products with high added value and future industrial prospect, decisively gets rid of inefficient assets, accelerates the pace of transformation. It will promote adjustment of special layout and reallocation of production capacity and make great efforts in Wufanqiao development.

2. Take initiative in expanding the industry based on traditional market

   (1) For international market, the Company will increase its presence in the American market and actively expand the European market; attach great focus on the trend in emerging markets such as India, South America and Russia to adapt to the national policy of "One Belt, One Road", and develop international cooperation for tapping into areas like industry and natural gas to achieve breakthroughs.

(2) For natural gas market, the Company should grasp the opportunities in each city to construct gas peak-shaving station and develop ultra-large natural gas tank storage business while also actively expanding marine tanks. Next, it should take an active role and strive to provide quality products, expand the market and develop full-diameter LNG cylinders into a major, profitable product for the Company for the fields of compressed natural gas ("CNG") and liquefied natural gas ("LNG") in order to become a major supplier of automobile manufacturers.

(3) For hydrogen energy market, the Company should pay close attention to relevant national industrial policies. It will extend its cooperation with automobile manufacturers and system integrators based on the "high-tech" industrial development planning of the capital city and continuously develop new products to form economies of scale as early as possible.

3. Innovation drives development, creates cutting-edge industrial structure and strives for transformation and upgrade

(1) The Company should accelerate the marketization of hydrogen system, seek for developing the industry chain of integration of gas, cylinders and stations based on existing hydrogen cylinder and hydrogen system, and extend to the areas such as hydrogen refueling station and liquid hydrogen storage tank.

(2) Oriented by the market, the Company should take initiative to get around and look into customers' real needs and competitors' situations, break routines by bold innovation. It should quickly develop products that satisfy market demands by optimizing product design and technique and constantly perfecting design concept, and raise product competitiveness.

4. Strengthen human resource construction, actively attract professional talents and enhance the construction of corporate headquarter

(1) In order to strengthen human resource management and performance assessment system construction, the Company, on one hand, should value the training of internal personnel, conduct multi-level, cross-filed professional training, solidify internal cultivation mechanism for talents, and on the other hand, should increase its efforts in the employment of technicians, professionals specialized in capital operation and management, improve its core competitiveness of human resources, the ability in capital operation and corporate value.

(2) The Company should continue to promote functional adjustment in its headquarter, continuously improve level of management in each department throughout headquarter and perfect managerial function to provide reserve and security in terms of labor and expertise for the Company to better its principal business and expand the development of multi-field business.

5. Enhance budget management; improve financing ability, lower capital cost

   In 2018, the Company should further enhance comprehensive budget management, strictly control budget analysis and pre-warning and fully improve the accuracy and execution of comprehensive budget. Meanwhile, it should diversify financing approach and tools to increase finance ability, reduce cost, expense, inventory, receivable to improve efficiency of capital turnover, and reasonably distribute capital to meet its need in operational development.

II. Principal Operation during the Reporting Period

In 2017, faced with tough market condition, the Company still sees "Focus on profit, fully eliminate risks in delisting" as operational goal. In order to achieve such goal, in terms of principal business, the Company establishes overall sales strategies of "stabilizing industrial market, taking lead on fire control market, exploring gas market and aiming for high-end market", so as to speed up fruition of production development, actively seize market share, accelerate adjustment of product structure and spatial layout. In terms of non-principal business, the Company should look at the whole picture and properly revitalize and utilize land resources so as to lay solid foundation for its sustainable and healthy development.

During Reporting Period, the Company had focused on the following work:

1. The Company's governance has made steady progress with compliant operation

In 2017, the Company had completed re-election of the Board and the Supervisory Committee, re-appointed senior management member and mid-level management personnel to ensure proper positioning for a listed company's functional department and management, and fulfilled a listed company's management operational structure. By formulating and amending relevant system and continuously improving and micro-managing corporate management, it ensures that its operational and managerial level could keep on increasing and that related decisions have grounds to abide by.

2. New situation and new thinking for market exploration at home and abroad

The Company adjusted sales strategy and created stable and flexible pricing system. During the second half of 2017, Tianhai companies had delegated domestic right of sale to every production unit. As a result of grasping opportunities in a reviving gas market, the sales of products such as tank container, Type III cylinders, LNG cylinder and winding cylinders grew quickly and became the major source for the Company's profit.

3. *Enhance capital management, raise using efficiency*

Confronted with increasingly difficult financing environment, the Company should plan and coordinate capital turnover, and resorts to finance limit within reason. At the same time, by revitalizing inventory assets, calling overdue receivable and disposing of overstock, other means to ensure the normal delivery of contract orders, construction investments and other aspects of large-scale use of funds in order to ensure the Company's normal production and operation.

4. *Kuancheng Tianhai Project*

In accordance with the strategic thinking used by the Company to adjust product layout, by conducting field visit and research on Kuancheng Shenghua and through several in-depth, thorough and detailed negotiation between two parties, Beijing Tianhai decided to forge alliance with Kuancheng Shenghua, and together invested in establishing Kuancheng Tianhai on 7 April 2017, in which Beijing Tianhai would contribute with cash and the right to use technology and hold 61.1% of equity interest while Kuancheng Shenghua would contribute with benefits in kind and hold 38.9% of equity interest. The establishment of Kuancheng Tianhai can not only use the Company's strength in brand, technology and quality, but also use the advantage of Kuancheng Shenghua in cost management. In addition, the Company has achieved the relocation of its traditional cylinder and industrial transfer, and made reasonable use of land resources. The cooperation between a state-owned company and a private company not only helps improve product competitiveness and corporate profitability, and also helps explore mixed-ownership reform.

5. *Property resource transfer in Langfang Tianhai*

With the implementation of synergetic development policy in Beijing-Tianjin-Heibei region, Langfang Tianhai is no longer suitable as being in traditional manufacturing for industrial policy of this region. Affected by market and other factors, Langfang Tianhai recorded losses throughout the year due to idle capacity and dormant resource. Therefore, the Company decided to reform and adjust Langfang Tianhai, and transferred properties assets of Langfang Tianhai.

In December 2017, the Company and Beijing Liandong Jintai Investment Company Limited have completed the delivery procedure of subject assets, and the registration of the real property ownership transfer in respect of such assets has been completed. The Company has also received a total of RMB230 million as the consideration of transfer and the compensation fee. The gain from such project has greatly helped the Company turn profitable.

6. *Wufangqiao land development project*

During the implementation of Wufangqiao land development project due to policy and other reasons, no good progress has been made. In the future, the Company will further research, demonstrate and confirm development solution as soon as possible to achieve effective use of resources.

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	**1,203,496,955.02**	889,525,250.25	35.30
Operating cost	**1,008,933,698.75**	791,505,520.14	27.47
Selling expense	**65,404,323.80**	70,892,546.65	-7.74
Administrative expense	**119,314,949.33**	130,794,181.74	-8.78
Finance cost	**24,439,493.07**	13,909,666.82	75.70
Net cash flows generated from operating activities	**-226,658,464.95**	-13,041,823.62	-1,637.94
Net cash flows generated from investing activities	**206,702,807.81**	-23,812,220.42	968.05
Net cash flows generated from financing activities	**-3,780,038.99**	-38,909,015.21	90.28
Research and development expense	**10,640,445.25**	10,773,928.97	-1.24
Tax and surcharges	**16,443,274.58**	12,487,149.78	31.68
Impairment loss on assets	**27,482,124.43**	74,601,011.60	-63.16
Investment income	**-4,586,130.02**	6,819,578.37	-167.25
Income from disposal of assets	**66,140,181.07**	-2,091,562.94	3,262.24
Non-operating income	**48,430,029.67**	22,696,614.78	122.06
Non-operating expenses	**19,826,854.16**	3,865,912.42	2,134.01
Income taxes expense	**8,490,684.72**	1,643,345.83	416.67
Other net comprehensive income after tax	**-2,424,859.82**	2,569,657.92	-194.37

(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 increased as compared to 2016, the main reason is that the faster growth rate of the orders of the products, including tank containers and cylinders for vehicles, had impacts on the profitability. In 2017, affected by the decline of industries including 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. The Company explored the market of tank container with a hope to turn around and achieved a historical breakthrough. At the same time, both winding cylinders and LNG cylinders showed strong growth.

(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 industry

By industry	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	487,850,148.57	402,833,894.13	17.43	-0.10	-2.42	Increase of 1.97 percentage points
Winding cylinders	199,270,780.58	175,840,651.75	11.76	27.88	15.28	Increase of 9.65 percentage points
Cryogenic gas cylinders	134,008,683.64	118,928,669.76	11.25	122.12	119.00	Increase of 1.26 percentage points
Cryogenic devices for storage and transportation	228,314,625.38	174,746,644.61	23.46	258.04	142.44	Increase of 36.49 percentage points
Others	117,027,981.80	109,096,490.66	6.78	22.62	30.36	Decrease of 5.54 percentage points
Total	1,166,472,219.97	981,446,350.91	15.86	35.05	26.57	Increase of 5.64 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	806,603,501.91	659,577,680.02	18.23	55.74	36.67	Increase of 11.41 percentage points
Overseas	359,868,718.06	321,868,670.89	10.56	4.07	9.92	Decrease of 4.76 percentage points
Total	1,166,472,219.97	981,446,350.91	15.86	35.05	26.57	Increase of 5.64 percentage points

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

The operating income of the domestic region increased by 55.74% over the same period of the preceding year, mainly due to strong growth of winding cylinders and LNG cylinders driving by the favourable policies of natural gas. For the international market, the sales volume of cryogenic gas cylinders achieved substantial growth, the sales of cylinders for respirator achieved a breakthrough and the accumulator products had stable growth, representing a growth of operating income of 4.07% over the same period of the preceding year.

To explore the market, the Company actively developed new products, and the tank containers achieved a breakthough, while the new products including system integration cylinder products and Type III cylinder also maintained a high growth rate.

(ii). Analysis of production and sales volume

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	884,000	841,645	111,814	3.6%	1.5%	109%
Winding cylinders	95938	94372	4079	27%	31%	-61.4%
Tank containers	506	506	30	2310%	2876%	-26.8%
Cryogenic gas cylinders	4919	4967	1095	-28.5%	-29.5%	-14.5%

Description of production and sales volume

In 2017, the government restricted the LNG supply for industrial use during the heating season so as to ensure sufficient LNG supply for civil use, thus resulting the continuous increase in the price of LNG, substantial drop in the number of vehicles produced by automobile makers and a plunge in the number of orders of cryogenic gas cylinders. In 2017, the single product mix of the Company and over-concentration of customer resources brought adverse impact on the operation of the Company in the short term, resulting the decrease in the annual sales volume. The substantial increase in the inventory volume of seamless steel gas cylinders was mainly because the production of the subsidiaries in Tianjin and Langfang were restricted by force majeure factors such as environmental protection, thus affecting the normal production scheduling and leading to stagnation with a slowdown in the turnover of inventory.

(iii). Cost analysis

Unit: Yuan Currency: RMB

By product							
By product	**Component of cost**	**Current period**	**Proportion over total cost for the current period (%)**	**Corresponding period of last year**	**Proportion over total cost for the corresponding period of last year (%)**	**Change in amount over last year (%)**	**Scenario Note**
Seamless steel gas cylinders	Materials	226,665,178.84	56.27	222,933,297.22	54.00	1.67	
	Labour cost	33,241,307.15	8.25	37,155,549.54	9.00	-10.53	
	Manufacturing cost	142,927,408.14	35.48	152,750,592.54	37.00	-6.43	
	Total	402,833,894.13	100.00	412,839,439.29	100.00	-2.42	
Winding cylinders	Materials	111,528,001.10	63.43	88,469,305.14	58.00	26.06	
	Labour cost	16,183,716.96	9.20	18,303,994.17	12.00	-11.58	
	Manufacturing cost	48,128,933.69	27.37	45,759,985.42	30.00	5.18	
	Total	175,840,651.75	100.00	152,533,284.73	100.00	15.28	
Cryogenic gas cylinders	Materials	89,217,812.58	75.02	34,212,270.02	63.00	160.78	
	Labour cost	10,113,057.49	8.50	4,344,415.24	8.00	132.78	
	Manufacturing cost	19,597,799.69	16.48	15,748,505.25	29.00	24.44	
	Total	118,928,669.76	100.00	54,305,190.50	100.00	119.00	
Cryogenic devices for storage and transportation	Materials	125,066,562.39	71.57	44,687,878.59	62.00	179.87	
	Labour cost	20,239,499.79	11.58	10,090,811.29	14.00	100.57	
	Manufacturing cost	29,440,582.42	16.85	17,298,533.65	24.00	70.19	
	Total	174,746,644.61	100.00	72,077,223.53	100.00	142.44	

Other information on cost analysis

The accumulated purchase amount saved for the year amounted to approximately RMB18.53 million in respect of purchase, and the Company greatly promoted the operation of the Sunshine Procurement Platform at the same time so that the purchase cost could be further reduced. By conducting extensive measures for cost reduction in respect of technology advance, the gross profit margin of top five series products, including aluminum liner, accumulator, winding cylinders, cryogenic tanks and normal cryogenic gas cylinders, achieved a positive figure as compared with the same period of the preceding year. With the enhancement of comprehensive budget management and strict control of costs, the expenses reduced by RMB6.4376 million over the same period of the preceding year.

(iv). Information on major customers and major suppliers

Sales to five largest customers amounted to RMB337,589,900, representing 28.06% of total annual sales, of which sales to related parties were RMB0, representing 0% of total annual sales.

Procurement from five largest suppliers amounted to RMB258,001,000, representing 24.47% of total annual procurement cost, of which procurement from related parties were RMB119,774,300, representing 11.36% of total annual procurement cost.

(3) Expenses

Item	**Current year**	Corresponding period of last year	**Change (%)**
Selling expense	**65,404,323.80**	70,892,546.65	-7.74
Administrative expense	**119,314,949.33**	130,794,181.74	-8.78
Finance cost	**24,439,493.07**	13,909,666.82	75.70

(4) Research and development expenditure

Breakdown of research and development expenditure

Unit: Yuan Currency: RMB

Research and development expenditure recorded in expenses during the period	10,640,445.25
Research and development expenditure capitalised during the period	–
Total research and development expenditure	10,640,445.25
Percentage of total research and development expenditure over operating income (%)	0.88
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 Reporting Period, the Company stressed on carrying out the development and certification for different specification and series of 35MPa aluminum liner and carbon fiber full winding compound gas cylinders (Type III cylinder) for hydrogen fuel vehicles, and conducted the research and manufacturing of 70MPa Type III cylinder and hydrogen supply system for passenger vehicles by combining with the subject from Beijing Science Committee and has completed the research and manufacturing of 35MPa hydrogen supply system for several hydrogen fuel vehicles. For the field of natural gas application, the Company focused on the research and development of "coal-to-gas" gasification device, light CNG Type III cylinder for transportation vehicles and large-volume LNG welded insulated cylinders and LNG tank containers for transport storage. For industrial gas and fire-control fields, the Company has completed nearly a hundred of product development and certification of various types of seamless steel gas cylinder, accumulator shells, SCBA respirator cylinder, cryogenic gas cylinder and cryogenic tank in 2017.

(5) Cash flows

Item	Current year	Corresponding period of last year	Change (%)
Cash inflows from operating activities	**806,053,274.10**	657,865,810.63	22.53
Cash outflows from operating activities	**1,032,711,739.05**	670,907,634.25	53.93
Net cash flows generated from operating activities	**-226,658,464.95**	-13,041,823.62	1,637.94
Cash inflows from investing activities	**230,024,000.00**	3,000.00	7,667,366.67
Cash outflows from investing activities	**23,321,192.19**	23,815,220.42	-2.07
Net cash flows generated from investing activities	**206,702,807.81**	-23,812,220.42	Not applicable
Cash inflows from financing activities	**384,878,320.00**	238,332,769.00	61.49
Cash outflows from financing activities	**388,658,358.99**	277,241,784.21	40.19
Net cash flows generated from financing activities	**-3,780,038.99**	-38,909,015.21	Not applicable

Description:

1. Net cash flows from operating activities decreased by RMB213,616,600 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 increase in cash inflows from operating activities was lower than the increase in cash outflows from operating activities during the period;

2. Net cash flows generated from investing activities increased by RMB230,515,000 as compared to the corresponding period of last year, mainly due to the disposal of properties of Langfang Tianhai, a subsidiary of Tianhai Industrial, during the period;

3. Net cash flows generated from financing activities increased by RMB35,129,000 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

1. Income from disposal of assets for the year included the profit of RMB60,327,941.31 from disposal of properties of Langfang Tianhai, a subsidiary of the Company.

2. Government subsidies of non-operating income for the year were RMB18,578,401.03, including the incentive grant for functions transfer and improvement by state-owned enterprises of RMB15,839,237.09.

3. Gains from debt restructuring of non-operating income for the year increased profits of RMB13,998,858.16.

IV. Analysis of assets and liabilities

1. Assets and liabilities

Unit: Yuan Currency: RMB

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	78,367,503.16	4.07	118,829,271.77	6.42	-34.05	Mainly due to the repayment of bank borrowings and loan from the holding company, and the significant increase in cash outflows from operating activities during the year
Notes receivable	27,812,323.12	1.44	16,314,951.71	0.88	70.47	Mainly due to the decrease in notes endorsed and transferred for goods payment and the increase in notes received during the period
Receivables	354,933,043.81	18.44	215,185,885.26	11.63	64.94	Mainly due to the increase in operating income during the period
Prepayments	49,912,905.26	2.59	36,211,833.81	1.96	37.84	Mainly due to the increase in prepayments as a result of the payment policy of steel suppliers during the period
Dividends receivable	8,756,869.09	0.45				Mainly due to the announcement of distributing 20% of the dividends for the year by the Company
Construction in progress	68,468,558.01	3.56				Mainly due to the construction in progress of Kuancheng Tianhai, a new subsidiary of Tianhai Industrial
Short-term loans	285,000,000.00	14.80	190,000,000.00	10.27	50.00	Mainly due to the increase in bank loans of subsidiaries of the Company
Notes payable	3,000,000.00	0.16	30,000,000.00	1.62	-90.00	Mainly due to the decrease in the issuance of bank acceptance bills by the subsidiaries of the Company during the year
Employee pay payable	36,862,542.56	1.91	25,073,101.25	1.36	47.02	Mainly due to the increase in employee pay payable at at the end of the year

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
Taxes payable	16,683,209.97	0.87	4,755,774.34	0.26	250.8	Mainly due to the increase in value-added tax and enterprise income tax payable by the subsidiaries of the Company
Interest payable	446,534.71	0.02	26,583.33	0.00	1,579.75	Mainly due to the increase in loans and resulting increase in interest payable
Other payables	90,542,182.64	4.70	167,017,675.53	9.03	-45.79	Mainly due to the repayment of lending funds to Jingcheng Holding by the subsidiaries of the Company
Other current liabilities	5,380,893.08	0.28	279,193.40	0.02	1,827.3	Mainly due to the increase in pending changeover VAT on sales
Other comprehensive income	1,154,074.87	0.06	2,390,915.53	0.13	-51.73	Mainly due to the change in exchange rate

2. *Major restricted assets at the end of the reporting period*

Item	Book Value at the end of year	Reasons for restriction
Monetary funds	1,500,000.00	Bill margin
Fixed assets	228,003,278.30	Pledged to secure bank borrowings
Intangible assets	117,952,182.48	Pledged to secure bank borrowings
Construction in progress	38,430,356.55	Pledged to secure bank borrowings
Total	385,885,817.63	—

3. *Other description*

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 section headed "Management Discussion and Analysis" in this year's annual report.

VI. Analysis of investments

1. General analysis of external equity investments

(1) Material equity investments

Beijing Tianhai cooperated with Kuancheng Shenghua in the joint investment and establishment of Kuancheng Tianhai in Kuancheng Manchu Autonomous County, Chengde City, Hebei Province to produce impact extruded cylinders and large tube type cylinders. Beijing Tianhai contributed in cash and patent technologies and the right of use of patent technologies in respect of impact extruded cylinders and fire-fighting cylinders management, while Kuancheng Shenghua contributed through land use rights, plants and used equipment, with a total project investment amount of RMB119,954,000. Kuancheng Tianhai was established on 7 April 2017, with a registered capital of RMB81,584,000. Beijing Tianhai and Kuancheng Shenghua held 61.1% and 38.9% equity interest respectively. For details, please refer to the Announcement on the External Investment by Beijing Tianhai Industry Co., Ltd., a Subsidiary of the Company, in establishing Kuancheng Tianhai Pressure Vessel Co., Ltd. disclosed by the Company on 6 April 2017.

Beijing Tianhai proposed to acquire a total of 49% of the shares, from its external individual shareholders, Bill Zheng (鄭國祥) and Susan Guo (郭志紅), each of whom held 24.5% of the shares of BTIC America Corporation with the Share Transfer Agreement signed. On 3 August 2017, the Company was informed by Beijing Municipal Commission of Commerce that the above share transfer did not meet the latest national policies, that the relevant application and information would not be considered, hence, such share transfer cannot proceed. For details, please refer to the Announcement on the Share Transfer Agreement Relating to the Acquisition of 49% of the Shares of BTIC America Corporation by Beijing Tianhai Industry Co., Ltd. not taking effect disclosed by the Company on 3 August 2017.

(2) Material non-equity investments

Not Applicable

(3) Financial assets measured at fair value

Not Applicable

VII. Material disposal of assets and equity interest

On 21 July 2017, the Company disclosed the Potential Disposal of Property Assets of Langfang Tianhai through Public Tender. On 5 September 2017, the Company disclosed the Announcement on the Progress of Transfer of Property Assets by Langfang Tianhai High Pressure Containers Co., Ltd. through Public Tender. On 6 September 2017, relevant assets were placed for public tender on China Beijing Equity Exchange ("CBEX") (see announcement for details), while the public tender period ended on 9 October 2017. Upon qualification review by CBEX, Beijing Liandong Jintai Investment Company Limited* (北京聯東金泰投資有限公司) ("Party B") was the sole qualified transferee for the asset transfer. Party B has no connected relationship with the Company. According to the result of public tender, the property assets would be transferred through public tender for a consideration of RMB215,000,000 (the "Transfer Consideration"). In addition to the aforementioned Transfer Consideration, Party B shall pay Langfang Tianhai a compensation fee of RMB15,000,000 (the "Compensation Fee") for vacating the land. Such fee shall be payable with the consideration in one lump sum. On 11 October 2017, both parties entered into the Contract of Transfer of Tangible Assets (實物資產交易合同) in relation to the asset transfer. On 27 December 2017, the Company disclosed the Announcement on the Progress of Transfer of Property Assets by Langfang Tianhai High Pressure Containers Co., Ltd., in order to fulfill the obligation of transfer of subject assets, both parties entered into the Real Estate Transfer Confirmation Letter ("Transfer Confirmation Letter") after negotiations (see announcement for details). On 28 December 2017, the Company and Party B have completed the delivery procedure of subject assets, and the registration of the real property ownership transfer in respect of such assets has been completed. Party B has obtained the Real Property Ownership Certificate (Certificate No.: Qi(2017) Langfang Development Zone Real Property Ownership No.0017278) issued by the relevant authorities. The Company has received a total of RMB230,000,000 as the Transfer Consideration and the Compensation Fee paid by Party B.

VIII. Analysis of major subsidiaries and associates

Company name	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.	US$ 61,401,800	1,918,672,801.59	657,722,311.90	15,015,218.49
Jingcheng Holding (Hong Kong) Company Limited	Trading and investment	Import and export trade, investment holding and consultancy services, etc.	HK$ 1,000	156,152,980.32	150,990,201.80	171,893.79

IX. Structured entities under the control of the Company

X. Industry structure and trends

1. Competition within the industry

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 was deteriorating. China now has 33 CNG cylinder manufactures with a total annual capacity of over 2 million units and more than 80 LNG cylinder manufactures 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 the 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 LNG industry still has a promising prospect as China faces pressure on the environment protection and the treatment of haze. China's determination on adjusting the energy structure is steadfast. As the plan for natural gas application is gradually 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 spontaneously invest in the LNG industry.

2. Development trend

(1) Cylinder products

As it is unlikely to change the competitive landscape of standardised industrial gas cylinder, the demand for highly pure cylinders will gradually increase. In 2018, global demand for industrial gas cylinders will not be much higher than 2017, and domestic industrial gas cylinders will still be unable to escape from the situation of excessive production capacity and competition in low prices. With the adjustment in the national industrial structure, energy saving and environmental protection, electronic information and renewable energy industries experienced rapid development, leading to the significant increase in the demand for special gas and also in the demand for home-made highly pure cylinders. In the future, standardised gas cylinder products such as 219 are required to achieve the brand advantage to maintain the market share. At the same time, we will enhance the promotion of high pressure light steel cylinder products to meet the demand of the international market and promote the replacement of 15MPa gas cylinders with 20MPa gas cylinders in domestic market to upgrade the products.

The market demand for vehicle cylinders will hopefully increase. With the rally in international oil price, the economic performance of vehicle LNG became apparent once again. According to national policies on the requirements of vehicle weight reduction and along with the state's natural gas development policies consecutively taking effect, these factors may help to revitalize the natural gas vehicle industry. We will increase our efforts on maintaining and expanding OEM customers and establish a comprehensive service chain combining sales, technology with quality control to meet the increasing market demand for service. However, there are more liquidity problems for automobile manufacturers, so the market needs to be developed moderately.

(2) Cryogenic products

China's industrial restructuring and changes in methods of industrial gas transportation and storage to low-temperature liquids will bring continuous increase in market demand for cryogenic cylinders and cryogenic tanks. In the long term, the trend of implementing environmental control globally, China's energy-saving and emission reduction and increasing the percentage of clean energy consumption remains unchanged. In the future, natural gas as a clean energy will still be applied in transportation sector such as LNG heavy trucks and vessels. Cryogenic tanks industry is exposed to favorable market opportunities. Large cryogenic tanks are required for receiving stations, peak regulation stations, vessels, gas refueling stations and the construction of factory buildings. Meanwhile, along with the adjustment of internal mechanism of major domestic energy companies, projects previously suspended are gradually initiated. The market will gradually recover in the future. The continuous increase in the demand for peak regulating infrastructures will also stimulate the increase of demand for large LNG storage tanks.

(3) Station-related products

With a slowdown in economic growth and the shift from rapid growth to high quality, filling station enterprises are cautious about investment and slow down the market development. In addition, the cost recovery period of LNG filling stations currently continue to extend, obviously reducing the investment and slowing down the development of LNG filling stations. It will stick to implementing policies of accelerating popularization of natural gas, seize the opportunities of smog governance and promoting the "coal to gas" policy to strengthen the corporation among gas companies in all regions as well as develop bottle and integrated gasification stations to capture market share by LNG gasification skids, keeping the proper development of filling stations business.

(4) Tank container products

Undoubtedly the potential for the development of tank container industry is huge in the coming years. Its flexible transportation methods can satisfy the large demand of LNG imports market, help the upgrade of global LNG delivery methods and provide a new approach to quickly allocate LNG resources, and therefore a broad market prospect. To actively develop long-term corporation with customers is the main focus in the future.

* For information purpose only, and should not be regarded as the offical English translation of such Chinese name.

(5) Hydrogen energy products

China has been paying high attention to the development of hydrogen power industry in recent years. National policies including the 13th Five-Year National Science and Technology Innovation Plan（「十三五」國家科技創新規劃）, "Made in China 2025" initiative（中國製造2025）and the "13th Five-Year Plan for Projects of Science and Technology Innovation for the Transportation "（「十三五」交通領域科技創新專項規劃）classified the hydrogen energy and fuel cell technology as a priority and listed the fuel cell vehicles as a supporting focus, which expressly specified that the demonstration use of 5,000 public buses in certain areas is achieved and 100 hydrogen stations have been set up in 2020. By 2025, there will be 50,000 buses in use and 300 hydrogen stations constructed. By 2030, there will be millions of fuel cell cars in commercial operation and the number of hydrogen stations reaches to 1,000. Currently, there are five hydrogen energy demonstration cities, including Beijing and Shanghai, and nine hydrogen stations in China. Some automobile manufacturers such as SAIC (上汽), YuTong (宇通), Foton (福田) and DongFeng (東風) have obtained fuel cell vehicles models that has obtained announcements. Several provinces have proposed hydrogen energy demonstration projects. In Guangdong, the hydrogen filling stations jointly established by PetroChina and Sinopec has commenced construction. It's expected that the hydrogen power industry shall make breakthroughs in the next three to five years, namely around 2020. By virtue of its advantage in producing gas storage and transportation equipment accumulated over years, we will seize the opportunities to develop Type III and IV cylinders and systems of hydrogen supply and to gain dominance in the area of hydrogen equipment manufacturing.

XI. Development strategies of the Company

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

Overall strategy:

1. Strengthening the leading position of traditional product market such as industrial gas cylinders, maintaining proper scale and enhancing profitability to ensure profitability. Deeply exploring the potentials in domestic and international energy gas markets, taking full advantage of current capacity and improving the products' quality to maintain its leading edge in product technology.

2. Giving full play to the advantages of production resources of traditional products, establishing and optimizing product plan, enhancing the level of intelligent manufacturing, and transforming from traditional manufacturing to advanced and intelligent manufacturing.

3. Optimizing its products structure, no longer selling non-profitable products or transferring non-profitable products, increasing efforts on developing high value-added products and occupying domestic markets. Enlarging the effort on technological innovation and making the best of the research and development of efficient energy storage technology and the marketization application.

XII. Operating plan

2018 represents a critical year for implementing the “13th Five-Year” strategy. Study in-depth and follow the spirit of the 6th Plenary Session of the 18th Central Committee of the Communist Party of China and General Secretary Xi Jinping’s speech on Party construction by state-owned enterprises to closely unite around the Party Central Committee with Comrade Xi Jinping as the core. Raising the “Four Awarenesses” and according to the material decisions and arrangements of the Party Central Committee and Beijing on the promotion of reform of state-owned enterprises, the Company will unwaveringly promote the reform and adjustment as well as the transformation and upgrade, strive to improve the overall operation, creating a good corporate culture, going all out and overcoming all difficulties to plan three aspects for the “13th Five Year Plan”: the first is the strengthening of the principal manufacturing business; the second is the development and utilization of land resources; and the third is to well utilize the capital market and Hong Kong companies for investment and financing. Meanwhile, sub-strategies such as corresponding human resource development strategy, marketing strategy, production strategy, financial strategy, research and development strategy and information strategy are required for supports to guarantee the implementation of the strategies and promote the realization of its various tasks for 2018.

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 competition in the industry. According to industry association statistics, in the PRC, currently there are over 60 enterprises with LNG cylinder production qualifications with total annual capacity of nearly 400,000 units, and more than 30 CNG cylinder manufacturers with total annual capacity of over 2 million units. As such, the Company will face strong pressure in its operation in 2018.

(2) Risks relating to the increase in gas price and the “gas-toelectricity” policy affecting product profitability

Due to the decrease in fuel oil price and the significant increase in natural gas price in the PRC, the economic advantages of natural gas vehicles are no longer obvious, causing customers losing confidence in using natural gas vehicles. In addition, as China’s economy enters the new normal and its economic growth slows down, so does the growth of the automobile industry, resulting in the decrease in the demand for operating vehicles. Furthermore, the government strongly promoted new energy buses by providing huge subsidies and introducing administrative measures, the “gas-to-electricity” policy was adopted in certain areas, resulting in the decline of the procurement of natural gas buses. Due to the substantial decrease in the growth of the sales volume of natural gas for vehicles, the sales of natural gas cylinders for vehicles were also adversely affected. The natural gas storage and transportation industry was heavily affected.

XIV. Analysis of financial position and operating results of the Company during the Reporting Period

1. Analysis of operating results

During the Reporting Period, total profit of the Company increased by RMB210,650,900 over the same period last year. Operating income increased by 35.30% over the same period last year; operating cost increased by 27.47% over the same period last year; and operating profit increased by RMB202,970,000 year-on-year.

Increase in product profitability: Since 2017, international crude oil prices continued to increase steadily and the domestic refined oil price also catched up such increase, while the cost-effectiveness of natural gas utilisation had recovered to a certain extent. Meanwhile, with the implementation of new version of GB1589 standards in 2016, the heavy duty truck industry had relatively substantial growth as compared with last year, thus driving the production and sales of natural gas heavy duty trucks. In the meantime, the global industrial gas market and downstream hydrogen and fuel cell industries continued to recovered. Under such industrial development background, the Company targeted on key regions and expanded sales channels and approaches through the establishment of leased-out storerooms and other ways. The LNG equipment market of the Company, especially the LNG cylinder, had fast growth demand, and its sales and production had relatively substantial growth as compared with the corresponding period of last year. With substantial growth of production volume, the production capacity could be generated to a large extent so as to dilute the fixed charges, reduce unit costs of products and increase the gross profit margin.

During the Reporting Period, expenses decreased by RMB6,437,600 over the same period last year, of which, selling expenses decreased by RMB5,488,200, mainly due to the adoption of acceptance and pick up of products in the plants by certain major customers for procurement of products, meanwhile, the Company and logistic companies chose to charter vehicles to deduce waste of transporting capacity and effectively reduce the transportation costs. The administrative expense decreased by RMB11,479,200. 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 after May 2017, which resulted in the decrease in administrative expense of RMB1,687,700. Provision for impairment of idle fixed assets was made last year and the depreciation cost for the period decreased by RMB3,358,200. The commission fees for the period decreased by RMB5,109,800 as compared with last year, which was due to the payment to an intermediary agency by the Company for the preparation of restructuring last year. The finance cost increased by RMB10,529,800, which was due to the increase in foreign exchange loss of RMB7,334,000 as a result of the appreciation of RMB, while the interest expenses increased by RMB3,508,800 as a result of the increase in finance amount and costs.

During the Reporting Period, impairment loss on assets decreased by RMB47,118,900 over the same period last year. 1. Provision for inventory impairment loss decreased: As the market picked up, costs of product reduced. As a result, the difference between the net realisable value of inventory and carrying amount 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, fixed assets were not impaired after tests. 3. During the year, goodwill was not impaired after tests.

Investment income decreased by RMB11,405,700 during the Reporting Period, mainly due to the substantial decrease in the profitability of Shandong Tianhai High Pressure Containers Co., Ltd., a joint venture of the Company.

Gains from disposal of assets increased by RMB68,231,700 during the Reporting Period, mainly due to the income from the disposal of properties of Langfang Tianhai, a subsidiary of the Company.

Non-operating income increased by RMB26,620,300 during the Reporting Period, mainly due to the receipt of government subsidies of RMB18,578,400, including the incentive grant for functions transfer and improvement by state-owned enterprises of RMB15,839,200. In addition, the Company entered into the debt restructuring agreement with suppliers, which increased the gain on debt restructuring of RMB13,998,900.

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

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

As at the end of the Reporting Period, total assets were RMB1,925,062,000, representing an increase of 4.06% as compared with the beginning of the year, of which: monetary funds decreased by 34.05%, fixed assets decreased by 21.93%, accounts receivable increased by 64.94%, notes receivable increased by 70.47%, prepayments increased by 37.84%, and inventories increased by 22.73%.

Total liabilities were RMB900,719,700, representing an increase of 2.58% as compared with the beginning of the year, of which short-term borrowings increased by 50% and other payables decreased by 45.79%.

Total shareholders' equity amounted to RMB1,024,342,300, representing an increase of RMB52,457,000 or 5.4% as compared with the beginning of the year, mainly due to the increase in net loss for the year and the new minority interest of Kuancheng Tianhai.

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.

Liquidity and capital structure

	2017	2016
(1) Gearing ratio	**46.79%**	47.46%
(2) Quick ratio	**77.08%**	60.19%
(3) Current ratio	**128.8%**	103.05%

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 RMB285,000,000, representing an increase of 50% as compared with the beginning of the year. Long-term loan was RMB5,060,000.

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, newspapers and other information disclosure costs, the partial export and import business of the Company was settled in US dollars and Jingcheng Hong Kong and Tianhai America adopted 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 RMB806,053,300, while cash outflow amounted to RMB1,032,711,700. Net cash flow during the Reporting Period from operating activities amounted to RMB-226,658,500.

2. *Cash flows from investment activities*

Cash inflows from investment activities during the Reporting Period amounted to RMB230,024,000 while cash outflows from investment activities amounted to RMB23,321,200 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 RMB206,702,800.

3. *Cash flows from financing activities*

Cash inflows from financing activities during the Reporting Period amounted to RMB384,878,300, which was mainly derived from bank loans. Cash outflows from financing activities during the Reporting Period amounted to RMB388,658,400, 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-3,780,000.

In 2017, net cash flows from operating activities decreased by RMB213,616,600 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 increase in cash inflows from operating activities was lower than the increase in cash outflows from operating activities during the period. Net cash flows generated from investing activities increased by RMB230,515,000 as compared to the corresponding period of last year, mainly due to the disposal of properties of Langfang Tianhai, a subsidiary of Tianhai Industrial, during the period. Net cash flows generated from financing activities increased by RMB35,129,000 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 borrowings from controlling shareholders 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 RMB1,024,342,300, of which minority interests amounted to RMB435,967,000, and total liabilities amounted to RMB900,719,700. Total assets amounted to RMB1,925,062,000. As at the end of the year, the Company's gearing ratio was 46.79%.

Capital structure by liquidity

United: Yuan Currency: RMB

Total current liabilities	RMB752,644,300	Percentage of assets 39.10%
Total shareholders' equity	RMB1,024,342,300	Percentage of assets 53.21%
Of which: minority interest	RMB435,967,000	Percentage of assets 22.65%

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

United: Yuan Currency: RMB

Item	**Book value at the end of year**	**Reason for restriction**
Monetary funds	1,500,000.00	Bill margin
Fixed assets	228,003,278.30	Pledged to secure bank borrowings
Intangible assets	117,952,182.48	Pledged to secure bank borrowings
Construction in progress	38,430,356.85	Pledged to secure bank borrowings
Total	385,885,817.63	–

XIX. Embezzlement of funds and repayment of debt during the Reporting Period

Not applicable

XX. Explanation of the Company 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. Profit distribution plan or pre-arranged plan or plan or pre-arranged 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 (%)
2017	0	0	0	0	20,868,364.01	0
2016	0	0	0	0	-148,787,585.19	0
2015	0	0	0	0	-207,817,373.56	0

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

Not applicable

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

Unit: Yuan Currency: RMB

Item	Amount for the year	Source
Incentive grant for functions transfer and improvement by state-owned enterprises	15,839,237.09	"Notice of Granting 2017 Capital Budget for National Capitals Operation"
Suspension subsidies	1,383,800.00	The Finance Bureau of Langfang Economic and Technology Development Zone
Subsidies for occupational training and benefit plans	507,600.00	Jin Ren She Ju Fa [2015] No. 6 (津人社局發[2015]6號), Jin Zheng Fa [2014] No. 31 (津政發[2014]31號)
Incentive grant by Beijing Municipal Commission of Commerce	250,256.00	Appropriation from Beijing Municipal Commission of Commerce
Subsidies for outstanding enterprises and scientific and technological innovation teams	200,000.00	Lang Kai Gong [2017] No. 13 (廊開工【2017】13號)
Subsidies of Beijing Environmental Protection Bureau for elimination and upgrade of old and used vehicles	85,500.00	"Proposal for further promotion of elimination and upgrade of old and used motor vehicles of Beijing City"
Subsidies for economic growth of industries and enterprises in the first half of 2017	67,000.00	Jin Bao Fa Gai Bao [2017] No. 71 (津保發改報[2017]71號)
Technical standard funds of Science and Technology Committee of Chaoyang of Beijing	54,000.00	Notice in relation to the publishment of "Incentives for Establishment (Amendment) of Technical Standard of Chaoyang District" by Intellectual Property Office of Chaoyang district, Beijing
Outstanding Contribution Award for Addressing Employment Issue	50,000.00	Tongzhou District Huoxianzhen People's Government
Subsidies for providing positions for disabled persons for the year 2015 to 2016	41,000.00	Appropriation from Disabled Persons' Federation of Chaoyang district, Beijing
Employment subsidies for university students	35,007.94	Ji Ren She Fa [2015] No. 57 (冀人社發【2015】57號)

Item	Amount for the year	Source
Subsidies for addressing over-capacity of steel enterprises and providing positions for their employees	25,000.00	Jin Ren She Ju Fa [2016] No. 80 (津人社局發[2016]80號)
Subsidies for occupational training and benefit plans, subsidies for personnel training and benefit plans	25,000.00	Jin Ren She Ju Fa [2015] No. 6 (津人社局發[2015]6號), Jin Zheng Fa [2014] No. 31 (津政發[2014]31號)
Incentive grant for energy conservation	15,000.00	Beijing Energy Conservation and Environmental Protection Centre

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

There is one new subsidiary in respect of the consolidation scope as a result of the newly established Kuancheng Tianhai for the year.

On 7 April 2017, Beijing Tianhai and Kuancheng Shenghua established Kuancheng Tianhai by way of joint contribution. The registered capital and paid-up capital of Kuancheng Tianhai are RMB81.5840 million and RMB81.5840 million respectively. Beijing Tianhai contributed RMB49.8478 million in monetary capital and the right of use of technologies, holding 61.10% equity interests; while Kuancheng Shenghua contributed RMB31.7362 million in the land use right, buildings and machinery equipment, holding 38.90% equity interests. Both parties owned equity interests based on the agreed capital contribution proportion.

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 has reviewed and confirmed the financial report for 2017.

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 Corporate Governance Code contained in Appendix 14 (the "CG Code") to the Listing Rules as its own corporate governance code. The Board considered that the Company has complied with all the applicable code provisions set out in the CG Code throughout the year.

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 2017.

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 27 April 2018.

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

Beijing, the PRC
26 March 2018

As at the date of this announcement, the Board comprises Mr. Wang Jun, Mr. Li Junjie and Mr. Zhang Jiheng as executive directors, Mr. Du Yuexi, Ms. Jin Chunyu, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.