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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 2015 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 2015 (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 2015

Prepared by: Beijing Jingcheng Machinery Electric Company Limited

Unit: RMB (Yuan)

Items	Note	Closing balance	Beginning balance
Current assets:			
Monetary fund		182,276,574.47	163,962,823.33
Transaction settlement funds			
Lendings to banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Bills receivable		3,228,891.44	13,148,883.12
Accounts receivable		273,293,153.87	404,135,634.03
Prepayments		19,166,811.68	78,985,528.99
Premiums receivable			
Reinsurance receivables			
Reinsurance contract reserves receivable			
Interest receivable			
Dividends receivable			
Other receivables		1,776,665.84	6,435,698.19
Purchase and resale of financial assets			
Inventories		390,738,839.19	572,992,423.57
Assets held for sale			
Non-current assets due within one year			
Other current assets		7,082,519.02	
Total current assets		877,563,455.51	1,239,660,991.23

Items	<i>Note</i>	Closing balance	Beginning balance
Non-current assets:			
Granted and entrusted loans and advances			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		68,362,103.21	55,004,776.68
Investment properties			
Fixed assets		960,308,435.85	1,016,720,860.27
Construction in progress		8,037,077.84	22,888,621.63
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		156,100,837.99	160,501,145.59
Development expenditure			
Goodwill		6,562,344.06	6,562,344.06
Long-term deferred expenses		280,524.60	1,493,671.24
Deferred income tax assets		277,330.73	5,050,938.96
Other non-current assets			
		-----	-----
Total non-current assets		1,199,928,654.28	1,268,222,358.43
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Total assets		2,077,492,109.79	2,507,883,349.66
		=====	=====

Items	<i>Note</i>	Closing balance	Beginning balance
Current liabilities:			
Short-term borrowings		205,844,240.00	318,051,050.00
Borrowings from central bank			
Receipt of deposits and deposits from other banks			
Loans from other banks			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Bills payable			105,000,000.00
Accounts payable		398,349,980.01	371,989,158.86
Receipts in advance		29,870,362.75	29,715,136.98
Funds from sale and repurchase of financial assets			
Handling charges and commission payable			
Wages payable		22,674,924.84	17,397,862.19
Tax payable		-42,085,395.89	-34,274,412.01
Interest payable		74,800.00	76,666.67
Dividends payable			
Other payables		166,579,358.42	109,898,562.61
Reinsurance payables			
Insurance contract reserves			
Funds from securities trading agency			
Funds from securities underwriting agency			
Classified as liabilities held for sale			
Non-current liabilities due within one year		11,000,000.00	11,000,000.00
Other current liabilities			
		<hr/>	<hr/>
Total current liabilities		792,308,270.13	928,854,025.30

Items	<i>Note</i>	Closing balance	Beginning balance
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
In which: preferred shares			
Perpetual bond			
Long-term payables			
Long-term wages payable		31,310,282.67	30,370,000.00
Special payables		103,900,000.00	103,900,000.00
Estimated liabilities			
Deferred income			
Deferred income tax liabilities			
Other non-current liabilities			
		<hr/>	<hr/>
Total non-current liabilities		135,210,282.67	134,270,000.00
		<hr/>	<hr/>
Total liabilities		927,518,552.80	1,063,124,025.30
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Owners' equity:			
Share capital		422,000,000.00	422,000,000.00
Other equity instruments			
In which: preferred shares			
Perpetual bond			
Capital reserve		683,803,181.69	683,803,181.69
Less: Treasury stock			
Other comprehensive income		1,068,547.60	118,733.00
Special reserve			
Surplus reserve		45,665,647.68	45,665,647.68
General risk provision			
Undistributed profit		-439,874,304.42	-232,056,930.86
Total shareholders' equity attributable to the parent company		712,663,072.55	919,530,631.51
Minority interests		437,310,484.44	525,228,692.85
		<hr/>	<hr/>
Total shareholders' equity		1,149,973,556.99	1,444,759,324.36
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Total liabilities and shareholders' equity		2,077,492,109.79	2,507,883,349.66
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CONSOLIDATED INCOME STATEMENT

For 2015

Prepared by: Beijing Jingcheng Machinery Electric Company Limited

Unit: RMB (Yuan)

Items	<i>Note</i>	Amount for the current year	Amount for the previous year
1. Total operating income		1,076,596,258.89	1,806,333,093.44
Including: Operating income		1,076,596,258.89	1,806,333,093.44
Interest income			
Premium income			
Handling charges and commission income			
2. Total operating cost		1,376,317,634.86	1,970,942,677.43
Including: Operating cost		1,015,339,266.43	1,621,482,256.01
Interest expenses			
Handling charges and commission expenses			
Payment of surrenders			
Net claim expenses			
Net provision for insurance contract reserves			
Policy dividend payment			
Expenses for reinsurance accepted			
Business tax and surcharge		10,730,945.87	21,226,908.28
Sales expenses		75,076,845.20	102,661,594.08
Administrative expenses		162,725,545.83	182,887,041.22
Financial expenses		13,645,237.16	41,825,014.86
Impairment loss on assets		98,799,794.37	859,862.98
Add: Gain on change in fair value (loss expressed with “-”)			
Gain on investment (loss expressed with “-”)		1,563,597.03	100,696,436.75
Including: Gain on investments in associates and joint ventures		1,563,597.03	1,503,307.97
Exchange gain (loss expressed with “-”)			
3. Operating profit (loss expressed with “-”)		-298,157,778.94	-63,913,147.24
Add: Non-operating income		12,940,608.46	83,939,078.84
Including: Gains on disposal of non-current assets		12,169,408.16	81,823,602.10
Less: Non-operating expenses		5,668,946.00	1,979,704.84
Including: Loss on disposal of non-current assets		123,750.85	283,136.75

Items	Note	Amount for the current year	Amount for the previous year
4. Total profit (total loss expressed with “–”)		-290,886,116.48	18,046,226.76
Less: Income tax expenses	13	5,833,101.10	5,034,208.62
5. Net profit (net loss expressed with “–”)		-296,719,217.58	13,012,018.14
Net profit attributable to shareholders of the parent company		-207,817,373.56	21,416,206.70
Minority interests		-88,901,844.02	-8,404,188.56
6. Net other comprehensive income after tax		1,933,450.21	-2,210,772.48
Other comprehensive income net of tax attributable to the owners’ of the parent company		949,814.60	-2,261,817.24
(1) Other comprehensive income that may not be reclassified to profit or loss subsequently			-2,310,000.00
I. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans			-2,310,000.00
II. Shares of other comprehensive income of investees that may not be reclassified to profit or loss under the equity method			
(2) Other comprehensive income that may be reclassified to profit or loss subsequently		949,814.60	48,182.76
I. Shares of other comprehensive income of investees that may be reclassified to profit or loss under the equity method subsequently			
II. Gains or losses from changes in fair value of available-for-sale financial assets			
III. Gains or losses from reclassifying held to maturity investments to available-for-sale financial assets			
IV. Effective portion of cash flow adjusted for hedging gains or losses			
V. Exchange differences from retranslation of financial statements		949,814.60	48,182.76
VI. Others			
Other comprehensive income net of tax attributable to the minority interests		983,635.61	51,044.76
7. Total comprehensive income		-294,785,767.37	10,801,245.66
Total comprehensive income attributable to shareholders of the parent company		-206,867,558.96	19,154,389.46
Total comprehensive income attributable to minority interests		-87,918,208.41	-8,353,143.80
8. Earnings per share			
(1) Basic earnings per share	14	-0.49	0.05
(2) Diluted earnings per share		-0.49	0.05

Notes to Consolidated Financial statements

1. Basis for preparation of a financial statements

The Financial statements has been prepared on the going-concern basis and transactions and events actually occurred in accordance with the “Accounting Standard for Business Enterprises” promulgated by the Ministry of Finance of the People’s Republic of China and relevant requirements(Collectively “Accounting Standard for Business Enterprises”), and China Securities Regulatory Commission’s “Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15-General Provisions on Financial Reports (2014 Revision)” and the provisions regarding disclosure pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance of Hong Kong, as well as the accounting policies and estimation as stated in “IV. Significant Accounting Policies and Accounting Estimation” under this section.

2. Statement for observing the Accounting Standard for Business Enterprises

The Company’s Financial statements for 2015 are in compliance with the requirements of the “Accounting Standard for Business Enterprises” and is truly and completely reflecting the financial status of the Company and the Group as of 31 December 2015 and the relevant information regarding the operating results and cash flow for 2015 of the Company and the Group.

3. Accounting year

Accounting year shall run from 1 January to and until 31 December of a calendar year.

4. Reporting currency

The Company and its subsidiaries within the territory shall take Renminbi (RMB) as the reporting currency. Jingcheng Holding (Hong Kong) Company Limited and Beijing Tianhai America Company (北京天海美國公司) shall take US Dollars as the reporting currency.

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

6. Accounting for the merger of enterprises under the same control and not under the same control

The assets and liabilities obtained during the merger of enterprises under the same control of the Group as the merging party shall be measured based on the carrying amounts in the combined statement of the ultimate controlling party by the party to be merged at the merging date. In event of any difference between the carrying amount of the net assets so obtained and the carrying amount of the consideration for the merger paid by the merging party, the capital reserve is to be adjusted. Should the capital reserve be insufficient for the credit entry, the earnings retained are to be adjusted.

The identifiable assets, liabilities and contingent liabilities of the party to be purchased of the merger of enterprises not under the same control shall be measured at fair value on the purchase date. The cost of merger is the fair value of consideration paid including cash and non-cash assets, liabilities undertaken, debts and equity securities issued for the controlling interest of the acquiree at the acquisition date and all relevant direct costs incurred during the merger. Goodwill is recognized by the difference between the costs of business combination over the fair value of net identifiable assets acquired. If the cost of merger is less than the fair value of the net identifiable assets obtained from the purchased party, the fair value of all of the purchased party’s identifiable assets, liabilities or contingent liabilities obtained during the merger and non-cash assets of the merging consideration or the fair value of equity securities issued shall firstly be reviewed. Upon verification, if the cost of the merger is still less than the fair value of the net identifiable assets so obtained, the differences shall be included in the non-operating income for the current period of combination.

7. Method of preparing consolidated financial statements

All subsidiaries and structured entities controlled by the Group are included in the scope of the consolidated financial statements.

Should the subsidiary and the Company adopt different accounting policies or different accounting periods, necessary adjustment should be made to the subsidiary's financial statements during the preparation of consolidated financial statements in accordance with the Company's accounting policies or accounting duration.

All the major internal transaction, current balance and unrealized loss and gains within the combined scope will be offset when the consolidated financial statements are being prepared. The share of the owner's equities of subsidiaries not attributable to the parent company, as well as the share of the current net profit or loss, other comprehensive income and total comprehensive income attributable to minority interests, shall be shown under the Minority Shareholder's Interest, Minority Shareholder's Profit or Loss, Other Comprehensive Income Attributable to Minority Shareholders and Total Comprehensive Income Attributable to Minority Shareholders respectively.

As for the subsidiary obtained from the merger of enterprises under the same control, its operating results and cash flow shall be included in the consolidated financial statements from the beginning of the consolidation period. In preparation of the comparative consolidated financial statements, the relevant items for the financial statements of the previous year shall be adjusted as if the reporting entities formed after the merger has been existed from the time when it is subject to the control of the ultimate controlling party.

As for the subsidiary obtained from the merger of enterprises not under the same control, its operating results and cash flow shall be included in the consolidated financial statements from the date on which the Group obtained the right of control. In preparation of the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of all identifiable assets, liabilities and contingent liabilities determined at the purchase date.

8. Turnover

The turnover includes the net amount of the received and receivable of sales of different printers, sales of cryogenic devices for storage and transportation, sales of compressors, sales of spare parts and provision of services and the analysis thereof is as follows:

Items	Amount for the current year	Amount for the previous year
Compressor business		42,183,398.47
Seamless steel gas cylinders	520,020,428.88	841,015,682.27
Wrapped cylinders	141,525,779.70	335,938,765.63
Cryogenic gas cylinders	116,927,446.22	225,610,444.04
Cryogenic devices for storage and transportation	70,270,824.89	107,720,049.76
Others	188,772,839.85	191,679,916.77
Total sales	1,037,517,319.54	1,744,148,256.94
Less: sales tax and other additional charges	10,730,945.87	21,226,908.28
Total	1,026,786,373.67	1,722,921,348.66

9. Segmental Information

Nil

10. Accounts receivable

(1) Accounts receivable

Items	Closing balance	Beginning balance
Accounts receivable	288,885,774.81	416,795,156.63
Less: provision for bad debts	15,592,620.94	12,659,522.60
Net amount	273,293,153.87	404,135,634.03

(2) Analysis on the age of accounts receivable

Age	Closing balance	Beginning balance
Within 1 year	213,010,960.72	359,545,347.11
1-2 years	45,006,024.98	32,572,365.87
2-3 years	12,631,718.15	11,401,907.29
3-4 years	2,605,221.90	313,623.18
4-5 years	39,228.12	302,390.58
More than 5 years		
Net amount	273,293,153.87	404,135,634.03

11. Accounts payable

(1) Accounts payable

Age	Closing balance	Beginning balance
Payment for materials	255,505,466.51	238,179,437.06
Payment for engineering	142,844,513.50	133,809,721.80
Total	398,349,980.01	371,989,158.86

(2) Analysis on the age of accounts payable

Age	Closing balance	Beginning balance
Within 1 year	337,795,661.58	353,992,764.51
1-2 years	47,459,433.08	8,595,392.26
2-3 years	4,759,163.51	5,640,704.17
More than 3 years	8,335,721.84	3,760,297.92
Total	398,349,980.01	371,989,158.86

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

(4) Significant accounts payable aged more than 1 year

Company Name	Ending balances	Reasons
Tianjin Runde Zhongtian Electromechanical Equipment Co., Ltd	14,870,649.93	Amount not yet settled
BUCC (Tianjin) Pressure Equipment Manufacturing Co., Ltd.	2,988,383.56	Amount not yet settled
Beijing Jingqin HengXin Metal Materials Co., Ltd.	2,420,971.72	Amount not yet settled
Ningbo Lingfeng Luoke Fluid System Technology Co., Ltd.	1,955,875.20	Amount not yet settled
Beijing Dongfang Xiangyuan Packing Materials Co., Ltd.	1,762,446.67	Amount not yet settled
Total	23,998,327.08	

12. Undistributed profit

Current year

Items	Amount	Proportion of appropriation or distribution (%)
Amount at the end of the previous year	-232,056,930.86	
Plus: Adjustment made to the undistributed profit at the beginning of the year		
Among which: Changes in the accounting policy		
Corrections to the important errors of the previous period		
Changes in the scope of merger under the same control		
Other factors of adjustment		
Amount at the beginning of the year	-232,056,930.86	
Plus: Net profit attributable to the shareholders of the parent company for the year	-207,817,373.56	
Less: Allotted statutory surplus public reserve		
Appropriation of discretionary surplus reserve		
Provision for general risk		
Dividend for ordinary shares payable		
Dividend for ordinary shares to be converted into the share capital		
Amount at the end of the year	-439,874,304.42	

Previous Year

Items	Amount	Proportion of appropriation or distribution (%)
Amount at the end of the previous year	-222,701,516.40	
Amount at the end of the previous year	-222,701,516.40	
Plus: Adjustment made to the undistributed profit at the end of the year	-30,771,621.16	
Among which: Changes in the accounting policy	-30,771,621.16	
Corrections to the important errors of the previous period		
Changes in the scope of merger under the same control		
Other factors of adjustment		
Amount at the beginning of the year	-253,473,137.56	
Plus: Net profit attributable to the shareholders of the parent company for the year	21,416,206.70	
Less: Allotted statutory surplus public reserve		
Appropriation of discretionary surplus reserve		
Provision for general risk		
Dividend for ordinary shares payable		
Dividend for ordinary shares to be converted into the share capital		
Amount at the end of the year	-232,056,930.86	

13. Income tax fees

Items	Amount for the current year	Amount for the previous year
Income tax for the current period – China enterprise income tax	1,054,544.72	3,804,637.84
China	-437,362.84	1,070,685.46
Hong Kong		
Other regions	1,491,907.56	2,733,952.38
Overstated (understated) figures for the previous years		
Deferred tax	4,778,556.38	1,229,570.78
Total	5,833,101.10	5,034,208.62

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
Combined net profit attributable to the shareholders of ordinary shares of the parent company	-207,817,373.56	21,416,206.70
Combined net profit attributable to the shareholders of ordinary shares of the parent company (after deducting the non-recurring gains and losses)	-216,232,928.23	-156,817,432.32
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)	-0.49	0.05
Basic earnings per share (Yuan/share) (after deducting the non-recurring gains and losses)	-0.51	-0.37

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
Combined net profit attributable to the shareholders of ordinary shares of the parent company upon adjustment	-207,817,373.56	21,416,206.70
Combined net profit attributable to the shareholders of ordinary shares of the parent company upon adjustment (after deducting the non-recurring gains and losses)	-216,232,928.23	-156,817,432.32
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)	-0.49	0.05
Diluted earnings per share (Yuan/share) (after deducting the non-recurring gains and losses)	-0.51	-0.37

15. Dividends

There have been no paid or recommended dividends for 2015. There have been no dividends recommended from and during the Reporting Period to the end thereof (2014: nil).

II MANAGEMENT DISCUSSION AND ANALYSIS

I. Review

The year 2015 was the last year of the twelfth five-year strategic plan of the Company, and a year for planning for the strategies for the thirteen five-year period. With continuing depressed world economy, domestic economy to deal simultaneously with the slowdown in economic growth, making difficult structural adjustments, and absorbing the effects of the previous economic stimulus policies, slowdown of emerging economies and depreciation of currencies of a number of countries, the commodities market saw wide fluctuations. Under the new normal with lack of internal motivation for development of the gas storage and transportation industry and national policies for electric vehicles, the Company faced a series of difficult problems including operating with heavy assets, overcapacity and relocation and adjustment. In the face of severe market conditions, the Company made strong efforts in adjusting industry structure, exploring new business forms and areas and research and development of new products by implementing its strategies, focusing on reform and innovation, and sticking to its goal of “lowering inventories, receivables, costs and expenses and improving financial performance” in order to seek development amid the adverse conditions. However, it was still unable to reverse the continuous downward trend, and there were considerable gaps between its economic indicators and the objectives set at the beginning of the year.

(I) Promoted the reform and adjustment as well as the transformation and upgrade

In order to better realize the transformation and upgrade of the Company, a leadership team and a working group for preparing strategic plan for the “thirteen five-year period” were formed. After several discussion and repeated amendments, the plan was basically finalized. The “thirteen five-year period” strategy confirmed the direction of the future development and the measures for the transformation and upgrade.

(II) Actively adjusted the sales strategies with highlights in the market exploration

Facing the tough market conditions, the Company actively adjusted the sales strategies, especially by the various measures in a “thinking out of the box, expanding the market by all means” manner adopted in the fourth quarter. With the courage of “not losing a single order”, breakthroughs in the fields of fostering new market, finding new customers, promoting new products were achieved.

(III) Being innovative in management to upgrade the level of corporate management

The Company is result-oriented and rounded out the content of letter of responsibilities on annual objectives as well as the department annual key business, strengthened the quantitative indicator and its weight, enhanced the maneuverability of performance appraisal. Using the task management module of OA office platform can conduct supervision and management for the key business in time.

(IV) Put the measures controlling all staff cost into effect

The cost has become a key factor which limits the market competitiveness of our products. Hence, the Company formulated the plan to lower the stock, receivables and costs and enhance economic efficiency as well as 95 measures for controlling the cost of all staff.

II. Outlook

The year 2016 is the first year of the Company's thirteen five-year strategic plan. In the face of the complex and volatile economic conditions and fierce competition in the gas storage and transportation industry, the guiding principles for the development of the Company are as follows: thoroughly studying and implementing the spirits of the Central Economic Work Conference, striving to reduce or return to profitability and convert from expansion in scale to improved quality and results by adhering to the strategies for the 13th five-year plan and upholding the theme of industrial consolidation and development and utilization of resources; strengthening allocation of sales resources, improving market development ability, accelerating the transformation and upgrading of sale and service models to realize its conversion from a pure cylinder manufacturer to a provider of system solutions and services; developing an innovative assessment and motivation mechanism to stimulate organizational energy and improve work efficiency; taking the proposal for returning to profitability and tackling difficulties as the guide by implementing the division management model, subdivision of accounting units to improve the operational independence of its subsidiaries; expanding its thinking of product research and development, accelerating product research and development, shortening the lead time for the launch of its products, and improving the added-values and competitiveness of its products by utilizing the internet of things, the internet and technologies; and enhancing budgeting management, improving capital utilization, refining cost reduction measures, strengthening assessment in order to fully meet objectives, finish key work and ensure the continuous healthy operation of the Company.

(I) Regarding sales as the core to spare no effort in expanding market with constantly increasing sales revenue

Firstly, sort out the plan for the brand by differentiate the trademark and product technique requirements among superior, middle-class and inferior products. High-end product needs to maintain its edge of technique quality and lead the industrial development. Secondly, work on market promotion to give publicity about Company's products and services through different channel like magazines, media and internet. Thirdly, work on trademark protection and apply patent for techniques in order to uphold legal rights of the Company by law.

(II) Sub-itemizing the assessment for boosting up working motivation

On one hand, implement integrated supply and marketing system to manage Minghui Tianhai which is suffering the most severe lost. On the other hand, delegate procurement authority to the subsidiaries. The head quarter is responsible for the supervision of subsidiaries' independent procurement. With the streamlining process, the Company control and supervise the procurement process on key material by the subsidiaries and at the same time, conduct assessment for the quality of the procurement by the subsidiaries. The communication about procurement should be strengthened among companies.

(III) Regarding product innovation as drive to prompt sustainability of the enterprise

Through the “Market-oriented, customer centric” mindset in new product development, the way of assessment on new product development has been improved and the motivation of the developers has been boost to prompt the entering of new products into the market.

(IV) Enhancing comprehensive management on budgets

Firstly, continues the implementation of OA budget electronic management system and strictly separate the authority of online approval limits. Secondly, budget management committee and its institutions fully fulfill their mandate as to analysis the implementation of the budget regularly to establish the budget assessment system. The departments of the Company and its subsidiaries sign the letter of responsibilities on objectives as the base of assessment; enhance the budget implementation to avoid the occurrence significant discrepancy. Thirdly, tackle the existing problem in Company's management and suggest reasonable advises to it by financial audit and financial analysis.

(V) Strengthening the management of human resources

Compared to the targeted enterprises and the industrial level, the Company analyzed indicators such as the labor cost and the staff cost rate in detail and further carried out the fundamental work for human resources to strengthen human resources training and system formulation.

(VI) Enhancing the standard of corporate management by informatization

The Group management ERP software was introduced through tender in 2016 to integrate the existing software procedures for gradually implementing closed-loop management like research and development + planning + procurement + production + order and contract + delivery + receivable + payable, carrying out the standardized management and sophisticated management of the corporate, enhancing cooperation and operation efficiency, avoiding management loopholes and reducing waste as well as providing accurate support for the operational decision of the Company.

(III) Analysis on principal business

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

Unit: Yuan Currency: RMB

Items	Current period	Corresponding period of last year	Change (%)
Operation income	1,076,596,258.89	1,806,333,093.44	-40.40
Operating cost	1,015,339,266.43	1,621,482,256.01	-37.38
Sales expense	75,076,845.20	102,661,594.08	-26.87
Management expense	162,725,545.83	182,887,041.22	-11.02
Financial expense	13,645,237.16	41,825,014.86	-67.38
Net cash flow from operating activities	145,654,400.12	-107,897,373.68	N/A
Net cash flow from investment activities	-12,645,538.74	87,653,788.55	-114.43
Net cash flow from financing activities	-85,729,740.42	-160,813,146.23	N/A
Research and development expenditures	14,150,447.32	16,003,399.28	-11.58
Business tax and surcharge	10,730,945.87	21,226,908.28	-49.45
Impairment loss on assets	98,799,794.37	859,862.98	11,390.18
Gain on investment	1,563,597.03	100,696,436.75	-98.45
Non-operating income	12,940,608.46	83,939,078.84	-84.58
Non-operating cost	5,668,946.00	1,979,704.84	186.35

2. Analysis on income and cost

During the Reporting Period, the sales of gas storage and transportation equipment declined as compared with 2014, which was mainly attributable to the following factors:

Smaller price difference of oil and natural gas affected the profitability of natural gas cylinder products

In 2015, due to the weak world economy, technical progress and political factors, the international futures price of crude oil dropped by half and the price of domestic product oil was reduced continuously; while the price of natural gas rose, narrowing down the price difference with oil price and reducing the endogenous power for the development of natural gas.

The fluctuation of downstream industries had impacts on the profitability of traditional industrial gas cylinder products

In 2015, affected by the decline of industries smelting, shipbuilding and construction industries, in which the industrial gas was used, the demand for the industrial gas declined, leading to the excess production capacity of seamless steel gas cylinders for industrial uses. The competition in the traditional market of seamless steel gas cylinders for industrial use became increasingly fierce. In order to compete for the limited market demand, a reduction on selling price was needed, leading to the declines in achievements of traditional industrial gas cylinders. Transportation expenses, labor costs and energy and power related expenses increased, leading to the decline of profits.

(1) Principal business by industry, by product and by region*Unit: Yuan Currency: RMB*

Principal business by product						
By product	Operating revenue	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 (%)
Compressor business				-100.00	-100.00	Decreased by 12.04 percentage points
Seamless steel gas cylinders	520,020,428.88	465,208,504.31	10.54	-38.17	-38.53	Increased by 0.53 percentage points
Wrapped cylinders	141,525,779.70	128,901,751.30	8.92	-57.87	-54.98	Decreased by 5.85 percentage points
Cryogenic gas cylinders	116,927,446.22	141,271,926.49	-20.82	-48.17	-37.39	Decreased by 20.80 percentage points
Cryogenic devices for storage and transportation	70,270,824.89	64,262,919.65	8.55	-34.77	-22.28	Decreased by 14.69 percentage points
Other	188,772,839.85	177,095,301.28	6.19	-1.52	2.05	Decreased by 3.28 percentage points
Total	1,037,517,319.54	976,740,403.03	5.86	-40.51	-37.47	Decreased by 4.58 percentage points

Principal business by region						
By region	Operating revenue	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	597,473,991.27	580,633,349.18	2.82	-49.42	-44.02	Decreased by 9.38 percentage points
Overseas	440,043,328.27	396,107,053.85	9.98	-21.83	-24.55	Increased by 3.25 percentage points
Total	1,037,517,319.54	976,740,403.03	5.86	-40.51	-37.47	Decreased by 4.58 percentage points

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

Affected by the international and domestic depressed macroeconomic situation, the demand for the gas storage and transportation industry decreased, which is particularly affected by the further reduced difference between the prices of oil and gas, adjustment of the oil to gas policy, market demand for products like model SI LNG cylinders, wrapped gas cylinders and small cryogenic tanks of the Company sharply declined, leading to a steep decline in sales. Compared to the corresponding period last year, the domestic operating income decreased by 49.42%. Northern China, Southern China and Northwestern China remained the Company's principal marketing regions, whilst North America and Southeast Asia are the principal international marketing regions of the Company of which the operating income decreased by 21.83% compared to the corresponding period last year.

(2) Analysis table on 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	869,813	549,787	81,068	-41.79%	-56.63%	-41.55%
Wrapped cylinders	73,808	75,275	12,080	-64.07%	-62.29%	-32.48%
Cryogenic gas cylinders	6,717	6,959	722	-62.12%	-50.00%	-71.72%

Description of production and sales volume

During the Reporting Period, the sales revenue from top five customers of the Company amounted to RMB 294,216,000, accounting for 27.34% of total revenue.

(3) Cost analysis table*Unit: Yuan*

By product	Component of cost	Current period	By product			Change in proportion of current amount compared with the corresponding period of last year (%)	Note
			Proportion over total cost for the current period (%)	Corresponding period of last year	Proportion over total cost for the corresponding period of last year (%)		
Seamless steel gas cylinders	Materials	324,808,577.71	69.82	520,639,071.06	68.79	-37.61	
	Labor cost	31,448,094.89	6.76	63,272,897.72	8.36	-50.30	
	Manufacturing cost	108,951,831.71	23.42	172,940,874.75	22.85	-37.00	
	Total	465,208,504.31	100.00	756,852,843.53	100.00	-38.53	
Wrapped cylinders	Materials	61,022,089.07	47.34	190,594,610.44	66.57	-67.98	
	Labor cost	24,246,419.42	18.81	28,258,506.91	9.87	-14.20	
	Manufacturing cost	43,633,242.82	33.85	67,453,943.55	23.56	-35.31	
	Total	128,901,751.30	100.00	286,307,060.90	100.00	-54.98	
Cryogenic gas cylinders	Materials	85,088,081.32	60.23	189,164,963.86	83.83	-55.02	
	Labor cost	14,183,701.42	10.04	15,141,320.62	6.71	-6.32	
	Manufacturing cost	42,000,143.75	29.73	21,346,779.89	9.46	96.75	
	Total	141,271,926.49	100.00	225,653,064.37	100.00	-37.39	
Cryogenic devices for storage and transportation	Materials	30,717,675.59	47.80	59,745,750.90	72.26	-48.59	
	Labor cost	10,892,564.88	16.95	11,195,093.65	13.54	-2.70	
	Manufacturing cost	22,652,679.18	35.25	11,740,792.45	14.20	92.94	
	Total	64,262,919.65	100.00	82,681,637.00	100.00	-22.28	
Compressor business	Materials	-	-	27,939,591.51	75.30	-100.00	
	Labor cost	-	-	2,675,225.16	7.21	-100.00	
	Manufacturing cost	-	-	6,489,554.52	17.49	-100.00	
	Total	-	-	37,104,371.20	100.00	-100.00	

Other information on cost analysis

The total purchase amount from top five suppliers of the Company amounted to RMB 226,593,200, accounting for 24.56% of the total purchase amount for 2015, of which purchase from the largest supplier Tianjin Runde Zhongtian Steel Tube Co., Ltd. accounted for 10.55% of the total purchase amount for 2015.

3. Expenses

Items	Current period	Corresponding period of last year	Change (%)
Sales expenses	75,076,845.20	102,661,594.08	-26.87
Management expenses	162,725,545.83	182,887,041.22	-11.02
Financial expenses	13,645,237.16	41,825,014.86	-67.38

Description: The financial expenses decreased by 67.38% compared to the corresponding period of last year, mainly due to the effects of reduction in loan of subsidiaries and the decrease in loan rate.

4. Research and development expenditures

Breakdown of research and development expenditures

Unit: Yuan

Research and development expenditures for current period	14,150,447.32
Capitalized research and development expenditures for current period	0
Total research and development expenditures	14,150,447.32
Percentage of total research and development expenditures over operating income (%)	1.31
Number of research and development staff	183
Number of research and development staff over total number of staff (%)	9.25
Percentage of capitalized research and development expenditures (%)	

Description

During the Reporting Period, the Company continued the comprehensive transformation to manufacturing of gas storage and transportation equipment and service sector. With the three dominant industries of “bottle, cylinder, station” as the core, the capabilities of independent product research and development and technological innovation are further enhanced, and one technical standard is at the leading position as always. The Company has actively responded to the national appeals of “Green, energy saving, environmental protection”, developed products such as 300Bar high pressure light seamless cylinders, Type-III aluminum inner carbon fiber fully wrapped composite cylinder, portable oxygen supply unit for medical purpose, on-vehicle LNG fuel tanks, cryogenic gas cylinders, tank containers, on-board LNG fuel tanks, bottle gasifiers, cylinder gasifiers, refueling station, etc and the systematic solution. The products have already been applied to professions or fields such as automobile, chemicals industry, fire protection, medical care, urban construction, food, metallurgy, machinery and electronics, etc, which comprehensively raised the Company’s competitiveness.

5. Cash flows

Items	Current period	Corresponding period of last year	Change (%)
Cash inflow from operating activities	959,857,929.16	1,271,047,777.07	-24.48
Cash outflow from operating activities	814,203,529.04	1,378,945,150.75	-40.95
Net cash flow generated from operating activities	145,654,400.12	-107,897,373.68	N/A
Cash inflow in from investment activities	83,300.00	303,590,220.49	-99.97
Cash outflow from investment activities	12,728,838.74	215,936,431.94	-94.11
Net cash flow generated from investment activities	-12,645,538.74	87,653,788.55	-114.43
Cash inflow from financing activities	508,675,565.00	697,842,230.42	-27.11
Cash outflow from financing activities	594,405,305.42	858,655,376.65	-30.77
Net cash flow generated from financing activities	-85,729,740.42	-160,813,146.23	N/A

Description:

1. Net cash flow generated from operating activities increased RMB253,551,800 as compared to the corresponding period of last year, mainly due to the significant decrease of the cash flow out from the operating activities, as a result of the Company's current policies in reasonable control of the production capacity which lowered the cost and expenses;
2. Net cash flow generated from investing activities decreased 114.43% as compared to the corresponding period of last year, mainly due to the consideration received by transferring equity interest of Jingcheng Compressor during the corresponding period of last year, but not during current period;
3. Net cash flow generated from financing activities increased RMB 75,083,400 as compared to the corresponding period of last year, mainly due to the net payment of the current loan was less than that of the corresponding period of last year.

6. *Description of material change in profit due to non-principal business*

Not Applicable

IV Analysis of assets and liabilities

Assets and liabilities

Unit: Yuan

Name of item	Balance at the end of the current period	Balance at the end of the current period over total assets (%)	Balance at the end of the previous period	Balance at the end of the previous period over total assets (%)	Change in proportion of current amount compared with the corresponding period of last year (%)	Note
Monetary fund	182,276,574.47	8.77	163,962,823.33	6.54	11.17	
Notes receivable	3,228,891.44	0.16	13,148,883.12	0.52	-75.44	Mainly due to the increases in the notes endorsed and transferred for the payment of cargos for current period and decrease in notes received
Accounts receivable	273,293,153.87	13.15	404,135,634.03	16.11	-32.38	Mainly due to the decrease in current operational income
Prepayments	19,166,811.68	0.92	78,985,528.99	3.15	-75.73	Mainly due to the optimization of the Company's supplier payment policy
Other receivables	1,776,665.84	0.09	6,435,698.19	0.26	-72.39	Mainly due to the decrease in other current accounts
Inventories	390,738,839.19	18.81	572,992,423.57	22.85	-31.81	Mainly due to the Company policies in reasonable control over production by using up the inventories in hand
Long term equity investment	68,362,103.21	3.29	55,004,776.68	2.19	24.28	
Fixed assets	960,308,435.85	46.22	1,016,720,860.27	40.54	-5.55	
Construction in progress	8,037,077.84	0.39	22,888,621.63	0.91	-64.89	Mainly due to the transfer of the projects upon completion
Long-term deferred expenses	280,524.60	0.01	1,493,671.24	0.06	-81.22	Mainly due to part of the long-term deferred expenses has been amortized
Deferred tax assets	277,330.73	0.01	5,050,938.96	0.20	-94.51	Mainly due to the out gone of the deferred tax assets
Short-term loans	205,844,240.00	9.91	318,051,050.00	12.68	-35.28	Mainly due to the decrease in bank loans by the subsidiaries
Notes payable			105,000,000.00	4.19	-100	Mainly due to the not used bills for the Company's business settlement by the subsidiaries
Employees benefits	22,674,924.84	1.09	17,397,862.19	0.69	30.33	Mainly due to the increase in employees benefits payables at the end of the year
Other payables	166,579,358.42	8.02	109,898,562.61	4.38	51.58	Mainly due to the increase in borrowing by the subsidiaries to Jingcheng Holding
Other comprehensive income	1,068,547.60	0.05	118,733.00	0.00	799.96	Mainly due to the change in exchange rate
Undistributed profits	-439,874,304.42	-21.17	-232,056,930.86	-9.25	89.55	Mainly due to the increase of loss in current year

5. Analysis of industry operation

1. Description of principal business by industry and product

- (1) In recent years, the growth of the demand for industrial gas slowed down due to weak macro-economy and depressed steel and photovoltaic industries. The supply of industrial gas outgrew the demand, aggravating the demand-supply imbalance and leading to the further decrease in the demand for gas storage and transportation equipment. In order to adapt to market competition, Tianhai Industrial lowered the prices of its certain products, leading to the decrease in the sale revenue and gross profit from these products.
- (2) As international oil price continued to fluctuate at a low level and domestic oil price was repeatedly lowered, while the price of natural gas remained at a high level despite modest reductions, the economic advantages of LNG were weakened. The promotion and adoption of LNG automobile cylinders in the heavy truck market was adversely affected. This, plus the impact of other renewable energy vehicles including pure electric vehicles on the passenger vehicle market, created obstacles for LNG automobile cylinders in the passenger vehicle market. As a result, sales revenue from low temperature of the Company recorded a steep decline.

2. Description of principal business by region

Domestic operating income decreased by 49.42% as compared with last year, principally attributable to slowed economic growth, keener competition and sharp shrinkage of domestic vehicular natural gas market. For the international market, the economic growth of major developed countries in the world was also not optimistic. While the Company's foreign business remained stable, its operating income decreased by 21.83% as compared with last year due to intense market competition.

6. Analysis of investments

1. General analysis of external equity investments

During the Reporting Period, Beijing Tianhai Industry Co. Ltd., a subsidiary of the Company, transferred the production of products in high cost region that gradually lost its competitiveness in production in Beijing to regions where the costs were low according to the requirements of Beijing Municipality on environment protection and the Company's strategic layout adjustment plan for the "twelfth five-year" planning.

(1) Material equity investments

Beijing Tianhai Industry Co., Ltd. in cooperation with Nanjing Bibo Industry and Trade Co., Ltd., established Jiangsu Tianhai Special Equipment Co., Ltd. in Jingkou District, Zhenjiang, Jiangsu Province which is principally engaged in the production of asbestos-free acetylene cylinders and heptafluoropropane welding cylinders. It has a registered capital of RMB80 million, in which Beijing Tianhai Industry Co., Ltd. owns 35% interests and Nanjing Bibo Industry and Trade Co., Ltd. owns 65% interests. As for the source of capital, Beijing Tianhai contributed RMB28 million; Nanjing Bibo contributed RMB52 million, and working capital of RMB15 million was financed by bank loans.

(2) Material non-equity investments

Beijing Tianhai Cryogenic Equipment Co., Ltd. acquired the technologies for the design and manufacture of cryogenic tanks with volume over 100m³ from Beijing Kerui Nike Science Trading Co., Ltd. at a consideration of RMB20 million.

(3) Financial assets at fair value

Not applicable

7. Material disposal of assets and equity interest

No material disposal of assets and equity interest

8 Analysis of major subsidiaries and associates

Name of company	Business nature	Principal products or service	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	2,073,155,639.98	794,582,548.15	-297,872,606.02
Jingcheng Holding (Hong Kong) Ltd.	Trade and investment	Import and export trade, investment holding and consultancy services, etc.	HK\$1,000	154,212,882.91	149,817,842.73	-127,321.92

9. Structured entities under the control of the Company

None

VII Competition and development trend within the industry

1. Competition within the industry

In 2015, there had been material changes in market competition and environment. Industrial environment showed an overall downward trend. In addition, the State promoted renewable energy projects and CNG/LNG was not included in the renewable energy subsidy plan. Vehicle gas market was substantially occupied by pure electric vehicles, and there was a lack of internal motivation for development of the gas storage and transportation industry. There had been severe oversupply in the industry and demand continued to be weak. With the continuous decrease in oil price and the shrinkage of domestic and overseas natural gas markets and related industries, natural gas products were still in a cold winter. With the imbalanced supply and demand, the gas storage and transportation industry had been trapped in hardship.

(1) Industrial gas market

Due to the combination of weak macro-economy and depressed real estate, steel, non-ferrous metal and photovoltaic industries, the industrial gas industry encountered “three lows” and market sentiment was lowered to freezing point. According to China Industrial Gas Association (工業氣體協會), the average utilization rate of air separation devices in the PRC was 74% in 2015, 5.3 points lower as compared with last year. Currently the steel, shipbuilding and non-ferrous metal industries in the PRC are all in a stage of lowering production capacity. Due to the lack of support for the demand for industrial gas, it is expected that the industrial gas industry will remain depressed in 2016 with a utilization rate of air separation devices of less than 70%.

(2) Natural gas market

The PRC natural gas market was depressed in overall in 2015. In the face of the pressure of energy, safety and environment protection, China’s resolution on adjusting energy structure will be unwavering. Consumption of natural gas as a percentage of total consumption of primary energy will increase over time to over 10% by 2020, with an average growth rate of 15% for the thirteenth five-year period. Natural gas will become an important driver for China’s energy revolution in the future.

(3) Gas storage and transportation market

Many private capital, listed companies and upstream raw material manufacturers entered the gas storage and transportation industry in recent years. In particular, with frenzied investments in the natural gas market in the past few years, the competition landscape is deteriorating. China now has 33 CNG cylinder 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 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 the pressure for environment protection and treating smog. China's resolution on adjusting energy structure is unwavering. As the plan for natural gas application continued to be implemented, there is sufficient supply of natural gas in the PRC. The transportation technique of non-piped natural gas will further develop, and many private enterprises in several provinces voluntarily invested in the LNG industry. Automobile manufacturers have a growing demand for light vehicles and modular system solutions for spare parts, which is beneficial for the high-end vehicle gas market.

2. Development trend

In 2016, global demand for industrial gas cylinders will not be much higher than 2015, and domestic Industrial gas cylinders will still be unable to escape from the situation of excessive production capacity and competition through low prices. With the adjustment to national industrial structure, energy saving and environment protection, electronic information and renewable energy industries realized rapid development, leading to the significant increase in the demand for special gas and also in the demand for home-made highly pure cylinders.

The market demand for vehicle cylinders will hopefully increase. In November 2015, the price of existing gas for non-residential uses was lowered by RMB0.7/cubic meter, which is a positive factor for the vehicle natural gas industry, in particular LNG commercial vehicles. Sales of natural gas heavy trucks were at a low level due to previous low oil price. The price adjustment lowered the costs of upstream plants, resulting in the decrease in the end retail price. The economic performance of vehicle LGN was demonstrated once again. With national policies for encouraging the promotion of environment-friendly automobiles and the announcement of subsidies for natural gas vehicles in multiple provinces and cities, these factors may help to revitalize the natural gas vehicle industry and the demand for vehicle gas cylinders is expected to gradually increase.

Undoubtedly the potential for the development of cryogenic tanks is huge in the coming years. 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.

In 2015 the LNG market continued to be depressed with weak demand, however the passion for building LNG refueling stations in the downstream had not apparently receded. It is expected 700 LNG refueling stations had been built across China in 2015. In 2016 as natural gas price reform continues to advance and the demand for natural gas continues to increase, the market will gradually recover in the future, but the competition will remain fierce.

For the industry, challenges and opportunities co-exist. The upcoming 13th five-year plans for the relevant industries showed positive signs for the industrial gas market. Strategic emerging industries including new chemical materials, bio-chemical, modern coal chemical and production service will remain the focus for cultivation during the 13th five-year period, enabling us to expand into higher-end areas. Despite certain relevant industries are in the trough, the industrial gas market, as the base for the manufacturing industry, still has great potential with the rapid development of other industries.

VIII Development strategies of the Company

Thoroughly studying and implementing the spirits of the Central Economic Work Conference, striving to reduce or return to profitability and convert from expansion in scale to improvement in quality and results by adhering to the strategies for the thirteenth five-year plan and upholding the theme of industrial consolidation and development and utilization of resources; strengthening allocation of sales resources, improving market development ability, accelerating the transformation and upgrading of sale and service models to realize its conversion from a pure cylinder manufacturer to a provider of system solutions and services; research and development of high-end products by utilizing the internet of things, the internet and technologies, upgrading existing products, and improving the competitiveness of future products; and developing into a globally-leading gas storage and transportation equipment manufacturing and service enterprise.

IX Operating plans

The year 2016 is the first year of the Company's thirteen five-year plan. In the face of the complex and volatile economic conditions and fierce competition in the gas storage and transportation industry, the guiding principles for the development of the Company are as follows: Thoroughly studying and implementing the spirits of the Central Economic Work Conference, striving to reduce or return to profitability by adhering to the strategies for the thirteenth five-year plan and upholding the theme of industrial consolidation and development and utilization of resources. Minghui Tianhai, Tianhai Cryogenic and Shandong Tianhai shall make contributions for realizing the goals set for 2016; Tianjin Tianhai and Langfang Tianhai shall take advantage of the product structural adjustment to return to profitability. The most critical point is Minghui Tianhai. How to operate Minghui Tianhai well will be the key to the successful completion of the targets in 2016.

Many strategic targets in the "twelfth five-year plan" are still to be realized. Except for tank products, vehicles and stations have failed to become the new growth points for the development of the Company. In the past two years, the strategic environment of the Company has changed a lot; it is especially important to make long-term plans for the next period. In 2016, the Company shall adhere to strategic planning for the "thirteenth five-year plan", focus on profitability, and based on the corrective and proactive analysis and assessment of the environment, stakeholders, the Company's resources and abilities, plan for three sectors for the "thirteen five-year plan": the first is the principal business of manufacturing; the second is the development and utilization of the land resources; and the third is to well utilize the listed company and Hong Kong company 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.

X Potential risks

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

Due to the optimism for domestic natural gas markets, large investment companies set up factories to produce the natural gas storage and transportation equipment, and existing factories continued to expand the production scale, creating serious excess production capacity and making an increasingly competitive industry.

2. World economic environment deteriorated and oil-gas price difference keeps narrowing down

Due to the depressed world economy, technical advancement and political factors, the international futures price of crude oil halved, narrowing down the price difference with the oil price and reducing the internal motivation for the development of natural gas; the vehicle modification market is basically at a standstill state.

3. During the Reporting Period, due to the significant matter of the issue of shares in consideration of asset purchase, trading of the shares of the Company has been suspended since 29 June 2015 upon application. After discussion and negotiation among the parties concerned, the abovementioned could constitute material assets organization. According to the relevant regulations, the Company has entered into the material assets reorganisation procedures on 13 July 2015 upon application. During the period of suspension of trading, the Company has been actively carried out the relevant work such as due diligence, audit and valuation, communicated with Jingcheng Holding and the regulatory authorities, such as Beijing State-owned Assets Commission and released announcements in relation to the progress of material assets reorganisation at the interval of every five trading days.

The sixth meeting of the eighth session of the board of directors was held on 26 November 2015. Resolution in relation to the issue of shares and payment of cash to purchase assets and related fund raising and connected transaction proposal and other related resolutions were considered and approved. Shares of the Company have resumed trading on 14 December 2015.

In accordance with the laws and regulations such as the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Codes on Takeovers and Mergers, in order to prevent the trigger of any mandatory offer by Jingcheng Holding, ensure the listed position in Hong Kong, carry out reorganisation proposal of the H Shares of the Company successfully, further increase the capital strength of the Company and safeguard the long term development of the Company, the Company made modification to the reorganisation proposal. The trading of H shares of the Company was resumed at 1 p.m. on 28 January 2016. The sixteenth extraordinary meeting of the eighth session of the board of Beijing Jingcheng was held on 3 February 2016. Resolution in relation to the issue of shares and payment of cash to purchase assets and related fund raising and connected transaction proposal and other related resolutions were again considered and approved. Shares of the Company have resumed trading on the Shanghai Stock Exchange on 4 February 2016.

The Company and the related parties are actively promoting the work of the Material Assets Reorganisation. As at the date of this announcement, the audit and valuation works for the relevant assets involved in the Material Assets Reorganisation are nearly completed. After the completion of the abovementioned works, pursuant to the relevant regulations for valuation and management of state-owned assets, the relevant valuation report has to comply with the state-owned assets assessment approval procedures. After the completion of the abovementioned works, the Company shall convene another board meeting to consider and approve the related matter in relation to the Material Assets Reorganisation, and shall comply with relevant announcement, approval procedures in accordance with the relevant laws and regulations.

Special Reminder:

According to the communication results between the Company and the parties involved in the transaction, at present, there are no related matters discovered by the Company, which may lead to the withdrawal or termination of the Material Assets Reorganisation by the board of directors of the Company or the parties involved in the transaction nor there is substantive change being made to the Material Assets Reorganisation.

Risks related to the Material Assets Reorganisation have been explained in full in the section “I. Risks relating to the Transaction” under “Warning on Major Risks” in the “Proposal In Relation To Acquisition Of Assets Through Issue Of Shares And Cash Payment As Well As Raising Of Supporting Funds And Connected Transaction For Beijing Jingcheng Machinery Electric Company Limited (Revised)” disclosed by the Company on 3 February 2016. Shareholders are reminded to read the relevant contents carefully and to be aware of the investment risks.

Pursuant to the Measures on the Administration of Material Assets Reorganisation of Listed Companies and related regulations of the Shanghai Stock Exchange, before the notice of general meeting to be convened for the consideration and approval of the Material Assets Reorganisation to be issued by the Company, progress announcements in relation to the reorganisation will be released in every 30 days.

The designated media for publication of Company information includes the websites of the Shanghai Stock Exchange (<http://www.sse.com.cn>), Shanghai Securities News, Securities Daily and the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>). Investors are advised to pay attention to the investment risks.

XI Analysis on Financial Position and Business Performance during the Reporting Period

1. Analysis on operating results

During the Reporting period, the total profits of the Company decreased by RMB 308,932,300 as compared with last year. The operating income decreased by 40.40% as compared with last year; the operating cost decreased by 37.38% as compared with last year and the operating profits decreased by RMB 234,244,600 as compared with last year.

The decrease in operating income and the decrease in product profitability were mainly due to the decline in operation of the industry, excess production capacity in China and fall in sales number and unit price under the circumstances where the macro-economy is gloomy; the increase in the production cost per unit was a result of the decrease in production volume which caused the fixed cost cannot be spread over.

During the Reporting Period, the expenses recorded a decrease of RMB 75,926,000 as compared with last year, which was mainly due to the decrease in sale income, reduction of sales expenses and decreases in borrowings and interest expenses with the decrease in loan rates during the year.

During the Reporting Period, the assets impairment loss recorded an increase of RMB 97,939,900, as compared with last year, which was mainly attributable to the increase in provision for inventory impairment. Due to the low market demand as the continued weakness of the macro economy under “new normal” circumstances, the Company controlled the production volume by reduction or halt in production which increased the production cost per unit, hence the cost of the completed product was expected to be higher than its realizable value.

During the Reporting Period, the investment income recorded a decrease of RMB 99,132,800, which was mainly due to the income from transfer of equity interests of Jingcheng Compressor during the corresponding period of last year.

During the Reporting Period, the non-operating income recorded a decrease of RMB 70,998,500, which was mainly due to the income from sales of fixed assets such as the undergraduate’s apartments and mechanical equipment during the corresponding period of last year.

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

The assets and liabilities as at the end of the year of the report both recorded decreases.

During the Reporting Period, the total assets as at the end of the period amounted to RMB 2,077,492,100, representing a decrease of 17.16% as compared with the beginning of the year; among others, monetary funds increased by 11.17%, accounts receivables decreased by 32.38%, inventories decreased by 31.81%, fixed assets decreased by 5.55%, construction in progress decreased by 64.89% and long-term equity investment increased by 24.28%.

The total liabilities amounted to RMB 927,518,600, representing a decrease of 12.76% as compared with the beginning of the year; among others, the short-term borrowing decreased by 35.28% while the notes payable decreased by-100% and the other payables increased by 51.58%.

The total shareholders' equity interests amounted to RMB 1,149,973,600, representing a decrease of RMB 294,785,800 or 20.40%, which was mainly due to the net loss of RMB 296,719,200 this year.

3. *Analysis on 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 financial costs 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

	2015	2014
(1) Gearing ratio	44.65%	42.39%
(2) Quick ratio	61.44%	71.77%
(3) Current ratio	110.76%	133.46%

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 financial costs 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 RMB 205,844,200, representing a decrease of 35.28% as compared with the beginning of the year. Long-term loan was nil.

5. *Foreign exchange risk management*

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

XII Principal Sources of Fund and Its Use

1. Cash flows from operating activities

The Company's cash inflows are mainly derived from the income of product sales. Cash outflow was mainly related to the production and operating activities. The Company's cash inflow from operating activities for the Reporting Period amounted to RMB 959,857,900, while cash outflow amounted to RMB 814,203,500. Net cash flow during the Reporting Period from operating activities amounted to RMB 145,654,400.

2. Cash flows from investment activities

Cash inflows from investment activities during the Reporting Period amounted to RMB 83,300 while cash outflows to investment activities amounted to RMB 12,728,800, which was mainly used for capital expense on the purchase of fixed assets and payment for long-term equity investment. Net cash flows from investment activities for the Reporting Period amounted to RMB-12,645,500.

3. Cash flows from financing activities

Cash inflow from financing activities during the Reporting Period amounted to RMB 508,675,600, which was mainly derived from bank loans and borrowings from Jingcheng Holding. Cash outflow to financing activities during the Reporting Period amounted to RMB 594,405,300, which was mainly due to the repayment of bank loans and borrowings from banks and Jingcheng Holding and interests. Net cash flow from financing activities for the Reporting Period amounted to RMB-85,729,700.

Net cash flow from operating activities in 2015 recorded an increase of RMB 253,551,800 as compared with last year, which was due to the reinforcement in debts collection with the control in payment pace by the enhancement in cost and expenses budget management. Net cash flow generated from the investment recorded a decrease of RMB 100,299,300 as compared with last year, which was mainly due to increase in the income from transfer of equity interests during the corresponding period of last year. Net cash flow generated from financing activities recorded an increase of RMB 75,083,400, which was mainly due to the decrease in loans borrowed as compared with last year.

Net cash flow generated from operating activities for the year was RMB 145,654,400. Net profit for the year was RMB-296,719,200, which was mainly attributable to operating activities.

XIII Capital Structure

The Company's capital structure consists of shareholders' equity interests and liabilities during the Reporting Period. Shareholders' equity interests amounted to RMB 1,149,973,600, of which minority interests amounted to RMB 437,310,500, and total liabilities amounted to RMB 927,518,500. Total assets amounted to RMB 2,077,492,100. As at the end of the year, the Company's gearing ratio was 44.65%.

Capital structure by liquidity

Total current liabilities	792,308,300	Accounting for 38.14% of assets
Total equity interest attributable to shareholders	1,149,973,600	Accounting for 55.35% of assets
Of which: minority interests	437,310,500	Accounting for 21.05% of assets

XIV Contingent liabilities

During the Reporting Period, the Company did not have any significant contingent liabilities.

Details of the Group's charge on assets

Item	Book value at the end of year	Reason for restriction
Monetary Fund	6,500,000.00	Guarantee deposit
Fixed assets	38,884,833.35	Pledged
Intangible assets	1,274,034.12	Pledged

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

The Company has no newly added large amount investment projects under construction in 2015. The outstanding project payment (for Minghui Tianhai) can be basically made with privately-owned funds.

XVI Explanation of the Directors on “Non-Standard Auditors’ Report” issued by the auditors

1. *Explanation of the Board and the Supervisory Committee on “Non-Standard Auditors’ Report” issued by the auditors*

During the Reporting Period, the auditors have not made any “Non-Standard Auditors’ Report”.

2. *Analysis and explanation of the Board on the reasons and impact of the change in accounting policy, accounting estimation and verification method*

None

3. *Analysis and explanation of the Board on the reasons and impact of the correction to material errors for last period*

During the Reporting Period, there was no correction to material errors for last period.

XVII Profit Distribution Plan or Plan to Convert Surplus Reserves into Share Capital

(i) Formulation, implementation or adjustment of cash dividend policy

In accordance with the requirements of Notice on Further Implementing Issues Concerning Cash Dividends of Listed Companies issued by the CSRC, the Company had amended and perfected certain provisions concerning profit distribution policies in its articles of association, which have been considered and passed at the seventh meeting of the Seventh Board of Directors held on 26 July 2012 and the first extraordinary general meeting in 2012 held on 18 December 2012 (please refer to the announcements dated 26 July 2012 and 18 December 2012 on the websites of Shanghai Stock Exchange at www.sse.com.cn and the Stock Exchange of Hong Kong Limited at www.hkexnews.hk for details). During the Reporting Period, as the retained earnings at the end of the year was negative, therefore, there were no cash dividends distribution. However, the Company will strictly implemented the dividend price of the Articles of Association; once the Company has the ability for dividend, the Company may fulfill decision making procedures according to relevant provisions, play the role of independent directors and practically protect the lawful rights of the Company.

(ii) 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 (including tax)	Net profit attributable to shareholders of listed company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement (%)
2015	0	0	0	0	-207,817,373.56	0
2014	0	0	0	0	21,416,206.70	0
2013	0	0	0	0	-107,597,719.91	0

(iii) Repurchase of shares under cash offer included in cash dividend

None

(iv) 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

During the Reporting Period, as the undistributed profit of the parent company was negative, no cash dividend distribution policy was proposed.

III. EXPLANATION ON OTHER IMPORTANT MATTERS

1. Receipt of government subsidies

Item	Amount for the year	Source
The subsidy for guidance of the energy saving development by the Zhaoyang district	204,000.00	The subsidy for guidance of the energy saving development by the Zhaoyang district
The subsidy for the employment of disabled	40,000.00	The subsidy for the employment of disabled
The subsidy for the patent right by the Zhaoyang district	21,120.00	Finance Bureau of Zhaoyang district – The subsidy for the patent right for hi-tech enterprises
Short-term export credit insurance support fund	112,912.00	Short-term export credit insurance support fund by the Business Committee of Beijing
The subsidy for the anti-dumping and anti-subsidy by the government	72,000.00	The Business Committee of Beijing
Total	450,032.00	–

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

None

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

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

The Audit Committee of the Board of the Company has reviewed and confirmed the annual financial report for 2015.

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.

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 2015.

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 shares.

IV. ANNUAL REPORT AND OTHER INFORMATION

The announcement will be published on the websites of the Company (www.jingchenggf.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk). The annual report in entirety will be published on the websites of the Company and the Hong Kong Stock Exchange on 25 April 2016.

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

Beijing, China
17 March 2016

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