



京城機電股份  
JINGCHENG MAC

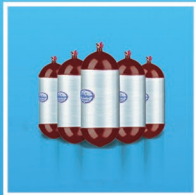
北京京城機電股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

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

(H Share Stock Code: 0187; A Share Stock Code: 600860)

## Annual Report 2013



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## IMPORTANT NOTES

1. The Board of Directors (the “Board”), the Supervisory Committee and the directors (the “Directors”), supervisors and senior management offices of Beijing Jingcheng Machinery Electric Company (the “Company”) confirm that the information contained in this annual report is true, accurate and complete without any false and misleading statements or material omissions, that they shall assume the several and joint liability.
2. 11 Directors of the Company should present at the meeting. 10 Directors are actually present at the meeting. Ms Wang Hui, the independent non-executive director is unable to attend the meeting and has entrusted Mr. Wang Deyu, the independent non-executive director, by proxy, to attend the meeting and exercise the voting right (for her).
3. Shinewing Certified Public Accountants LLP has issued a standard audited report without reserved opinions for the Company.
4. Mr. Jiang Zili, the Chairman of the Board, Mr. Hu Chuanzhong, the General Manager, and Ms. Jiang Chi, Chief Accountant, have declared that they guarantee the trueness, accuracy and completeness of the financial statements contained in this Annual Report.
5. Proposals of profit distribution and capitalisation from capital reserves of the Company for the Reporting Period examined and reviewed by the Board: During the Reporting Period, audited by the Shinewing Certified Public Accountants LLP, net profits attributable to the parent company was RMB-108,239,000, undistributed profits at the end of the year was RMB-222,701,500. As the Company recorded negative undistributed profits, in accordance with the requirements towards profit distribution under the Accounting System for Business Enterprises and Articles of Association, the Board of the Company proposed not to distribute any profit and not to capitalize from capital reserves for the year 2013. Such proposals are required to be submitted to the AGM for examination and review.
6. Declaration on risk from forward-looking statements  

The forward-looking statements involving future plans, development strategies in this Report don't constitute substantial undertakings of the Company to investors who are advised to be cautious about investment risks.
7. Whether the controlling shareholders of the Company or its associates have misappropriated the Company's funds or not  

No.
8. Whether any external guarantees are provided in violation of any specified decision-making procedures or not  

No.

## SECTION 1 DEFINITION AND IMPORTANT RISK WARNINGS

### 1. Definition

Unless otherwise stated in context, the following terms should have the following meanings in this Report:

<b>Definition of frequently used terms</b>		
AGM	means	the 2012 Annual General Meeting convened on 26 April 2013
Beijing SASAC	means	State-owned Assets Supervision and Administration Commission of Beijing Municipal Government
Beijing Securities Regulatory Bureau	means	Beijing Securities Regulatory Bureau under CSRC
Beiren Group	means	Beiren Group Corporation (北人集團公司), a company incorporated in the PRC and a subsidiary of Jingcheng Holding (the former controlling shareholder of the Company)
Beiren Printing	means	Beiren Printing Machinery Holdings Limited (the former name of the Company)
Board	means	the Board of Directors of the Company
Company	means	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 PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange
Connected Person	means	has the same meaning ascribed to it under the Listing Rules
Controlling Shareholder(s)	means	has the same meaning ascribed to it under the Listing Rules
CNG	means	Abbreviation of Compressed Natural Gas
CSRC	means	China Securities Regulatory Commission
Director(s)	means	the director(s) of the Company
DOT	means	Abbreviation of US Department of Transportation
EGM	means	the first extraordinary general meeting in 2013 convened on 16 December 2013
Group	means	the Company and its subsidiaries
Industrial gas cylinder	means	Collective name for the cylinder that filled with industrial gas
Jingcheng Holding (substantial shareholder and beneficial controller)	means	Beijing Jingcheng Machinery Electric Holding Co., Ltd. (北京京城機電控股有限責任公司), a company established in the PRC and the controlling shareholder of the Company, holding approximately 47.78% equity interest in the Company
Jingcheng Compressor, Jingcheng Environment	means	Beijing Jingcheng Compressor Co., Ltd., a subsidiary of the Company and its former name is Beijing Jingcheng Environmental Protection Development Co., Ltd.
Jingcheng HK	means	Jingcheng Holding (Hong Kong) Company Limited, a subsidiary of the Company
Listing Rules	means	the Rules Governing the Listing of Securities on the Stock Exchange
LNG	means	Abbreviation of Liquefied Natural Gas

## SECTION 1 DEFINITION AND IMPORTANT RISK WARNINGS

### 1. Definition *(cont'd)*

PRC Accounting Standards	means	PRC Accounting Standards for Business Enterprises
RMB	means	Renminbi, the legal currency of the PRC
Shareholder(s)	means	the holder of Shares
Share(s)	means	Unless otherwise stated, share(s) of the Company, including A share(s) and H share(s)
SSE	means	Shanghai Stock Exchange
Station, L-CNG filling station	means	The station where automobiles are filled with liquefied natural gas or CNG
Stock Exchange	means	The Stock Exchange of Hong Kong Limited
Supervisory Committee	means	the Supervisory Committee of the Company
Supervisor(s)	means	the supervisor(s) of the Company
Tianhai Industrial	means	Beijing Tianhai Industry Co., Ltd.(北京天海工業有限公司), a subsidiary of the Company
HK\$	means	Hong Kong dollars, the legal currency of Hong Kong
US\$	means	United States dollars, the legal currency of the United States of America

### 2. Important Risk Warnings

1. In 2014, the new production base of the Company may commence its operations, while the capacities of the new base may be idle and fail to achieve the expected targets in the event that the market demand was decreased due to downturn of the macro economy.
2. In 2014, the situation of the compressor market will remain severe and the cutthroat competition with low price will continue and the gross margin will be in a downward trend.

**(I) Information of the Company**

Chinese name of the Company	北京京城機電股份有限公司
Chinese abbreviation	京城股份
English name of the Company	BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED
English abbreviation	JINGCHENG MAC
Company's legal representative	Jiang Zili

**(II) Contact Persons and Contact Methods**

	<b>Secretary to the Board of Directors</b>	<b>Representative in charge of securities affairs</b>
Name	Jiao Ruifang	Lu Ruiping
Contact address	No.9 Tianying North Road, Chaoyang District, Beijing	No.9 Tianying North Road, Chaoyang District, Beijing
Telephone	010-67365383	010-67365383
Facsimile	010-87392058	010-87392058
E-mail	jcgf@btic.com.cn	jcgf@btic.com.cn

**(III) Basic Information**

Registered address of the Company	Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing
Postal code of the registered address of the Company	100022
Office address of the Company	No.9 Tianying North Road, Chaoyang District, Beijing
Postal code of the office address of the Company	100121
Company's internet website	www.btic.com.cn
E-mail address	jcgf@btic.com.cn

**(IV) Dissemination of Company Information and the Place for Preparation and Reference**

Name of newspapers designated for dissemination of company information	Shanghai Securities News, <i>Securities Daily</i>
Internet website for publishing annual report	www.sse.com.cn and www.hkexnews.hk
Place for preparation and reference of annual reports	Office of the Board of Directors of Beijing Jingcheng Machinery Electric Company

**(V) Basic Information of the Company's Shares****Basic Information of the Company's Shares**

<b>The types of shares</b>	<b>Place of listing of the Company's Shares</b>	<b>Abbreviated name of Shares</b>	<b>Stock code</b>	<b>Abbreviated name of Shares before changes</b>
A share	Shanghai Stock Exchange	京城股份	600860	北人股份
H share	Stock Exchange	JINGCHENG MAC	0187	Beiren Printing

## SECTION 2 COMPANY PROFILE

### (VI) Changes in registration of the Company during the reporting period

#### (1) Basic information

Date of the first registration	13 July 1993
Place of the first registration	Chaoyang District, Beijing, the PRC
Date of change of registration for the first time	24 December 2003
Place of change of registration for the first time	Beijing, the PRC
Date of change of registration for the second time	23 December 2013
Place of change of registration for the second time	Chaoyang District, Beijing, the PRC
Registration No. of Business License of Enterprise Legal Person	110000005015956
Tax Registration NO.	Jing Zheng Shui Zi 110105101717457
Organization code	10171745-7

#### (2) Change in major business of the Company since its listing

Considering that the approval for the Material Assets Reorganisation of the Company was issued by the CSRC on 26 September 2013, the Company exchanged all of its assets and liabilities with all assets relating to gas storage and transportation equipment business held by Jingcheng Holding according to the reorganisation plan. Therefore, the major business of the Company has been changed from manufacturing of printing machines to manufacturing of gas storage and transportation equipment.

#### (3) Change in controlling shareholder of the Company since its listing

On 7 December 2012, Beiren Group, the former controlling shareholder of the Company, transferred 201,620,000 shares of the Company it held to Jingcheng Holding without consideration and the transfer procedure was completed. Currently, Jingcheng Holding is the controlling shareholder of the Company, holding approximately 47.78% shares of the Company.

### (VII) Other Related Information

Auditors retained by the Company (domestic)	Name	ShineWing Certified Public Accountants LLP
	Office address	9/F, Block A, Fu Hua Mansion No. 8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing, the PRC
	Names of signing accountants	Ma Chuanjun Pang Rongzhi
Financial advisor that performed continuous supervision during the Reporting Period	Name	CITIC Securities Co., Ltd.
	Office address	CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing
	Names of signing organiser of financial advisor	Qian Yisi, Li Li
	Period of continuous supervision	26 September 2013 to 31 December 2014
Name of the domestic legal adviser retained by the Company	China Kang Da Law Firm	
Office address of the domestic legal adviser retained by the Company	No. 19, Jianguomenwai Dajie, Chaoyang District, Beijing, the PRC	
Name of the overseas legal adviser retained by the Company	Woo, Kwan, Lee & Lo	
Office address of the overseas legal adviser of the Company	26/F, Jardine House, Central, Hong Kong	
Other basic information of the Company	Reception of shareholders enquiries: 10th and 20th of each month (or on the following business day if it falls on a public holiday) (Closed on Saturdays and Sundays) 9:00-11:00a.m. 2:00-4:00p.m.	

### (VIII) History

The Company is a joint stock company established by Beiren Group Corporation as the sole promoter. On 13 July 1993, the Company was registered and incorporated at the Administration for Industry and Commerce. The Company was approved to become a joint stock limited company established by public offer of shares domestically and in Hong Kong on 16 July 1993 with regard to the Approval Document Ti Gai Sheng (1993) No. 118 issued by the State Commission for Restructuring Economic System. Pursuant to the approval of the China Securities Regulatory Commission (“CSRC”) of the State Council and other relevant authorities, the Company issued H Shares in Hong Kong in 1993 and issued A Shares in Shanghai in 1994. The H Shares were listed on Stock Exchange in 1993 and the A Shares were listed on the SSE in 1994. Upon approved by the Approval Document Zheng Jian Fa Hang Zi [2002] No. 133 issued by CSRC in 2002, the Company issued 22,000,000 additional A Shares which were listed on the SSE on 16 January 2003. On 20 March 2006, the Company’s general meeting approved share segregation reform in the A-share market. Trading of the Company’s A shares resumed on 31 March 2006. On 26 September 2013, the Company received the approval and reply in relation to the Material Assets Reorganisation of Beiren Printing Machinery Holdings Company Limited (Zheng Jian Xu Ke [2013] No. 1240) from the China Securities Regulatory Commission, whereby the Company’s Material Asset Reorganisation and connected transaction matters have been approved. The Company exchanged all of its assets and liabilities with 88.50% equity interest in Beijing Tianhai Industry Co., Ltd, 100% equity interest in Jingcheng Holding (Hong Kong) Company Limited and 100% equity interest in Beijing Jingcheng Compressor Co., Ltd. held by Jincheng Holding, with the difference is to be paid in cash by Jincheng Holding. Since relevant businesses have been changed after material asset reorganisation, on 23 December 2013, after approved by the Beijing Municipality Administration for Industry and Commerce, the full name of the Company was changed to “Beijing Jingcheng Machinery Electric Company Limited” from “Beiren Printing Machinery Holdings Limited”.

With effect from 10 February 2014, the Chinese short name of A share of the Company was changed from “北人股份” to “京城股份”. The stock code of A share of the Company remained unchanged as “600860”. With effect from 4 February 2014, the Chinese short name of H share of the Company was changed from “北人印刷機械股份” to “京城機電股份”, and the English short name of H share was changed from “BEIREN PRINTING” to “JINGCHENG MAC”. The stock code of H share of the Company remained unchanged as “0187”.

### (IX) Scope of Business Operations

Authorised items of operation: general logistics; professional contractor.

General scope of operation: development, design, sales, installation, adjustment, maintenance of cryogenic containers for storage, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency.



## SECTION 3 SUMMARY OF ACCOUNTING FIGURES AND FINANCIAL INDICATORS

### I. Major Accounting Figures and Financial Indicators of the Company at the End of the Reporting Period for the Past Three Years

#### (1) Major accounting figures

Unit: Yuan Currency: RMB

Major accounting figures	2013	2012		Changes over the same period of the preceding year (%)	2011
		After adjustment	Before adjustment		
Operation income	<b>2,828,194,349.87</b>	3,045,275,527.04	748,254,409.40	-7.13	803,873,926.57
Net profit attributable to shareholders of listed company	<b>-108,239,018.44</b>	-124,456,883.57	-168,358,026.72	Not applicable	11,382,900.84
Net profit attributable to shareholders of listed company after extraordinary items	<b>-76,646,872.99</b>	-173,196,189.59	-173,196,189.59	Not applicable	-30,853,075.37
Net cash flow from Operating activities	<b>-226,602,488.48</b>	-60,172,645.94	-47,140,181.37	Not applicable	-20,898,129.06
	<b>At the year end of 2013</b>	At the year end of 2012		Changes over the same period of the preceding year (%)	At the year end of 2011
		After adjustment	Before adjustment		
Net assets attributable to equity holders of the listed company	<b>803,573,308.22</b>	1,436,750,081.62	587,988,304.80	-44.07	756,382,308.67
Total assets	<b>2,829,360,876.07</b>	3,802,931,964.53	1,475,038,749.96	-25.60	1,485,441,846.03

Note: Before adjustment in 2012 means that with respect to relevant financial data in the financial report as disclosed by the Company in 2012, the amounts at the beginning of the period in the combined balance sheet were adjusted and relevant items in comparative statements were also adjusted for the purpose of the merger of controlling interests under the same control according to the provisions of Accounting Standards for Enterprises No. 20 – Business Combinations. Therefore, the financial data after adjustment in 2012 included the financial data of outgoing assets and incoming assets for the whole year, and the financial data at the end of 2013 included that of outgoing assets before 31 October 2013 and of incoming assets for the whole year.

#### (2) Key financial data

Key financial indicators	2013	2012		Changes over the same period of the preceding year (%)	2011
		After adjustment	Before adjustment		
Basic earnings per share (Yuan/share)	<b>-0.26</b>	-0.29	-0.40	Not applicable	0.03
Diluted earnings per share (Yuan/share)	<b>-0.26</b>	-0.29	-0.40	Not applicable	0.03
Basic earnings per share after extraordinary items (Yuan/share)	<b>-0.18</b>	-0.41	-0.41	Not applicable	-0.07
Returns on net assets on weighted average basis (%)	<b>-8.36</b>	-8.30	-25.05	Not applicable	1.52
Return on net assets on weighted average basis after extraordinary items (%)	<b>-13.27</b>	-25.77	-25.77	Not applicable	-4.11

## SECTION 3 SUMMARY OF ACCOUNTING FIGURES AND FINANCIAL INDICATORS

### II. Extraordinary Items and Amount

Unit: Yuan Currency: RMB

Extraordinary items	Amount of 2013	Amount of 2012	Amount of 2011
Profit and loss from disposal of non-current assets	<b>-14,393.74</b>	-111,794.87	14,958,555.12
Government subsidy accounted into profit and loss for the current period (except for those closely associated with the normal operations of the Company which were accounted for in certain standard amount or volume in compliance with the requirement of the policies of the State and in accordance with uniform standard of the state)	<b>2,668,633.80</b>	5,065,300.56	2,615,267.06
Profit and loss from debt restructuring	<b>34,759.16</b>		96,281.69
Subsidiaries' Year-to-Date net profit or loss arising from business combination of entities controlled by a same company	<b>-32,693,979.16</b>	48,404,711.61	
Other non-operating income/expenses save for the above	<b>-75,174.26</b>	490,372.57	25,425,169.26
Other profits and loss	<b>-641,637.99</b>		
Effect on minority interests	<b>873,356.67</b>	5,109,283.85	859,296.92
Effect on income tax	<b>-3,003.41</b>	0	
Total	<b>-31,592,145.45</b>	48,739,306.02	42,235,976.21

## SECTION 4 CHAIRMAN'S STATEMENT



Group photo of Directors, Supervisors and senior management personnel at the first extraordinary general meeting in 2013 on 16 December 2013

### I. Review

During the Reporting Period, the Company's material asset reorganisation (the "Material Asset Reorganisation") and connected transaction matters have been approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2013] No. 1240), whereby the Company exchanged all of its assets and liabilities with 88.50% equity interest in Tianhai Industrial, 100% equity interest in Jingcheng HK and 100% equity interest in Jingcheng Compressor held by Jingcheng Holding. The Company's business is changed from the manufacturing of printing machines originally to the manufacturing of the gas storage and transportation equipment.

During the Reporting Period, the global economy has been slowly recovering while the tail risks of the European debt crisis remained. The economy of the developed countries changed its downturn trend of the past two years while the economic growth in the developing countries declined in different extent, such that the global economy has shown a slow growth. China insisted on the principle of progress and performance in stability, adopted a series of policies and measures to stabilize the growth, control the inflation and prevent against risks, and guaranteed the sustainable and healthy development of economy and overall economic stability.

As China increased its efforts to govern environmental pollution, natural gas played an important and strategic role in the development of China's primary energy source. The demand for natural gas storage and transportation equipment has been increasingly growing. Overproduction of traditional gas cylinders and vicious low-price competition in gas storage and transportation equipment industry caused many manufacturers to run into difficulties in operations.

During the Reporting Period, the Company put focus on utility, reform, market and innovation, and relied on an accurate grasp of expectation for natural gas market in the beginning of the "Twelfth Five-Year Plan" period and made timely adjustment of strategic layout, and took active measures regarding market support, product support and capability support for facilitating various key work in an orderly and progressive manner. The Company is expected to achieve a successful transformation by the end of the "Twelfth Five-Year Plan" period.

During the Reporting Period, the operating income prepared in accordance with the PRC Accounting Standards was RMB 2,828,194,300, and the net profit attributable to the shareholders of a listed company was RMB-108,239,000.

#### 1. Improve the Company's value through Material Assets Reorganisation

During the Reporting Period, the Company exchanged all the assets and liabilities of its original printing machinery manufacturing business, and simultaneously injected the relevant assets in relation to gas storage and transportation business with considerable profitability into the Company so as to achieve the transformation of the Company's primary business, fundamentally improve the asset quality of the Company, enhance the Company's ability of sustainable development, practically improve the Company's value and protect the interests of medium-sized and minority shareholders.

## I. Review *(cont'd)*

### 2. Improving the Company's system and enhancing its management and control ability

During the Reporting Period, the Company commenced the implementation of the Material Asset Reorganisation on 31 October 2013, and made timely adjustment to the management and control mode of the Company and improved its internal control system; amended the relevant systems including the Articles of Association, the Rules of Procedure for the General Meeting and the Rules of Procedure for the Board of Directors. In order to guarantee the normal operation of the Board and the Supervisory Committee in accordance with laws after the completion of the Material Asset Reorganisation, the Company provided training for its directors, supervisors, senior management and the relevant personnel of its subsidiaries and improved the management and control capability of the Company.

### 3. Accelerating the preparation and construction of cryogenic equipment base and actively adjusting product mix

During the Reporting Period, the Company actively adjusted the product mix, enhanced its capacity of bulk supply of high-value-added product and accelerated the preparation for construction of the cryogenic equipment base. At present, the construction of civil engineering work of the base has been completed.

### 4. Adjusting the sales strategies in a timely manner, fully utilizing the sales network and expanding sales channels

During the Reporting Period, the Company differentiated sales strategies for different products depending on different competitive environment for improving the sales capability and expanding sales channels. With respect to the sales of new products, the Company encouraged the enthusiasm of sales personnel to explore the market on one hand; on the other hand, it enhanced its support and promotion of high-value-added products. Regarding natural gas related products, the Company has gradually established cooperation with domestic leading heavy truck companies and automobile manufacturers. In 2013, the sales income from natural gas related business represented an increase of 25% as compared with that of 2012, and its proportion in sales income of Tianhai Industrial reached 39.2%; the business of cryogenic storage tanks had earned good reputation in domestic and overseas markets with sales income increased by 51.5% as compared with that of 2012.

### 5. Insisting on technological innovation, strictly controlling the cost and enhancing the Company's efficiency

During the Reporting Period, the Company has continuously carried out additional accreditation for its products, optimized the product design and standardized modeling and improved the product quality, and continued to make full preparation for the explosive growth in the sector of natural gas. As for traditional industrial gas cylinder products, the Company aimed at every product, every component and every procedure to conserve energy, lower the consumption, reduce cost, enhance the competitive edge of products and the profitability of the Company. Several LNG/L-CNG gas stations designed and developed by the Company itself had been constructed and passed the test for completion verification; the development of marine LNG storage tank and its system has been completed; the newly developed GD8 ultra-large diaphragm compressors had operated continuously for nearly 72 hours; and order placing contracts for several optimized and improved GD4\GD6 compressors had been concluded.



Tianhai Industrial was certified as "High and New Technology Enterprise"

## SECTION 4 CHAIRMAN'S STATEMENT

### I. Review *(cont'd)*

6. **Enhancing procurement management, optimizing the structure of inventories and lowering the cost of products**  
During the Reporting Period, the Company enhanced its procurement management and outsourcing management, refined its management of procurement processes through a price comparison and procurement system, carried out dynamic management, onsite reviews and performance supervision of the suppliers, regularly conducted comprehensive assessment of the quality, service, prices and delivery time of products provided by the suppliers, effectively lowered the procurement costs and improved the quality of outsourced products; the Company carried out informatized and dynamic management regarding the inventory with help of the U8 and computer systems, reasonably controlled the quantity of inventories, reduced the occupation of funds and optimized the inventory structure.
7. **Conducting specific legal investigation, strengthening internal audit and strengthening the prevention against and control of legal risks**  
During the Reporting Period, the Company strengthened the special legal audit, standardized contract templates and review, strengthened internal and external audit, enhanced the supervision and management of various matters concerning bidding, actively identified for risk points, strengthening the prevention against and control of legal risks and implemented a fair, just and open management for material procurement and major engineering work.



Municipal Party Deputy Secretary and Mayor Mr. Wang Anshun conducted investigation and research of Tianhai Industrial products on 14 August 2013



2013 14th China International NGV and Gas Station Equipment Exhibition

## II. Outlook for 2014

In 2014, the demand of the global industrial gas cylinder market will not increase to a large extent as compared with last year; the imbalance between supply and demand remains obvious and the competition will become more intense. The demand of natural gas storage and transportation market will improve significantly. Along with the technological advancement and economic development, the rapid growth in car ownership has caused air pollution and energy shortage to cities, which are especially obviously in many cities in China, led by Beijing. This will urge the PRC government to accelerate its replacement of gasoline and diesel vehicles with CNG or LNG fuel vehicles. The boom of natural gas industry has provided vast opportunity for the gas storage and transportation industry; the market for cryogenic storage tanks and transportation tank vehicles maintains a undersupply pattern and and the market prospects for lake, river and sea vessels are also optimistic.

2014 is the fourth year of the implementation of the "Twelfth Five-Year" Strategic Plan being implemented. Facing with the complicated economic situation at home and abroad, and the fierce competition in the industry, the Company will practically implement and deepen the reform and continue the innovation; accelerate the development of new products, strengthen the innovative capability of the Company and further improve the Company's core competitiveness; take full advantage of the function of the business units, accelerate the construction of the manufacturing base for cryogenic equipment and achieve the industrial distribution as soon as possible; constantly expand the market share, set up and improve the internal control system, improve the product quality and lower the operating risks; constantly carry out the cost control measures, conserve energy and lower the consumption, improve the operating abilities and enable the Company become the leading company in the global gas storage and transportation equipment industry.



Cryogenic equipment base factory



Inspection and repair of welded insulated cylinder

## SECTION 4 CHAIRMAN'S STATEMENT

### II. Outlook for 2014 *(cont'd)*

#### Key work of the Company in 2014

**1. Standardize corporate governance, strengthen internal control and enhance the prevention against and control over the Company's risks**

The Company will complete the construction and assessment of the internal control system, further streamline the management procedures, improve the level of prevention and control and enhance the standardized management; continue to make information disclosure, enhance the training for key personnel of various divisions and departments, and subsidiaries of the Company to enable them to familiarize themselves with the laws and regulations system concerning information disclosure as soon as possible, raise the awareness of confidentiality and firmly prevent leakage of inside information, ensure the truth, accuracy and completeness of such information disclosure and guarantee the interests of its medium-sized shareholders and minority shareholders; establish and improve various management systems, strengthen the assessment for the implementation of these systems and enhance the level of preventing against and controlling risks.

**2. Innovate marketing modes, enhance marketing management and increase the market share by the Company's products**

The Company will further improve the pricing mechanism and refine plans of implementation, clarify the division of roles and responsibilities, improve the work efficiency and accelerate the marketing of new business involving LNG gas cylinders, special vehicles and gas stations in order to meet market demand to the largest extent. The Company will further strengthen the education and training, perfect its online marketing procedures, improve the structure of the marketing personnel and enhance the quality of business personnel. By combining both the of online marketing and traditional marketing, the Company will further expand its market shares and increase the market share by the Company's products.

**3. Endeavour greater efforts on the research and development ("R&D") of new products and accelerate the commercialization of new products**

The Company will further strengthen the R&D and improvement of its products, and accelerate the process of new product piloting and trial and meanwhile, the Company will strengthen the interaction with the marketing system and speed up the commercialization of new products. The Company will focus on the process of the R&D of our strategic transformation including LNG double-pump skid-mounted fueling devices, LNG tank cars, cryogenic liquid mini-storage tank (1-3 m<sup>3</sup>), super-large cryogenic storage tanks, and 35 MPa (兆帕) aluminium-lined carbon fiber composite gas cylinders for storage of hydrogen fuels and gas. Transformation and upgrading of our products can be implemented as driven by innovation.

**4. Accelerate construction of major investment projects and enhance adjustment to product mix**

The Company will accelerate the construction of major investment projects, enhance the adjustment to product mix, and further improve its strategic layout so as to provide guarantee for transformation and upgrading of its products. As a major investment project of the Company under the "Twelfth Five-Year" Strategic Plan, the construction project of cryogenic production bases is a key for the Company to extend its "gas cylinder" products to the products of "tank, vehicle and station". The Company will actively implement the installation and testing of each production line and all devices, striving to commence operation as scheduled and to reach 30% to 40% production capacity in the second half of this year.

**5. Strictly control costs, optimize construction of supply chain and improve the efficiency of the Company**

The Company will further adjust and optimize its process flow, reduce costs for mature products and enhance the market competitiveness of its products; maintain balance and connection of production and marketing and strictly control the occupation of funds from accounts receivable and inventories to reduce its operational risk; make full use of information management tool and optimize the construction of supply chain and inventory structure so as to reduce procurement costs as well as improve the efficiency of the Company.

**6. Enhance quality management, reinforce the internal and external audits and improve quality of our products**

The Company will, timely identify problems through internal and external audits and constantly improve the quality management and control system, ensuring its sustained and effective operations; enhance the training for the quality management system so that all levels of staff will understand the work basis, quality standards and methods of inspection and examination and to further raise quality awareness of all staff; facilitate the progress of QMS system project, and enhance the quality management level by means of information technology in order to improve quality of our products.

**7. Strengthen the overall budget management, strengthen budget analysis and improve our management efficiency**

The Company will further strengthen the overall budget management, strictly implement budget analysis and warning control, strengthen the supervision and assessment in the course of carrying out the overall budgeting management, clarify the division of roles and responsibilities and effectively increase the accuracy in preparation of the overall budgets and improve our management efficiency.

By the order of the Board of Directors  
**Jiang Zili**  
Chairman

27 March 2014

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (I) Discussion and analysis of the Company's Operation during the Reporting Period

#### 1. Scope of the principal business during the Reporting Period

Licensed items of operation: general logistics; professional contracting.

General scope of operation: development, design, sales, installation, adjustment and trial, maintenance of cryogenic containers for storage and transportation, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; import and export of commodities and technology and acting as an agency for import and export.

#### 2. Explanations on the operation of the principal business of the Company

As for the principal business of the Company during the Reporting Period, the Company recorded a principal operating income of RMB2,828,194,300, net profit of RMB-108,239,000, earnings per share of RMB-0.26 in accordance with the PRC Accounting Standards.

### (II) 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	Changes (%)
Operating income	2,828,194,349.87	3,045,275,527.04	-7.13
Operating cost	2,402,264,930.73	2,543,156,272.24	-5.54
Sales expense	158,783,476.97	160,056,421.43	-0.80
Management expense	283,060,648.76	365,040,264.63	-22.46
Financial expense	58,634,213.01	45,089,413.43	30.04
Net cash flow from operating activities	-226,602,488.48	-60,172,645.94	Not applicable
Net cash flow from investment activities	-506,462,626.25	-107,203,649.43	Not applicable
Net cash flow from financing activities	551,943,371.00	377,196,823.63	46.33
R&D expenditure	36,929,211.02	46,119,332.13	-19.93

#### 2. Income

##### (1) Analysis on the factors during driving changes in business income

During the Reporting Period, the sales of gas storage and transportation equipment and compressors declined as compared with 2012, which was mainly attributable to the following factors:

- ① **Smaller price difference between oil and natural gas affects the sales revenue of natural gas cylinder products**  
In 2013, the oil price experienced numerous adjustments and did not follow the rising trend as originally expected. Since the reform of natural gas price in China proceeded gradually, the natural gas price is on an apparent rising trend. As the difference of the prices between oil and natural gas was narrowed as a result of the foregoing changes, the progress of replacing oil fuels with natural gas slowing down and the promotion and application of natural gas in automobiles lost its economic support and slowed down substantially. Consequently, the natural gas cylinder products did not reach the expected sales targets.
- ② **The fluctuation of downstream industries affects the sales revenue of traditional industrial gas cylinder products**  
In 2013, being under the influence of the decline in the operations in the industries which are the main users of industrial gas, including smelting, shipbuilding and construction, the market demand for industrial gas was on a declining trend. This resulted in an overcapacity of industrial seamless steel gas cylinders and fierce competition in the market of traditional industrial seamless steel gas cylinders which led to the decline of the business results of the traditional gas cylinders.
- ③ **Impact produced by the fluctuation in sales revenues of Jingcheng Compressor**  
The compressor industry experienced a decrease in demand and increased competition due to the weak economic growth in 2013. The strategy of sales at reduced prices has to be adopted so as to obtain limited orders. The overall gross profit margin of Jingcheng Compressor declined due to its series of newly launched products such as 2D10 and 4M10 piston compressors which were of lower production capacity and higher costs.



### (II) Analysis of principal businesses *(cont'd)*

#### 2. Income *(cont'd)*

##### (1) Analysis on the factors during driving changes in business income *(cont'd)*

###### ④ Impact created by the implementation of anti-dumping and countervailing tax by the United States

According to the final judgment made by the United States International Trade Commission on the anti-dumping and countervailing investigation of high pressure steel cylinders produced in China in May 2012, an anti-dumping duty of 15.81% and a countervailing duty of 6.62% will be imposed on Tianhai Industrial's seamless steel gas cylinders products with DOT standard exported to the United States. Although Tianhai Industrial implemented a series of measures, for example, changing its production to manufacture products with UNISO standard, it takes time for customers in the United States to accept such standard. The new products have not yet made a large-scale bulk sales and the products exported to North America did not reach the expected quantity.

##### (2) Analysis on the impact of new products and new services

① Since the Company actively promoted upgrading of its products and research and development of its new products, the sales revenue from the natural gas business accounts for 39.2% of sales revenue of Tianhai Industrial, representing a 41.5% year-on-year increase.

② The project named "Integrated Management Platform of the Remote Diagnosis and Decision Making by Expert for Compressors" was implemented, by which, the on-site problems of sold products could be detected in a timely fashion and maintenance can be provided promptly though remote control system software, and high-quality services were offered to customers.

##### (3) Analysis on orders

The sales of the Company's seamless steel cylinders decreased by nearly 30% due to the impact produced by macroscopic economic downturn, decrease in market demand and market competition at reduced prices, however the Company's sales of LNG cylinders increased by 190% as compared to the corresponding period last year, and that of LNG storage tanks increased by 43% and achieved bulk delivery at its stations.

##### (4) Sales to major customers

During the Reporting Period, the total operating income from the top five customers of the Company amounted to RMB329,844,109.01, accounting for 11.66% of the total operating income for the year.

The major customers of Tianhai Industrial include globally renowned gas companies such as Linde and AL, energy companies such as PetroChina and Sinopec, vehicle manufacturers, public transport companies and other companies in the sectors of chemicals industry, fire protection, medical care, urban construction, food, metallurgy, machinery and electronics.

The major customers of Jingcheng Compressor include the enterprises in petroleum system, enterprises in polysilicon and organic silicon industries, nuclear power engineering companies, military and aerospace companies, gas storage and transportation enterprises, private petrochemical enterprises, coal chemical industry enterprises and steel industry enterprises.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (II) Analysis on principal business *(cont'd)*

#### 3. Cost (1) Cost analysis table

*Unit: Yuan*

##### Sub-products

Sub-products	Component of cost	Current period	Percentage over total cost for the current period (%)	Corresponding period of last year	Percentage over total cost for the corresponding period of last year (%)	Changes in amount over last year (%)
Offset presses series	Materials	184,919,024.38	72.69	217,394,571.97	67.78	-14.94
	Labor cost	26,075,388.64	10.25	39,995,726.06	12.47	-34.80
	Manufacturing cost	43,399,622.45	17.06	63,345,275.84	19.75	-31.49
	Total	254,394,035.47	100.00	320,735,573.87	100.00	-20.68
Intrusion printers series	Materials	156,059,061.35	76.48	185,932,192.98	77.64	-16.07
	Labor cost	29,607,962.61	14.51	34,197,729.47	14.28	-13.42
	Manufacturing cost	18,385,096.01	9.01	19,349,975.78	8.08	-4.99
	Total	204,052,119.97	100.00	239,479,898.22	100.00	-14.79
Form presses series	Materials	5,599,995.34	55.74	24,539,151.38	66.96	-77.18
	Labor cost	2,445,351.39	24.34	7,216,881.60	19.69	-66.12
	Manufacturing cost	2,001,290.05	19.92	4,889,698.81	13.34	-59.07
	Total	10,046,636.78	100.00	36,645,731.79	100.00	-72.58
Seamless steel gas cylinders	Materials	564,723,773.52	79.96	874,768,180.81	84.97	-35.44
	Labor cost	56,147,498.74	7.95	70,726,814.20	6.87	-20.61
	Manufacturing cost	85,386,573.56	12.09	84,007,395.03	8.16	1.64
	Total	706,257,845.82	100.00	1,029,502,390.03	100.00	-31.40
Wrapped cylinders	Materials	297,973,150.98	78.04	290,360,265.01	80.48	2.62
	Labor cost	31,309,326.47	8.20	27,275,392.69	7.56	14.79
	Manufacturing cost	52,538,577.11	13.76	43,149,959.86	11.96	21.76
	Total	381,821,054.56	100.00	360,785,617.56	100.00	5.83
Cryogenic gas cylinders	Materials	256,380,906.03	83.29	148,131,606.89	81.43	73.08
	Labor cost	23,455,666.99	7.62	15,116,955.09	8.31	55.16
	Manufacturing cost	27,980,579.13	9.09	18,664,255.03	10.26	49.92
	Total	307,817,152.15	100.00	181,912,817.01	100.00	69.21
Cryogenic devices for storage and transportation	Materials	85,508,517.16	75.00	57,148,095.62	75.00	49.63
	Labor cost	13,681,362.75	12.00	8,381,720.69	11.00	63.23
	Manufacturing cost	14,821,476.31	13.00	10,667,644.52	14.00	38.94
	Total	114,011,356.21	100.00	76,197,460.83	100.00	49.63
Compressor business	Materials	78,102,864.01	84.93	67,477,545.70	87.51	15.75
	Labor cost	3,909,388.03	4.25	2,679,810.00	3.48	45.88
	Manufacturing cost	9,944,943.94	10.81	6,947,184.00	9.01	43.15
	Total	91,957,195.98	100.00	77,104,539.70	100.00	19.26

#### (2) Major suppliers

During the Reporting Period, the total purchasing amount for the top five suppliers of the Company amounted to RMB622,943,300, accounting for 47.07% of the total purchasing amounts for the year. Purchasing amount for the top supplier of the Company was RMB3,064,299,428,200, accounting for 23.16% of the total purchasing amount for the year.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (II) Analysis of principal businesses *(cont'd)*

#### 4. Expense

Unit: Yuan

Items	Current period	Corresponding period of last year	Changes (%)
Sales expense	158,783,476.97	160,056,421.43	-0.80
Management expense	283,060,648.76	365,040,264.63	-22.46
Financial expense	58,634,213.01	45,089,413.43	30.04

Management expense recorded a significant movement as compared to that of the previous year, mainly attributable to the substantial reduction in reorganisation expense and severance benefits as result of reduced unnecessary expenses.

Financial expense recorded a significant movement as compared to that of previous year, mainly attributable to the increase in loan, interest expense, and also the rise of RMB against USD leading to the increase of exchange losses.

#### 5. R&D expenditure

##### (1) Table of R&D expenditure

Unit: Yuan

R&D expenditure for current period	36,929,211.02
Total R&D expenditure	36,929,211.02
Percentage of total R&D expenditure over net asset (%)	3.17
Percentage of total R&D expenditure over operating income (%)	1.31

##### (2) Description

- The optimal design and standardized design finalization of SI-V vehicle LNG gas cylinders has been completed, which has enriched our product lines and satisfied the needs of diverse customers;
- The development of LNG frame-typed gas supply has been completed, cementing the base for the inclusion of the gas supply system of our LNG gas cylinders in the purchasing system of significant and large customers;
- The development of HPDI-T5 and HPDI-T6 LNG storage tanks has been completed with mass production achieved;
- The development of civil LNG cryogenic gas cylinders (including vertical and horizontal types) has been completed;
- The development of the marine LNG storage tanker and its system has been completed;
- The research and development of the "Piston 80T" product has been completed;
- The project named "Integrated Management Platform of the Remote Diagnosis and Decision Making by Expert for Compressors" was implemented. Through the remote control system software, on-site problems of sold products can be detected in a timely fashion and maintenance can be provided promptly. In so doing, the normal use of products can be guaranteed.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (II) Analysis of principal businesses *(cont'd)*

#### 6. Cash Flow

*Unit: Yuan*

Items	Current year	Last year	Change
Other Cash receipts in operating activities	15,797,357.06	40,638,816.14	-61.13
Cash payments for goods and services acquired	1,480,601,163.08	1,346,968,843.53	9.92
Other cash payments from operating activities	158,297,083.87	239,892,764.11	-34.01
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets	53,744,084.18	127,605.50	42,017.37
Cash receipts from borrowings	1,006,618,001.12	800,252,340.99	25.79
Other cash receipts in financing activities	548,000,000.00	414,800,000.00	32.11
Cash repayments of amount borrowed	660,300,000.00	555,000,000.00	18.97
Other cash payments in financing activities	489,410,000.00	501,640,000.00	-2.44

Description:

Other cash receipts in operating activities decreased over previous year, which was mainly attributable to receipt of the guarantee deposit in the previous year;

Cash payments for goods and services acquired increased over previous year, which was mainly attributable to the provision made for raw materials following the market price trend of raw materials during the year;

Other cash payments from operating activities decreased over previous year, which was mainly attributable to the decrease in expense and corresponding accounts paid during the year;

Net cash from the sale of fixed assets, intangible assets and other long-term assets increased over previous year, which was mainly attributable to the receipt of part of the amounts on disposal of the college student apartment during the year;

Cash receipts from borrowings increased over the previous year, which was mainly attributable to the increase in the short-term loan during the year;

Other cash receipts in financing activities increased over the previous year, which was mainly attributable to the loan of subsidiaries of the Company from Jingcheng Holding during the year;

Cash repayments of amount borrowed increased over the previous year, which was mainly attributable to the increase in borrowings;

Other cash payments in financing activities decreased over the previous year, which was mainly attributable to the decrease in repayment of loan by subsidiaries of the Company to Jingcheng Holding during the year.

#### 7. Others

##### (1) Details of the material changes in profit components or income source

During the Reporting Period, the Company has implemented the Material Asset Reorganisation and connected transaction matters. On 26 September 2013, the Company received the approval in relation to the Material Asset Reorganisation of Beiren Printing Machinery Holdings Limited (Zheng Jian Xu Ke [2013] No. 1240) from the China Securities Regulatory Commission, whereby the Company's Material Asset Reorganisation and connected transaction matters have been approved. The Company exchanged all of its assets and liabilities with 88.50% equity interest in Tianhai Industry, 100% equity interest in Jingcheng Hong Kong and 100% equity interest in Jingcheng Compressor held by Jingcheng Holding. Subsequently, the Company shifted its business focus from its previous printing machinery manufacturing business to its existing gas storage and transportation equipment business. The operating income from the newly introduced business of the Company decreased over the same period last year, which was mainly attributable to the following factors: ① the smaller price difference of oil and natural gas affects the profitability of natural gas cylinder products; ② The demand for traditional industrial gas cylinder products declined due to the fluctuation of downstream industries; ③ effects of the fluctuation in the profits of Jingcheng Compressor; and ④ the anti-dumping and countervailing tax implemented by the United States.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (II) Analysis of principal businesses *(cont'd)*

#### 7. Others *(cont'd)*

##### (2) Analysis on the implementation progress of each type of financing and material asset reorganisation of the Company

The Company's Material Asset Reorganisation and connected transaction entered into the completion stage on 31 October 2013. Details are as follows:

- 1) According to the "Material Asset Reorganisation Agreement between Beiren Printing Machinery Holdings Limited, Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation" and its supplemental agreement between the parties, the completion period for the Material Asset Reorganisation commenced from 26 September 2013.
- 2) On 31 October 2013, an approval was obtained from the Twelfth Meeting of the Seventh Session of the Board of Directors of the Company by way of resolution, the Company entered into "Material Asset Reorganisation Completion Agreement between Beiren Printing Machinery Holdings Limited and Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation" with Jingcheng Holding and Beiren Group Corporation.
- 3) On 16 December 2013, the resolution regarding the amendments to the articles of association of the Company was passed at the First Extraordinary General Meeting of 2013 of the Company. Currently, the approval from Beijing Administration for Industry and Commerce has been obtained; the Company has completed the procedures for the registration of changes in the registered full name of a company, business address and scope of business and obtained the Business License for Enterprises as Legal Persons upon obtaining such changes. Upon obtaining the approval from the Registrar of Companies in Hong Kong, the Company has completed the necessary filing procedures with the Registrar of Companies in Hong Kong and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong.
- 4) At present, each party to the transaction is actively carrying out the relevant procedures for the registration of change in certain land use rights of outgoing assets and change in businesses for certain subsidiaries.
- 5) As confirmed by the Company, Jingcheng Holding has paid RMB5,522,900 in cash to the Company, being the difference between the outgoing and incoming assets under the Material Asset Reorganisation and such amount has been fully received.

The Company will continue to press on with the follow-up work in respect of the Material Asset Reorganisation and connected transaction, and to perform the information disclosure obligation in accordance with the requirements of relevant laws and regulations.

#### 8. Description on the progress of development strategies and business plans

The Company, through the Material Asset Reorganisation, established its development direction of gas storage and transportation products with its product mix focusing on the field of nature gas. In order to ensure the stable and effective implementation of the Company's development strategy, the Company proactively takes steps to ensure the accomplishment of work. Firstly, we will get our business layout in place and strategically shift our operating focus to those lower-cost regions; secondly, we will establish and improve our LNG after-sale service system to enhance our after-sale service quality; thirdly, we will perfect our organizational structure to form a preliminary mode of management and control with multi-divisional structure; fourthly, we will strengthen our internal control and enhance the standard of risk management and standard.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (III) Analysis on industry, products or regional operation

#### (i) Principal business by industry and by product

Unit: Yuan Currency: RMB

##### Principal business by product

Sector of Product	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income over last year (%)	Increase/decrease in operating cost over last year (%)	Increase/decrease in gross profit margin over last year (%)
Sales of offset printers	291,291,960.01	254,394,035.47	12.67	-20.43	-20.68	Increased by 0.28 percent
Sales of intrusion printers	266,689,924.56	204,052,119.97	23.49	-12.49	-14.79	Increased by 2.07 percent
Sales of form printers	8,085,553.80	10,046,636.78	-24.25	-81.51	-72.58	Decreased by 40.44 percent
Sales of spare parts	7,633,519.60	5,560,735.48	27.15	-52.97	-52.66	Decreased by 0.47 percent
Compressor business	107,278,938.17	91,957,195.98	14.28	2.98	19.26	Decreased by 11.70 percent
Seamless steel gas cylinders	783,911,544.08	706,257,845.82	9.91	-31.37	-31.40	Increased by 0.03 percent
Wrapped cylinders	477,164,867.73	381,821,054.56	19.98	-8.21	5.83	Decreased by 10.62 percent
Cryogenic gas cylinders	361,637,537.34	307,817,152.15	14.88	72.15	69.21	Increased by 1.48 percent
Cryogenic devices for storage and transportation	158,164,067.44	114,011,356.21	27.92	52.48	49.63	Increased by 1.38 percent
Others	213,480,568.19	192,374,414.39	9.89	46.78	41.24	Increased by 3.54 percent
Total	2,675,338,480.92	2,268,292,546.81	15.21	-9.50	-8.18	Decreased by 1.23 percent

- Description:
1. the sales results of seamless steel gas cylinder decreased by over 30% due to the impact of the decrease in market demand, overcapacity within the industry and low-price competition, while it is still in the leading position in the domestic market in terms of market share.
  2. Following the increase in the Company's capacity, enhancement of technological level and continuous improvement of the after-sales service system, the competitive power of the Company's series of cryogenic products (LNG gas cylinders and storage tanks) has improved significantly and has won trust from customers. Therefore, these types of products recorded better performance due to the increase in market demand and the sales increased by over 66.5% as compared with that of the corresponding period.

#### (ii) Principal business by geographical location

Unit: Yuan Currency: RMB

Geographical location	Operating income	Increase/decrease operating income compared over last year (%)
Domestic	2,227,071,495.36	-3.33
Overseas	448,266,985.56	-31.31
Total	2,675,338,480.92	-9.50

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (IV) Analysis on assets and liabilities

#### 1. Analysis table of assets and liabilities

Unit: Yuan

Items	At the end of current period	Percentage of the amount at the end of current period over total asset (%)	At the end of previous period	Percentage of the amount at the end of previous period over total asset (%)	Changes in amount at the end of current over pervious period (%)
Monetary fund	337,743,216.12	11.94	528,041,165.31	13.89	-36.04
Accounts receivables	407,991,348.42	14.42	526,194,988.82	13.84	-22.46
Note receivables	28,387,575.12	1.00	27,652,656.96	0.73	2.66
Other receivables	5,686,434.58	0.20	50,795,137.59	1.34	-88.81
Inventory	734,199,271.84	25.95	995,479,780.27	26.18	-26.25
Investment in real estate	9,519,696.39	0.34	6,556,479.32	0.17	45.2
Investment in long-term equity	63,231,444.54	2.23	84,309,221.40	2.22	-25
Fixed assets	714,960,989.70	25.27	1,273,027,529.95	33.47	-43.84
Project under construction	278,770,258.89	9.85	54,167,335.66	1.42	414.65
Short-term loan	482,613,152.34	17.06	640,243,870.99	16.84	-24.62

#### 2. Explanation

Monetary fund recorded a decrease of RMB190,300,000, which was mainly due to the impact produced by the exchange of assets of the Company. After excluding such factor, the monetary fund would maintain basically the same as compared with that at the beginning of the year.

Accounts receivables recorded a decrease of RMB118,200,000, which was mainly due to the exchange of the the Company's assets and liabilities related to printers. After excluding such factor, the accounts receivables would increase by RMB74,060,000. This increase was mainly due to the customers' failure to pay owing to the shortage of funds under the impact of the macro-economic situation.

Other receivables recorded a decrease of RMB45,100,000, which was mainly due to the exchange of the Company's assets and liabilities related to printers. At the beginning of the year, it amounted to RMB18,590,000, for which Minghui Tianhai Gas Storage and Transportation Equipment Sales Ltd. ("Minghui Tianhai") utilized the guarantee deposit for the purchase of land as the grant fee to transfer into the intangible assets for this year.

Inventory recorded a decrease of RMB261,280,000, which was mainly due to of the exchange of the Company's assets and liabilities related to printers. At the beginning of the year, it amounted to RMB403,660,000. After excluding such factor, it would record an increase of RMB142,380,000 at the end of this year, mainly due to that the Group has prepared for certain amounts of reserves to cope with the risk from the rise in the price of raw materials while the market price of raw materials declined.

Investment in properties recorded an increase of RMB2,960,000, which was mainly attributable to that the workshops leased by Jingcheng Compressor have been carried forward since they have met the conditions of being available for use at the end of the year.

Fixed assets recorded a decrease of RMB558,070,000, which was mainly due to the exchange of the Company's assets and liabilities related to printers, while it amounted to RMB498,620,000 at the beginning of the year.

Projects under construction recorded an increase of RMB224,600,000, which was mainly due to the increase of investment in LNG industrial base project of Minghui Tianhai, a subsidiary of the Group for the year.

## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (v) Analysis on core competitive power

1. The Company has over 20 patented technologies, including the design and manufacturing technique of CNG cylinders and LNG cylinders. The implementation of these patented technologies safeguarded the enhancement of our product quality.
2. Tianhai Industrial has a relatively high good will in the global industry of gas storage and transportation equipment and Tianhai is also a well-known brand.
3. The Company has currently obtained 41 international product certifications such as American DOT, German TUV, Canadian TC and EU EN etc.
4. The Company has established a complete sales network with over 30 distribution network points scattering across the country, realizing a full geographical coverage nationwide. The Company has also set up eight overseas sales network points mainly located in the United States, Singapore, Korea, India, Australia and other countries, accounting for around 50% of the total export quantity.
5. The Company has a high quality talent team: Excellent management team, skilled technical team, top-notch sales team and professional production team and others.
6. Not only can the Company manufacture high quality products, but it also possesses the capacity of designing and manufacturing complete sets of product line, which laid a solid foundation for improving the quality of our products.

### (VI) Analysis on investment

#### 1. General analysis on external investment in equity

During the Reporting Period, Tianhai Industrial, a subsidiary of the Company, made capital injection of RMB200,000,000 to its subsidiary, Minghui Tianhai on 23 August 2013 for developing its gas storage and transportation project. Upon completion of the capital injection, the registered capital of Minghui Tianhai has been changed from RMB10,000,000 to RMB210,000,000 with 100% of its equity rights held by Tianhai Industrial.

#### 2. Entrusted investment in non-financial entity and investment in derivatives

##### (1) Entrusted Investment

The Company did not entrust any entities to conduct wealth management during the Reporting Period.

##### (2) Entrusted Loan

The Company did not entrust any entities to deal with loan(s) during the Reporting Period.

#### 3. Use of capital raised

During the Reporting Period, the Company did not use, for the current period, any capital raised or any capital raised in the previous period.

#### 4. Projects financed by non-raised funds

*Unit: 0'000 Yuan Currency: RMB*

Name of project	Project amounts	Project progress	Investment in this year	The cumulative amount of actual investment	Project earnings
Base construction project for automotive liquefied gas bottle and cryogenic equipment (LNG industry)	92,620	The procedures for project initiation, submission for approval, and commencement have been completed.  Civil engineering: the construction of the plant and main building and auxiliary building have been completed. Main building and auxiliary building are under renovation, and the construction of the office building is expected to be completed in the first half of 2014.	24,358	26,318	The project is currently under construction

#### 5. Analysis on principal subsidiaries and joint stock companies

*Unit: Yuan Currency: RMB*

Name of the corporation	Business nature	Principal product or service	Registered capital	Total asset	Net asset	Net profit
Beijing Tianhai Industry Co., Ltd.	Production	Production and sale of gas cylinders, accumulator shells, pressure vessels and auxiliary equipments, etc.	US\$61.4018 Million	2,526,077,132.81	1,001,650,540.38	-28,406,536.99
Beijing Jingcheng Compressor Co., Ltd.	Production	Design, manufacture and sale of compressors	RMB139,271,500	294,810,393.34	160,472,711.92	-17,621,279.53
Jingcheng Holdings (Hong Kong) Ltd.,	Trade and Investment	Import and export trade, investment holding and consultancy services, etc.	HKD1,000	142,195,147.91	140,989,378.27	-146,135.05



## SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

### (VII) Analysis on Financial Position and Business Performance during the Reporting Period

#### 1. Analysis on operating results

In 2013, the total profit of the Company reduced by RMB4,523,300 as compared with the same period last year. The operating income, operating cost and operating profit decreased by 7.13%, 5.54% and 7.35% over the same period of last year respectively. Among this, the operating income from outgoing assets for the year decreased by 18.79%.

#### Operation of incoming assets as compared with last year

The principal operating income derived from Tianhai Industrial, Jingcheng Compressor and Jingcheng Hong Kong was RMB2,082,845,700 in 2013, representing a decrease of RMB141,162,600 as compared with 2012, and the main operating costs reduced by RMB80,847,300, which was mainly due to the decline in sales volume and unit cost under the impact of the macroscopic economy, the factors that caused the decrease of cost being less than the reduction of the income include the depreciation of plant project which commenced production in late 2012 and the increase of staff which results in the increase of wages.

The expenses for the period increased by RMB22,860,000 as compared with 2012, which was mainly because greater efforts were endeavoured to facilitate the sales of LNG products this year, resulting in the increase of travel and other related expenses of marketing personnel, as well as the increase of interest expenses and exchange losses affected by the increase of borrowings and decline of the USD exchange rate respectively.

The asset impairment losses increased by RMB12,650,000, which was mainly due to the increase of provision for bad debts as the unsatisfactory collection of receivables from customers, and the increase of provision for the decline in inventories, the net realizable values of part of traditional products being greater than their sales price at the end of the year.

The investment income decreased by RMB9,540,000, which was mainly due to the drop in net profit of Beijing Fusheng Machine Co., Ltd., an associate of Jingcheng Compressor, for 2013.

#### 2. Analysis of assets, liabilities and shareholders' equity interests

At the end of the Reporting Period, both the assets and liabilities recorded a certain decrease as compared with the beginning of this year, which was mainly attributable to that as the Company conducted Material Assets Reorganisation during the year, retrospective adjustment were made for incoming assets according to the provisions of Accounting Standards for Business Enterprises-Business Combinations for merger of enterprises under the Common Control at the beginning of the year, while the assets and liabilities of the Company have been exchanged at the end of the year.

At the end of the Reporting Period, total assets amounted to RMB2,829,360,900, decreased by 25.60% as compared with the beginning of the year, among which the accounts receivable decreased by 22.46%, inventory decreased by 26.25%, fixed asset decreased by 43.84% and projects under construction increased by 414.65%.

After excluding the impact of outgoing assets at the beginning of the year, the total assets of the incoming assets at the end of year increased by RMB 487,490,000, which was mainly due to the increase of the procurement of raw materials as well as the increase in the projects in LNG bases at the end of year.

Total liabilities amounted to RMB1,665,722,260, decreased by 23.98% as compared with the beginning of the year, among which the short-term loans decreased by 24.62% and amounts payable decreased by 38.04%.

After excluding the impact of outgoing assets at the beginning of the year, the liabilities of incoming assets increased by RMB 338,842,600 as compare with the beginning of the year, which was mainly due to the increase of bank borrowings and payables for construction of LNG project resulting from the greater pressure on capital in 2013.

The total shareholders' equity interest amounted to RMB1,163,638,300, decreased by RMB 448,209,900 or 27.81% as compared with the beginning of the year. This decrease was mainly due to the fact that as result of merger of enterprises under the common control in this year, the capital reserve increased by RMB 659,860,000 at the beginning of the year, and the shareholders' equity interests for the year decreased due to the merger of Tianhai Industrial and Jingcheng Compressor as well as the exchange of Shaanxi Beiren Printing Machinery Co., Ltd.

#### 3. Financial position analysis

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 has 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

	2013	2012
(1) Gearing ratio	58.87%	57.62%
(2) Quick ratio	54.52%	55.82%
(3) Liquidity ratio	102.38%	102.61%

**(VII) Analysis of Financial Position and Business Performance during the Reporting Period** *(cont'd)***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 RMB482,613,200, representing a decrease of 24.62% 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 American Fortune Company 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.

**(VIII) 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 RMB2,007,274,000, while cash outflow amounted to RMB2,233,876,500. Net cash flow during the Reporting Period from operating activities amounted to RMB-226,602,500.

**2. Cash flows from investment activities**

Cash inflow from investment activities during the Reporting Period amounted to RMB76,469,100 while cash outflow to investment activities amounted to RMB582,931,700, which was mainly used for capital expense on the purchase of fixed assets and monetary capitals of outgoing assets. The above expenditures were financed by the Company's internal resources. Net cash flow from investment activities for the Reporting Period amounted to RMB-506,462,600.

**3. Cash flows from fund-raising activities**

Cash inflow from fund-raising activities during the Reporting Period amounted to RMB1,754,618,000, which was mainly derived from bank loans, borrowings from Jingcheng Holding and investments received by Minghui Tianhai. Cash outflow to fund-raising activities during the Reporting Period being amounted to RMB1,202,674,600 was mainly for the repayment of bank loans and borrowings from Jingcheng Holding and interests. Net cash flow from fund-raising activities for the Reporting Period amounted to RMB551,943,400.

Net cash flow from operating activities in 2013 decreased by 276.59% over the corresponding period for last year, which was mainly due to a lower amount of cash received from sales of goods and provision of services and increase in payment for purchase of goods. Net cash flow generated from the investment being decreased by 372.43% over last year was mainly attributable to such increase in capital expenses on purchase of fixed assets and the impact by the monetary capitals of outgoing assets during the year. Net cash flow generated from fund-raising activities increased by 46.33% over last year, which was mainly due to the increase in loans borrowed as compared to the corresponding period for last year.

Net cash flow generated from operating activities for the year was RMB-226,602,500. Net profit for the year was RMB-109,552,200, which was mainly attributable to fund-raising activities.

**(IX) Capital Structure**

The Company's capital structure consists of shareholders' equity interests and liabilities during the Reporting Period. Shareholders' equity interests amounted to RMB1,163,638,300, of which, minority interests amounted to RMB360,065,000, and total liabilities amounted to RMB1,665,722,600. Total assets amounted to RMB2,829,360,900. As at the end of the year, the Company's gearing ratio was 58.87%.

**Capital structure by liquidity**

Total current liabilities	RMB1,534,254,600	Accounting for 54.23% of assets
Total equity interest attributable to shareholders	RMB1,163,638,300	Accounting for 41.13% of assets
of which: minority interests	RMB 360,065,000	Accounting for 12.73% of assets

**(X) Contingent Liability**

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

## SECTION 6 REPORT OF THE DIRECTORS

### (I) Details of Board Meetings and Resolutions

During the Reporting Period, a total of 14 board meetings were convened and the details of the meetings and resolutions are as follows:

1. The Seventh Extraordinary Meeting of the Seventh Board of Directors was held on 28 January 2013. The announcement in respect of estimated loss for 2012 was considered and approved. The resolution concerning establishment of Beijing Beiren Printing Equipment Co., Ltd., a wholly-owned subsidiary, was considered and approved.
2. The Eighth Extraordinary Meeting of the Seventh Board of Directors was held on 7 February 2013. The resolution concerning the increase in the registered capital of Beijing Beiren Printing Equipment Co., Ltd., a wholly-owned subsidiary, was considered and approved. The resolution concerning the appointment of directors and supervisors for Beijing Beiren Printing Equipment Co., Ltd., a wholly-owned subsidiary, was considered.
3. The Ninth Meeting of the Seventh Board of Directors was held on 27 February 2013. Resolutions concerning the 2012 Annual Report of the Company and its summary, the working Report of the Directors for 2012, the 2012 audited financial reports and the 2012 audited internal control report were considered and approved; The resolution concerning the reappointment of Shinewing Certified Public Accountants LLP (hereinafter "Shinewing") as the audit organization for the 2013 financial report of the Company was considered and approved; the resolution concerning the reappointment of Shinewing as the audit organization for the 2013 internal control report of the Company was considered and approved; Resolutions concerning the continuous connected transactions was considered and approved.
4. The Tenth Meeting of the Seventh Board of Directors was held on 26 April 2013. The 2013 First Quarterly Report of the Company was considered and approved. The resolution regarding the write-off of bad debt of the Company was considered and passed.
5. The Ninth Extraordinary Meeting of the Seventh Board of Directors was held on 4 July 2013. The resolution regarding the adjustments made to the proposed increase in the registered capital of Beijing Beiren Printing Equipment Co., Ltd., a wholly-owned subsidiary, was considered and approved.
6. The Eleventh Meeting of the Seventh Board of Directors was held on 25 July 2013. The 2013 Interim Report of the Company and its summary were considered and approved; the resolution concerning the provision for impairment of the Company for the half year of 2013 was considered and approved. The 2013 budget report of the Company was considered and approved; the resolutions concerning 2013 comprehensive planning of the Company were considered and approved.
7. The Tenth Extraordinary Meeting of the Seventh Board of Directors was held on 19 August 2013. The audited financial statement of the Company as at 31 March 2013 was considered and approved.
8. The Eleventh Extraordinary Meeting of the Seventh Board of Directors was held on 30 September 2013. The resolution concerning the connected transaction in relation to Office Building Turnkey Lease Agreement entered into and executed by and between the Company and Beijing Jingcheng Electric Management Co., Ltd. was considered and approved.
9. The Twelfth Extraordinary Meeting of the Seventh Board of Directors was held on 10 October 2013. The resolution concerning the changing the shareholdings in subsidiaries held by the Company to Beiren Group Corporation during implementation of Material Asset Replacement was considered and approved.
10. The Thirteenth Extraordinary meeting of the Seventh Board of Directors was held on 30 October 2013. The resolutions concerning 2013 third quarterly report and its summary were considered and approved.
11. The Twelfth Meeting of the Seventh Board of Directors was held on 31 October 2013. The resolution concerning the Material Asset Reorganisation Agreement entered into and executed by and among Beiren Printing Machinery Holdings Limited, Beijing Jingcheng Machinery Electric Holding Co., Ltd and Beiren Group Corporation was considered and approved. The resolution concerning change of partial directors of the Company was considered and approved. The resolution concerning the change of part of the senior management officers was considered and approved. The resolutions concerning the amendments made to the Articles of Association were considered and approved.
12. The Fourteenth Extraordinary Meeting of the Seventh Board of Directors was held on 5 November 2013. The resolution concerning the appointment of directors to Beijing Jingcheng Compressor Co., Ltd., a subsidiary of the Company, was considered and approved.
13. The Fifteenth Extraordinary Meeting of the Seventh Board of Directors was held on 9 December 2013. The resolution concerning capital injection into 北京明暉天海氣體儲運裝備銷售有限公司 by 北京京國發股權投資基金 was considered and approved.
14. The Sixteenth Meeting of the Seventh Board of Directors was held on 16 December 2013. Election of Chairman and Vice-chairman of the Board was considered and approved. The resolution concerning the election of this members of the Board Committees was considered and approved. The resolution concerning the management model and organization structure of the Company was considered and passed. The resolution concerning the change of the business address and contact details of the Company was considered and passed. The resolution concerning the the changes in accounting estimation of the Company was considered and passed.

## (II) Discussion and analysis of the Board concerning the future development of the Company

### (1) Competition within the industry and development trend

#### 2014 Analysis and Prediction on Gas Storage and Transportation Market

##### 1. Analysis and Prediction on Upstream Steel Industry

WAS (World Steel Association) pointed out that, although it is difficult to change the situation where there is oversupply for the global steel in 2014, the overall market environment will be better than that in 2013, and the steel exports will be stable or increase slightly, supply of iron ore and coal will become looser gradually and there will be room for its price to reduce. The prices of steel will be the same or a little higher than that of 2013. Yet it is difficult to reverse the situation where poor profits are generated for this industry.

##### 2. Analysis and Prediction on Downstream Gas Industry

###### 1) Industrial Gas Market

The three major multinational enterprises, led by Linde Industrial Gases, Air Liquide and Praxair, are confident about the prospect of world industrial gas market in 2014, in particular, the China market. Under the influence of the policies regarding the steady growth of economy and rapid development of gas outsourcing businesses, many big gas enterprises expand their gas business scale in China.

###### 2) Natural-Gas Markets

Being facilitated by of global low-carbon economy growth and high price of petroleum and other expensive energy sources, "energy aerification", cored on natural and unconventional gas sources, has gradually become a trend. As disclosed by U.S. Energy Information Administration ("EIA"), it is predicted that, after 2030, the consumption of natural gas will exceed that of petroleum and natural gas will become the largest energy source in the world, and this situation will continue for a considerable period.

In recent years, under great pressure from haze governance, deduction of PM2.5 and energy conservation and emission reduction, natural gas, as a kind of "clean energy", develops rapidly in China. The acceleration of natural gas reform was clearly put forward at the Third Plenary Session of the 18th Central Committee of the Communist, and it is expected that the natural gas industry will be expanded significantly in the next decade and thus every segment in upstream and downstream sectors including sources of gas, gas transmission, storage and sales will benefit therefrom.

##### 3. Analysis and Prediction on Gas Storage and Transportation Market

1) *Conventional industrial gas cylinders are still facing overcapacity and low-price competition and there is growth in demand for high-purity gas cylinders.*

In 2014, the global demand for industrial gas cylinders will not grow significantly, the contradiction between supply and demand will be significantly obvious and the competition will be still fierce. Following the adjustment made to national industrial structure and rapid development of energy conservation and environmental protection, electronic information and new energy industries, the demand for special gas will be increased significantly and the demand for domestic high-purity gas cylinders will also grow constantly.

2) *The demand in the storage and transportation equipment market of natural gas will improve obviously.*

The price of LNG will restore to be rational and gradually reduces its impact on the cylinders for vehicles. However, the market competition will be very vigorous.

### (2) Development Strategies of the Company

The Company will continue to consolidate its industrial cylinders business and maintain a leading position in this sector. During the course of shifting to the development of natural gas storage and transportation equipments, the Company will strengthen and optimize its products of LNG vehicle cylinders, accelerate the development of industrialization of LNG cryogenic tank, specially the R&D of the LNG cryogenic tanker vehicles, forming a product portfolio containing cylinders, tankers, vehicles and stations. The Company will innovate its pattern of business development, improve design of channels and marketing organizations, build systematic solutions and speed up transformation from product-oriented to service-oriented and endeavor its best efforts to become an internationalized company at the forefront of the industry of gas storage and transportation globally.

In the field of compressor, the Company will focus on market segment of membrane compressor, pursuing absolute market share and eventually building up our advantage of brand to cover all series of products and the whole industry. The Company will also devote to make our piston compressor to a competitive product on the mid-range market, firmly establishing its market image and brand influence as a quality product on the mid-range market.

### (II) Discussion and analysis of the Board concerning the future development of the Company *(cont'd)*

#### (3) Operating plans

2014 is the fourth year of implementation of the “Twelfth Five-Year” plan. Facing the complicated domestic and international economic situation and fierce competition in gas storage and transportation equipment industry, the Company will take the opportunity of reorganisation to continuously innovate and deepen the reform. By giving a full play of functions of our business divisions, the Company is able to vigorously focus on the LNG market, accelerate the development of new products such as cylinders, tankers, vehicles and stations to unceasingly expand its market share. The Company will establish and improve its internal control systems to mitigate operational risks, and speed up the construction of the manufacturing base for cryogenic equipment to complete its industrial distribution as soon as possible. The Company will uphold the people-oriented principle to enhance its independent innovation ability and improve its core competitiveness. The Company will continue to implement cost control measures and carry out energy saving and cost reducing to pursue more efficient growth. By improving the quality of products and building the brand of Tianhai, the Company will strive to become a leading company in the industry of global gas storage and transportation equipment and compressor.

The revenue of the Company's principal business in 2014 is expected to amount to RMB2,400,000,000. To achieve this target, the following measures will be taken:

#### 1. Speed up the progress of constructing the manufacturing base for cryogenic equipment and accelerate the adjustment of industrial structure

The Company will accelerate its industrial restructuring and gradually shift to the natural gas storage and transportation equipment industry from the industrial gas cylinders industry. The Company's products will be adjusted to a portfolio containing cylinders, tankers, vehicles and stations. The Company will constantly increase the proportion of its natural gas business which is expected to reach over 45% in 2014, and speed up the construction of the cryogenic equipment which will commence its operation as soon as possible. Jingcheng Compressor will continue to facilitate the assembly of new piston compressors and the construction of large numerically controlled workshops, and stepping up the installation and adjustments of relevant equipment.

#### 2. Accelerate the R&D of new products and expedite the adjustment of product mix

The Company will further strengthen the R&D and improvement of its products, and accelerate the process of new product piloting and trial and meanwhile, the Company will strengthen the interaction with the marketing system and speed up the commercialization of new products. The Company will focus on the process of the R&D of our strategic transformation products including LNG double-pump skid-mounted fueling devices, LNG tank cars, cryogenic liquid mini-storage tank (1-3 m<sup>3</sup>), super-large cryogenic storage tanks, and 35 MPa (兆帕) aluminium-lined carbon fiber composite gas cylinders for storage of hydrogen fuels and gas. Transformation and upgrade of our products can be implemented as driven by innovation.

#### 3. Continue to implement cost control to improve efficiency of the Company

The Company will strength its cost control in the design of new products, further reduce account receivables and inventories, further strengthen its management and control of procurement and strictly control the purchase expenses so as to minimize operational risks and improve efficiency and effectiveness of the Company.

#### 4. Make innovation in marketing model and strengthen management of marketing

The Company will further improve the pricing mechanism and refine plans of implementation, clarify the division of roles and responsibilities, improve the work efficiency and accelerate the marketing of new business involving LNG gas cylinders, special vehicles and gas stations in order to meet market demand to the largest extent. The Company will further strengthen the education and training, perfect its online marketing procedures, improve the structure of the marketing personnel and enhance the quality of business personnel. By combining both the online marketing and traditional marketing modes, the Company will further expand its market shares and increase the market share by the Company's products and ensure the achievement of sales targets.

#### 5. Actively facilitate the adjustment made to the spatial layout and enhance the Company's strength in its entirety

By taking the strategic planning of Beijing and Tianjin regions as the guidance, the Company is actively facilitating the adjustment made to the spatial layout of products and is eliminating and compressing the products or industry with low margin while shifting products with high cost towards regions with low cost in higher speed and further enhancing the quality of the Company's assets, uplifting the competitive power of the Company's products and enhancing the Company's strength in its entirety.

#### (4) Fund requirement for maintaining existing business and establishing a project company in process

The Company's current funding can satisfy the needs of the existing business. The Company makes fund planning every year according to the business development. If financing is required, the Company will perform the necessary examination and approval and announcement procedures by strictly following the procedures as stipulated in laws and regulations.

## (II) Discussion and analysis of the Board concerning the future development of the Company *(cont'd)*

### (5) Potential material risks

1. In 2014, the Company's new production base can commence its operation, but if there is a macroeconomic downturn which leads to the reduction of market demand, the production capacity of the new base may be idle and the expected targets cannot be achieved.
2. In 2014, the situation of the compressor market will remain severe, the cutthroat competition with low price will continue and the gross margin will be in the downward trend.

## (III) Explanation of the Board on non-standard opinion given by the auditors

### 1. Explanation of the Board and the Supervisory Committee in relation to any non-standard audit report given by the auditors

During the Reporting Period, auditors did not give any non-standard opinion for the Company.

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

On 16 December 2013, the Company disclosed the announcement of changes in accounting estimation (please refer to relevant announcements published on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx at [www.hkexnews.hk](http://www.hkexnews.hk) for details). The Company proposed to change accounting estimations for depreciation life and rate of salvage value of fixed assets and bad debt provision percentage for account receivables. The above changes came into effect from 1 January 2014, and had no impact on the 2013 financial statements.

The changes in accounting estimations are in conformity with Accounting Standards for Enterprises, and the changed depreciation life and rate of salvage value of fixed assets and bad debt provision percentage for account receivables can fairly and accurately reflect the Company's financial situation.

### 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.

## (IV) Profit Distribution Plan or Plan to Convert Surplus Reserves into Share Capital

### (1) Formulation, implementation or adjustment of 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 (please refer to the announcements dated 26 July 2012 and 18 December 2012 on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx at [www.hkexnews.hk](http://www.hkexnews.hk) for details). During the Reporting Period, as the net profit attributable to the parent company of the Company was negative, there was no proposal for cash dividend. However, the Company will strictly comply with the dividend policies in its Articles of Association, and perform decision-making procedures according to relevant requirements once it has the capability of carrying out profit distribution, making full use of roles of independent directors so as to safeguard legal interests of the medium-sized and minority shareholders.

### (2) If the Company records profits and the parent company records a positive undistributed profit during the Reporting Period but there is no proposal 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 parent company recorded a negative profit, there was no proposal for cash dividend.

### (3) 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 bonus shares for every 10 shares (share)	Amount of dividend for every 10 shares (Yuan) (tax included)	Number of shares converted for every 10 shares (share)	Amount of cash dividends (including tax)	Net profit attributable to the shareholders of the listed companies 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 (%)
2013	0	0	0	0	-108,239,018.44	0
2012 (After adjustment)	0	0	0	0	-124,456,883.57	0
2011	0	0	0	0	11,382,900.84	0

## SECTION 6 REPORT OF THE DIRECTORS

### (V) Financial Information

- 1. Fixed Assets**

Movements in fixed assets for the year are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 2. Construction in Progress**

Particulars and movements in construction-in-progress for the year are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 3. Investments in Subsidiaries**

Particulars of the subsidiaries are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 4. Associated Companies' Interest**

Particulars of the associated companies are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 5. Other Assets**

Particulars of other assets are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 6. Reserves**

Movements in reserves for the year are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.
- 7. Bank Loan**

Details of bank loans as at 31 December 2013 are set out in the notes to the financial statements prepared according to the PRC Accounting Standards.

### (VI) The Company's Pension Scheme

In accordance with the relevant regulations of the "State Council's Decisions Regarding Reform of Employee Retirement Insurance Scheme", the Company is required to pay the PRC government an amount equivalent to 20% of the total amount of salary as the basic contribution to the Employee Retirement Insurance Scheme. In 2013, a total of RMB45,380,000 was contributed to the Employee Retirement Insurance Scheme. Apart from the said contribution, the Company has no other commitments or liabilities related to pensions.

Tianhai Industrial has established enterprise annuities for its employees since January 2011, which are paid based on 8.33% of total monthly average wages for the previous year. In 2013, Tianhai Industrial paid enterprise annuities amounting to RMB6,420,000. In addition, the company bore the barber and bath fees and housing allowances for the employees retired before January 2011 at the rates of RMB50 and RMB70 – RMB80 per month respectively, totaling RMB1,420,000 for these two expenditures incurred in 2013.

In addition to the above fees, the Company shall assume no other commitment or liability related to the pension.

### (VII) Connected Transactions

- (1) Please refer to the notes to the financial statements prepared according to the PRC Accounting Standards for the particulars of the connected transactions during the year.
- (2) Each independent non-executive director confirmed that all connected transactions were entered on the normal commercial terms in the ordinary and usual course of business of the relevant members of the Company. All the terms were either normal business terms or not less favourable than the preferential treatments offered to the third parties, and were fair and reasonable as far as the Company's shareholders were concerned.

### (VIII) Staff Quarters

The Company did not sell any public housing flats to staff in 2013. In accordance with State policies, the Company contributed to the public housing fund on the basis of 12% of the average monthly salary of the existing employees for the previous year, which did not pose any significant impact on the Company's business performance. In accordance with the spirit of the "(2000) Jing Fang Gai Ban, Zi Document No. 080", Notice in relation to issues of the Increase in Beijing's Public Housing Rentals and Allowances, issued by the Housing Reform Office of Beijing Municipal Government, the Beijing Financial Bureau, the Beijing State Land Resources Bureau and the Housing Administration Bureau, and the Commodity Price Bureau of Beijing, as well as integrating with the Company's actual situation, the Company provided a housing allowance of RMB70 to RMB80 per month to its staff starting from 1 August 2002 onwards.

**(IX) Employees' Basic Medical Insurance**

Since October 2001, the Company has been implementing the "Provisions regarding Basic Medical Insurance in Beijing", and implementing employees' basic medical insurance system in accordance with the provisions. The Company is required to pay the basic medical insurance calculated as 9% of employees' total wages, and the large medical expenses mutual fund calculated as 1% of employees' total wages out of the staff welfare fund. The provision of supplementary medical insurance shall be prepared on the basis of 4% of employees' total wages for medical expenses in accordance with supplementary qualifications on reimbursement of medical insurance set out in Provisions regarding Basic Medical Insurance in Beijing.

**(X) Annual General Meeting**

The Board of Directors proposed that the Annual General Meeting for 2013 to be held in 26 June 2014 (Thursday), specific time of which please refer to the Notice of 2013 Annual General Meeting.

**(XI) Report on Performance of Social Responsibility by the Company****1. Overview of social responsibility**

The Company has been upholding the core value of "combination of technologies and techniques with trust and integrity" and strictly complying with the principle of trustworthy, responsible and lawful operation. While pursuing economic benefits and protecting the interests of its shareholders, the Company has devoted to protecting the legal interests of its creditors and employees. The Company insisted on "use honest to support credit, use loyalty to treat work, use cooperation to achieve harmony" to reach the mutual growth of partners, enterprises and employees.

In 2013, the Company continuously perfected its governance structure as a legal person to regulate the operation of the Company, enhanced its internal control system, strictly complied with the related requirements of CSRC, meticulously performed its corporate responsibilities, and perfectly protected the interests of its shareholders and creditors. The Company strictly complied with the Labor Laws and the Articles of Association of the Company and protected the legal interests of its staff in accordance with the relevant laws. The Company has established a healthy and effective quality control system and focused on the enhancement of product quality. In the meantime, we, together with the party, organized different caring activities to listen to the thoughts of staff and do actual work for staff. The Company proactively participated in the community welfare activities, and made donations to charity in order to actively contribute to the construction of a "harmonious society".

**2. Report of performance of social responsibility**

The Company actively responded to the call of China's clean energy policies, actively promoted the adjustment of product structure, accelerate the transformation and upgrading of enterprises, vigorously explored the natural gas storage and transportation equipment market and made positive contributions towards the development of China's energy conservation, emission reduction and environment protection industry.

In order to expand the application of natural gas storage and transportation products, the Company, on the basis of providing relevant products for original truck, sedan and bus customers, accelerated strategic cooperation with heavy truck enterprises and first and second line vehicle assembly plants to jointly explore LNG cylinder market; constantly made technical innovation, improved product quality and created core competitiveness with pioneering courage and precise and practical work style to make various technical performance indicators of the products reach domestic leading, international first-class level. In the past year, the Company provided high quality products and services for large domestic automobile companies such as FAW-Volkswagen (passenger cars), and Zhengzhou Yutong Bus etc. and received high recognition and evaluation from users.

Along with the deterioration of air pollution in China, especially in the capital Beijing, Beijing took the air quality improvement, which focused on control of PM 2.5 (particular matters), as a significant livelihood project and put it in the first place. As a State-owned enterprise in the capital, the Company actively fulfilled the social responsibilities, and developed deep cooperation with Beijing Public Transportation Group to provide supporting products of LNG cylinders for Beiqi Foton clean energy demonstration buses. At present, what are equipped on the buses with important routes that pass Changan Street and Tiananmen are LNG automobile cylinders. The Company's LNG products are safely served in the buses in Beijing, and play an irreplaceable role in the environment control in the capital and represent a good social image of the Company.

According to the deployment and requirements for further expanding the application of clean energy such as natural gas, the Company actively developed natural gas storage and transportation products with leading technology and reliable quality, and optimized the organizational establishment from enhancing the construction of organizational system and basic management, newly established cryogenic cylinder business unit, constantly replenished talents, improved the management system, and actively performed the roles and functions of the business unit; accelerated in promoting the construction of new LNG production base, completed the construction of factory buildings on high quality and high efficiency under the circumstance of low staffing, lack of time and heavy tasks, and established a solid foundation for deeply exploring the natural gas storage and transportation equipment market.



## SECTION 6 REPORT OF THE DIRECTORS

### (XI) Report on Performance of Social Responsibility by the Company *(cont'd)*

#### 3. Protection of employees' interests

1. In accordance with laws, regulations and rules, the Company participates in pension and social insurances such as medical, unemployment, work injuries and pregnancy insurances etc and housing fund. The Company pays the social insurance fees on time, fulfils the fees payments obligations on behalf of the employees, discloses the payment of social insurance fees every month and accepts the supervision of the employees.
2. The labor union completely fulfils its function to represent the interests of employees. Representatives of the labor union and employees participate in formulating, revising or deciding rules or systems related to work compensation which directly involve the interests of the employees and other important matters; the Company has assiduously implemented the "Rules and regulations of the Labor Contract Law" and signed a "Collective Contract" so as to further clarify the interests and rights of the employees. It widely collected opinions and advices of the employees by adopting reasonable advice and through expression in company newspaper and accept supervision of the employees.
3. In the training of employees, the Company has established effective training mechanism, implemented training of the qualities of employees and training of special skills. Since the beginning of the year, the Company has organized another mentorship program, with a total of 23 pairs of master and apprentice formed. Based on the platform of enterprise-school cooperation, the Company continuously provides professional technicians to the front line of production and its technical expert team is increasingly enlarged. The Company has formulated a rewarding system toward the employees who obtained technical grades, which greatly motivated the passion of frontline employees to learn techniques and increase abilities. The Company also emphasized on the skills of its employees and organized 25 candidates to participate in the employees' skills contest of the holding companies. After a comprehensive selection based on the test of theories and practices, 24 candidates of the Company entered the final contest and five candidates became the first ten of each type of work and received technical master in the post of holding companies. Additionally, the Company adhered to the integration of width and depth, focusing on the job exercising and skill competition activities in the affiliated company. The Company has organized expertise competition at 8 different affiliated companies on 17 work processes and types covering welding, nosing and flaw detection and etc., which effectively motivated the employee's enthusiasm for learning and ambition, and uplifted employee's job skills.
4. The Company has intensified labor protection to safeguard the safety and health of its employees. Under the guideline of "safety first, precaution crucial", the Company has established and improved the life safety-focused safe production responsibility system and material technology support system to protect the interest of the employees. In order to protect the health of its employees, the Company provided physical examination for all the servicing employees and occupational health examination to the employees taking dangerous work, as well as pre-service health examination and off-job health examination to employees who contact occupational hazard factors. In aspect of improving working environment and minimizing the harm of fumes, noise and heat, the Company has equipped anti-dust device, purification device and anti-scramming device on the work site; installed self-made muffler on cylinder, valve and cryogenic exhaustion system to decrease the noise in work site; and made automatic renovation to the heating and feeding system of necking-in machine, which led to isolated operation and shortened contacting time of noise and heating by operators.
5. The Company has been caring about the life of its employees and done actual work for them. According to the demand of employees, all of the old wardrobes in male bathrooms were changed into 9 door plastic steel wardrobes with four security structure, the room of which was increased by 45% and could meet the demand of 108 employees. New parking area was vacated, to ease parking problem for its employees; Water heaters were installed in the dinning hall to provide hot water for employees to wash in the cold winter. Lakala machines were installed to provide convenience for employees paying telephone and electricity charges and etc. Fitness equipment was purchased and gymnasium for employees was built. To those new working sites which are far from downtown and inconvenient with the poor living conditions and imperfect ancillary facilities, the Company purchased various of cultural goods and sports equipment such as large screen LED TV, washing machines, tennis tables, and established a reading corner for employees.
6. The Company has been doing well in the work related to the employees' wellbeing mutual help insurance. In 2013, there were a total of 1,618 employees joining the insurance. There were 1,400 employees participating in hospitalization insurance and 218 employees participating in hospitalization allowance insurance; there were 220 employees participating in the female employees mutual help insurance and 1,400 employees participating in critical illness insurance. As of the end of 2013, employees of the company had claimed their insurance for a total of 40 times and were compensated RMB 25,496.87.

**(XI) Report on Performance of Social Responsibility by the Company** *(cont'd)***3. Protection of employees' interests** *(cont'd)*

7. The Company has been actively protecting the rights and interests of off-farm workers. The Company has a total of more than 670 off-farm workers. Most of them have worked for rather long time in the Company and have become key persons in the production posts. All of the workers have signed labor contract with the Company. The Company pays various insurance for them according to regulations.

The Company has not delayed any payment for the salaries of the off-farm workers. All salaries are paid on time and in right amount to the personal bank card of the workers every month. The Company does not discriminate against off-farm workers. They enjoy the same status as formal employees. As off-farm workers occupy important posts and work under "do-more-get-more" salary system, some off-farm workers' income levels are much higher than those of formal employees. The off-farm workers can get an allowance of RMB100 on their birthday. Before the Spring Festival, the Company will hold off-farm worker meeting, to alert them of the safety issue when returning home and distribute gifts such as nuts. Additionally, the Company provides holiday in advance to stagger the peak of spring rush, ensuring safe return of the off-farm workers.

8. Active organization of cultural and sport activities strengthen the cultural construction of the company. During the year, the Company organized different cultural and sport activities according to the corporate features and its employees' demands in different time, which mainly include: essay contest, speeches, knowledge contest, Poker contest, table chess contest, tennis contest, football contest, basketball contest, badminton contest, sports meeting and National day cultural and art performance. Such activities are rich, various and widely-participated. Apart from increasing fund contribution, with the combination of current sites and rented sites, large-scale activities and small-range activities, the Company made innovations in the type and content of activities and spent lots of energy in the novelty, dynamic and variety of activities. Through these activities, the Company better met the increasing spirit demands of employees, built an up-beat environment and the employees were encouraged to accept difficulties and challenges and became more motivated, cohesive and inspired.

**4. Suppliers and interests of customers**

The Company looks for a long term strategic cooperation with customers and suppliers and aims to achieve good quality. In 2013, the Company put emphasis on quality and supply of goods target. It has strengthened the construction of mechanism and tightened the control over product quality and goods supply cycle. Through holding seminars with suppliers, site assessment, training and annual evaluation, the Company has innovated demanding-supplying mode and continuously improved product quality to ensure that the products meet the market demand.

1. The Company strengthened management over suppliers and improved the supply quality. Through quality evaluation on arrival and site assessment of suppliers, the Company treated those qualified and faithful enterprises as long-term strategic partners and included them into the list of qualified suppliers as first-chosen purchasing suppliers. Through annual assessment and competitively selection, the supply quality and service level of suppliers were effectively improved. At the same time, the Company adopted competition mechanism and purchased commodity after assessing several suppliers and compared their prices. The Company implemented a classified management over the purchase of outsourced parts based on market price mechanism and product properties so as to realize the monitoring of quality and price of purchased parts. The Company continuously facilitated the improvement of market price comparison system in order to realize mutual benefit and joint development.
2. Based on the principle of "openness, fairness and transparency", the Company vigorously implemented fair and honest purchase, enhanced anti-corruption education toward salesman to ensure "no desire of violating operation", perfected systems and supervision mechanism to ensure "no ability of violating operation", and strengthened punishment to ensure "no courage of violating operation". In addition, the Company positively cooperated with suppliers to defend corruption, in order to achieve effective control over the source and eliminate harmful practice during the procurement.
3. During the procurement, the Company actively led its suppliers to improve their social responsibility awareness, requiring them to enhance environmental protection awareness when manufacturing products, such as adopting measures regarding the recycle and re-use of the package. The Company has added social responsibility into the annual assessment of quality system toward suppliers, to drive them to perform social responsibilities.

## SECTION 6 REPORT OF THE DIRECTORS

### (XI) Report on Performance of Social Responsibility by the Company *(cont'd)*

#### 4. Suppliers and interests of customers *(cont'd)*

4. Through various ways such as mutual visit and communication with key customers, regular customer satisfaction survey, after-sale visit, the Company maintained sales channel, collected customers' opinion and provided premium service to customers on time and respond quickly to the changes in the market. The Company pushed forward its service work with adopting "the promotion of sales by service" as the principle of service works. By deepening the service of stable and already occupied sales market and developing new sales market, the Company realized the continuous development of its sales work.
5. The Company strengthened quality improvement and formulated preventive management measures, realized breakthrough in the reliability of the product. Improve quality improvement process and enhance level of reward. The research and development of new product was based on the principle of "customer demand-driven product research and development, market expansion-led technology innovation", and developed overall advantages over research and development by the combination of technologies, optimization of research and development processes and sharing of resources, shortened the time of product to market, improved the product competitiveness and customers' satisfaction. The Company increased the initiative for the employees to participate in quality improvement; organized targeted market investigation and research, visit, collected and analyzed market feedback about abnormal quality problem, to quickly implement quality improvement and target the change in downstream market to realize a continuous and developmental product market supply system.
6. The Company adapted to market demand and built quality team. The Company insisted on orienting towards market demand and individualized needs of the customers and actively provided quality product and service. In 2013, the Company has offered quality product and service to Zhengzhou Yutong Bus, FAW-Volkswagen, Fukang, Xiamen Golden Dragon and other well-known enterprises and nation-wide automobile repacking companies and received wide recognition from customers.

#### 5. Public welfare and caring

In 2013, in the activity of "Communist party members show love" and through the wide propaganda and organization of various levels of the party organizations, the communist party members, activists and other people made 682 donations which raised RMB32,245.

In 2013, the Company continued on "heart-warming" activities, personally visited model workers, overseas Chinese, retired executives and employees with difficulties or serious illness and send gifts and consolation money with a total of over RMB180,000 to them. The Company organized "Jingcheng learning-assistance" activity under the call of the superior, and issued RMB7,000 to each of the nine employees who have children entering into university, showing our encouragement to children's education and eased their actual difficulties.

**(I) Material litigation, arbitration and matters commonly questioned by media**

The Company does not have material litigation, arbitration and matters commonly questioned by media for this year.

**(II) Embezzlement of funds and repayment of debt during the reporting period**

The Company does not have controlling shareholders and other related parties embezzling the funds of listed company for non-operative purpose for this year.

**(III) Bankruptcy and restructuring related matter**

The Company does not have bankruptcy and restructuring related matter for this year.

**(IV) Exchange of assets and merger of companies matter****1. Asset exchange**

Unit: '0,000 Yuan Currency: RMB

Exchange parties	Name of incoming assets	Name of outgoing assets	Exchange date	Price of asset exchange	Profit or loss arisen from exchange	Net profit contributed by the incoming assets for the listed company from the beginning of the year (applicable to the business combination under the same control)	Net profit contributed by the outgoing assets for the listed company from the date of exchange to the end of the year	Whether it is connected from the transaction (if yes, explain principles of pricing)	Principles of asset exchange	Whether all property rights of assets have been transferred	Whether all creditor's rights and debts involved in the incoming assets are transferred	Whether all property rights involved in the outgoing assets are transferred	Whether all creditor's rights and debts involved in the outgoing assets are transferred	Percentage of net profit contributed to the listed company through asset exchange in total profits (%)	Relationship	
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	88.50% equity interest in Beijing Tianhai Industry Co., Ltd. 100% equity interest in Jingcheng Holding (Hong Kong) Company Limited and 100% equity interest in Beijing Jingcheng Compressor Co., Ltd.	Former Beiren Printing Machinery Holdings Limited	31 October 2013	The valuation of outgoing assets is RMB1,184,869,600 and the valuation of incoming assets is RMB919,366,700, plus the capital injection to Tianhai Industrial and Jingcheng Compressor by Jingcheng Holding amounting to RMB259,990,000, the total amount is RMB1,179,346,700.	N/A	-1,348.00	-4,617.40	-5,914.13	Yes	Asset-based Method	Transferred	N/A	No	No	N/A	Controlling shareholder

Explanation on asset exchange:

On 26 September 2013, the Company received the Approval and Reply in relation to the Material Asset Reorganisation of Beiren Printing Machinery Holdings Limited (Zheng Jian Xu Ke [2013] No. 1240) from the China Securities Regulatory Commission, whereby the Company's material asset reorganisation and connected transaction matters have been approved.

On 31 October 2013, the Company entered into "Material Asset Reorganisation Completion Agreement between Beiren Printing Machinery Holdings Limited and Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation" with Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation. 31 October 2013 was adopted as the benchmark date for closing the exchange between incoming assets and outgoing assets.

Up to now, the delivery or transfer of the assets exchanged out are being processed.

On 25 October 2013, the procedures for transfer of 88.50% equity interest in Tianhai Industrial have been duly completed. On 10 December 2013, the procedures for transfer of 100% equity interest in Jingcheng Hong Kong have been duly completed. On 15 October 2013, the procedures for transfer of 100% equity interest in Jingcheng Compressor have been duly completed.

## SECTION 7 IMPORTANT MATTERS

### (V) Company share incentive and its effect

The Company does not have share incentive scheme for this year.

### (VI) Material connected transaction

#### (1) Connected transaction related to daily operation

Unit: Yuan Currency: RMB

Related party	Relationship	Type of connected transaction	Details of connected transaction	Pricing principle of connected transaction	Prices of connected transaction	Connected transaction amount	Proportion in amount of same type Of transaction (%)	Connected transaction settlement method	Market price	Major reason for the difference between transaction price and market reference price
Beijing Beiyong Casting Co.	Associated company	Purchase of commodities	Purchase of raw materials	Negotiated price		12,065,071.91	0.62	Currency transaction		
Beijing Monigraf Automations Co., Ltd.	Associated company	Purchase of commodities	Purchase of raw materials	Negotiated price		8,153,701.53	0.42	Currency transaction		
Jingcheng Logistics	Subsidiary controlled by parent company	Purchase of commodities	Purchase of raw materials	Negotiated price		27,488,539.32	1.42	Currency transaction		
Beiren Group Corporation	Wholly-owned subsidiary of parent company	Other flow-out	Use of trademark fee	Negotiated price		2,210,653.91	0.11	Currency transaction		
Beiren Group Corporation	Wholly-owned subsidiary of parent company	Purchase of commodities	Label	Negotiated price		2,430.00	0.00	Currency transaction		
Beiren Group Corporation	Wholly-owned subsidiary of parent company	Purchase of commodities	Purchase of raw materials	Negotiated price		16,146,088.06	0.83	Currency transaction		
Beijing Monigraf Automations Co., Ltd.	Associated company	Water, electricity and gas and other utilities fees (sale)	Water and electricity	Negotiated price		15,650.20	0.01	Currency transaction		
Beijing Jingchen Nagano Construction Machinery Company Limited	Wholly-owned subsidiary of parent company	Water, electricity and gas and other utilities fees (sale)	Water and electricity	Negotiated price		356,032.62	0.23	Currency transaction		
Beijing Jingchen Nagano Construction Machinery Company Limited	Wholly-owned subsidiary of parent company	Sales of commodities	Material	Negotiated price		179.49	0.00	Currency transaction		
Beiren Group Corporation	Wholly-owned subsidiary of parent	Water, electricity and gas and other utilities fees (sale)	Water and electricity	Negotiated price		254,134.66	1.17	Currency transaction		
Beiren Group Corporation	Wholly-owned subsidiary of parent	Sales of commodities	Material	Negotiated price		17,697,856.19	11.58	Currency transaction		

**(VI) Material connected transaction** *(cont'd)***(2) Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation**

	<b>Summary of matter</b>	<b>Index for enquiry</b>
(1)	The Company purchased accessories from Beijing Monigraf Automations Co., Ltd.	For details, please refer to Shanghai Securities News dated 28 February 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(2)	The Company has entrusted casting parts processing to Beijing Beiyong Casting Co.	For details, please refer to Shanghai Securities News dated 28 February 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(3)	The Company has leased part of its buildings and sites to Beijing Beiyong Casting Co.	For details, please refer to Shanghai Securities News dated 28 February 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(4)	The Company has leased part of its office building and sites to Beijing Jingcheng Nagano Construction Machinery Co., Ltd. ("Jingcheng Nagano")	For details, please refer to Shanghai Securities News dated 27 April 2013 <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(5)	The Company has leased part of its office building and plants to Beiren Group	For details, please refer to Shanghai Securities News dated 26 July 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(6)	The Company used the trademarks owned by Beiren Group	For details, please refer to Shanghai Securities News dated 26 July 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(7)	The Company is the global sales agent for relevant printing equipments provided by the Beiren Group	For details, please refer to Shanghai Securities News dated 26 July 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;
(8)	The Company has leased the whole office building to Beijing Jingcheng Electric Management Co., Ltd. ("Asset Management Company")	For details, please refer to Shanghai Securities News dated 8 October 2013; <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;

The Group has entered into connected transactions with the following entities which are regarded as connected persons of the Company under the Listing Rules as at 31 December 2013.

- Jingcheng Nagano is a wholly-owned subsidiary of Jingcheng Holding, which is a controlling shareholder of the Company holding approximately 47.78% interest in the Company. Therefore, Jingcheng Nagano is an associate of Jingcheng Holding and a connected person of the Company.
- Beiren Group is a wholly-owned subsidiary of Jingcheng Holding, which is a controlling shareholder of the Company holding approximately 47.78% interest in the Company. Therefore, Beiren Group is an associate of Jingcheng Holding and a connected person of the Company.
- Asset Management Company is a wholly-owned subsidiary of Jingcheng Holding, which is a controlling shareholder of the Company holding approximately 47.78% interest in the Company. Therefore, Asset Management Company is an associate of Jingcheng Holding and a connected person of the Company.

Details of the connected transactions and continuing connected transactions for the year ended 31 December 2013 are as follows:

**CONNECTED TRANSACTION**

On 31 October 2013, Tianhai Industrial as vendor entered into 北京市存量房屋買賣合同 (Beijing Second-hand Standard Property Sale and Purchase Agreement) with Asset Management Company as purchaser for the sale and purchase of a property located at No. 25, West Huaweili, Chaoyang District, Beijing, the PRC for a total consideration of RMB105,779,500.

**CONTINUING CONNECTED TRANSACTIONS**

On 26 April 2013, the Company agreed to lease certain premises to Jingcheng Nagano for a term of 1 year from 1 March 2013 to 28 February 2014 at an aggregate monthly rental of RMB497,412.88.

The Company leased certain production plant to Beiren Group for the period from 1 January 2013 to 30 June 2013 at an aggregate half-yearly rental of RMB625,000 (the "First Plant Lease"). On 25 July 2013, the Company and Beiren Group entered into an office and plant lease agreement ("Office and Plant Lease") with similar terms as stipulated in the First Plant Lease for a term of half year commencing from 1 July 2013 to 31 December 2013, pursuant to which the Company as the lessor and Beiren Group as the lessee of certain office premises and production facilities at an aggregate half-yearly rental of RMB1,625,000. Therefore, the aggregate annual rental payable by the Beiren Group to the Company in respect of the First Plant Lease and the Office and Plant Lease was RMB2,250,000.

## SECTION 7 IMPORTANT MATTERS

### (VI) Material connected transaction *(cont'd)*

#### (2) Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation *(cont'd)*

On 25 July 2013, the Company entered into a trademark license agreement with Beiren Group in relation to the grant of exclusive rights by Beiren Group to the Group to use the trademark「北人牌」, for a term of 1 year from 1 January 2013 to 31 December 2013 with an annual cap of RMB6,000,000.

On 25 July 2013, the Company entered into a sales agency agreement with Beiren Group pursuant to which the Company acted as the global sales agent of Beiren Group's relevant printing equipment for a term of 1 year from 1 April 2013 to 31 March 2014 and the maximum aggregate annual commission payable by Beiren Group should not exceed the annual cap of RMB3,900,000.

On 30 September 2013, the Company entered into an office building turnkey lease agreement with Asset Management Company pursuant to which the Company leased certain properties to Asset Management Company for a term of 3 years commencing from 1 October 2013 to 30 September 2016 at an aggregate annual rental of RMB10,703,860.43.

During the Reporting Period, the above continuing connected transactions were processed in accordance with their contractual agreements. The independent non-executive directors have reviewed each continuing connected transaction and confirmed that:

- (1) it was entered into by the Group in the ordinary and usual course of business;
- (2) it was entered into on normal business terms;
- (3) it was carried out in accordance with the terms of the relevant transaction agreement, which were fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditors have issued letters without reservation in relation to the disclosed continuing connected transactions of the Group in accordance with Rule 14A.38 of the Listing Rules, which contain their findings and conclusions.

Such transactions were entered into in the ordinary and usual course of business of the Group, which were necessary for and continued during the operation of the Company. Also, such transactions would in no way affect the independence of the Company and harm the interests of the Company and shareholders, and in particular, the medium-sized shareholders and the minority shareholders.

#### (3) Related creditor's right and debt transactions

Unit: Yuan Currency: RMB

Related party	Relationship with the related party	Provide funding to related party			Related party providing funding to listed company		
		Balance as of beginning of the period	Occurred amount	Balance as of end of period	Balance as of beginning of period	Occurred amount	Balance as of end of the period
Beijing Beijing Casting Co.	Associated company	1,101,766.17	-1,101,766.17	0	2,330,860.25	-2,330,860.25	0
Beijing Monigraf Automations Co., Ltd.	Associated company	141,834.59	-141,834.59	0	4,308,214.25	-4,308,214.25	0
Jincheng Logistics	Holding subsidiary of parent company	0	0	0	25,341,472.83	-25,341,472.83	0
Beiren Group Corporation	Wholly-owned subsidiary of parent company	0	0	0	2,229,827.98	-2,229,827.98	0
Beijing Jingchen Nagano Construction Machinery Company Limited	Wholly-owned subsidiary of parent company	0	0	0	718,198.00	-718,198.00	0
Haimen Beiren Printing Machine Co., Ltd.	Holding subsidiary of parent company	0	0	0	29,711.82	-29,711.82	0
Total		1,243,600.76	-1,243,600.76	0	34,958,285.13	-34,958,285.13	0
Occurred amount of the funding provided to the controlling shareholder and its subsidiaries by the Company during the reporting period (Yuan)							0
Balance of the funding provided to the controlling shareholder and its subsidiaries by the Company during the reporting period (Yuan)							0
Reasons for occurrence of related creditor's right and debt transactions							Receivables and payables

**(VII) Contracts of significance and their execution****(1) Trust, contracting and lease matters****1. Trust**

There is no trust matter for the company this year.

**2. Contract**

There is no contracting matter for the company this year.

**3. Lease**

Unit: Yuan Currency: Renminbi

Name of lessor	Name of lessee	Details of lease of assets	Amount involved in lease of assets	Starting date of lease	Ending date of lease	Lease revenue	Defining base for lease revenue	Effect of lease revenue on the Company	Is it a connected transaction?	Relationship
The Company	Beijing Beijing Casting Co. Ltd.	Land and housing	3,672,553.90	1 January 2013	31 December 2013	3,672,553.90	Negotiated price	3,672,553.90	Yes	Other enterprises controlled by the same controlling shareholder and ultimate controlling party
The Company	Beiren Group Corporation	Housing	1,707,884.83	1 January 2013	31 December 2013	1,707,884.83	Negotiated price	1,707,884.83	Yes	
The Company	Beijing Monigraf Automations Co., Ltd.	Housing	50,331.00	1 January 2013	31 December 2013	50,331.00	Negotiated price	50,331.00	Yes	
The Company	Beijing Jingcheng Nagano Construction Machinery Company Limited	Housing	4,971,403.20	1 March 2013	28 February 2014	4,971,403.20	Negotiated price	4,971,403.20	Yes	
The Company	Asset Management Company	Housing	891,988.37	1 October 2013	30 September 2016	891,988.37	Negotiated price	891,988.37	Yes	
The Company	Beijing Jingcheng Nagano Construction Machinery Company Limited	Vehicle	28,205.12	1 July 2013	31 December 2013	28,205.12	Negotiated price	28,205.12	Yes	
Beiren Fuji	Beiren Group Corporation	Vehicle	25,641.03	1 February 2013	31 January 2014	25,641.03	Negotiated price	25,641.03	Yes	
Beijing No.1 Machine Tool plant	Beijing Pioneer Up Lifter Co., Ltd.	Housing	20,000	1 November 2013	31 December 2013	20,000	Negotiated price	20,000	Yes	
Asset Management Company	Tianhai Industrial	Housing	113,333.33	1 November 2013	31 December 2013	113,333.33	Negotiated price	113,333.33	Yes	
Beijing Xihai Trade Co., Ltd	Jingcheng Compressor	Housing	183,333.33	1 November 2013	31 December 2013	183,333.33	Negotiated price	183,333.33	Yes	

**(2) Guarantee**

There is no guarantee for the Company this year.

**(3) Other material contracts**

Beijing Jingcheng Machinery Electric Company Limited and Beiren Group Corporation entered into the agreement of significant asset reorganization and delivery on 31 October 2013. The agreement detailed the following: (1) the specific details of "outgoing assets" and "incoming assets"; (2) settlement date and the benchmark date for completion and auditing; (3) delivery procedures and legal status; (4) transfer of liabilities and debentures; (5) transfer and storage of files and seal; (6) change of labour relations; (7) information disclosure matters; (8) other relevant details. Save as disclosed above, there is no other material contract during the year.



## SECTION 7 IMPORTANT MATTERS

### (VIII) Fulfillment of commitments

- (1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period**

#### APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
Undertaking related to the Material Asset Reorganisation	Controlling shareholder	Letter of Undertaking regarding the authenticity, accuracy and completeness of the information provided by Beijing Jingcheng Machinery Electric Holding Co., Ltd.	Jingcheng Holding undertakes: "1. The company has provided the information and documents related to this Material Asset Reorganisation (including but not limited to the original written documents, copies of documents or verbal information etc) to the intermediaries for audit, valuation, legal and financial advisory professional services, the company warrants that the duplicates or photocopies of the documents and materials are the same as the originals, and the signatures and seals of those documents and materials are authentic, and the signatories of those documents have been legally authorized and they have signed them in a valid matter; we warrant that the relevant information provided for this Material Asset Reorganisation is authentic, accurate and complete, there is no false record, misrepresentation or material omission, and we assume the several and joint liability for the authenticity, accuracy and completeness of the information provided. 2. During the participation period of this Material Asset Reorganisation, the company will disclose in time to the Listed Company the information related to this Material Asset Reorganisation according to the relevant provisions of the relevant law, regulations, rules and relevant provisions of the China Securities Regulatory Commission ("CSRC") and Shanghai Securities Exchange, and we warrant that the authenticity, accuracy and completeness of the information provided, and warrant that there is no false record, misrepresentation or material omission, and we assume the several and joint liability."	During the Reorganisation period	To date, Jingcheng Holding has not committed any act in violation of the undertaking
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the reduction and standardization of connected transactions	Jingcheng Holding undertakes: "In respect of the unavoidable connected transaction matters or those which take place with reasonable grounds in the future between the Company and the other companies under the control of the Company and the Listed Company and the companies under its control, the Company and the other companies under the control of the Company will follow the principles of openness, fairness and justice for market transactions to conduct transactions at fair and reasonable market prices, and will perform the decision process of connected transactions according to the relevant law, regulations and standardization documents, perform the duty of information disclosure. The Company warrants that the Company and the other companies under the control of the Company will not obtain any improper benefits through the connected transactions with the Listed Company and the companies under its control or cause the Listed Company and the companies under its control bear any improper duties. The Company will bear the responsibilities of compensating the Listed Company and the companies under its control for their losses if the company is in violation of the above undertaking and carries out transactions with the Listed Company and the companies under its control."	Long term	To date, Jingcheng Holding has not committed any act in violation of the undertaking

**(VIII) Fulfillment of commitments** *(cont'd)*

(1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period** *(cont'd)*

**APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED**

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the avoidance of competition with its competitors	<p>"Jingcheng Holding undertakes: "In respect of the businesses or business opportunities similar to those of the Listed Company that the company and the other companies under the control of the Company that the latter contemplates to conduct or actually obtain in the future, and the assets and businesses generated by such businesses or business opportunities may constitute potential competition with its competitors.</p> <p>The Company will not conduct and make efforts to cause the other companies under the control of the Company not to conduct businesses which are the same as or similar to those of the Listed Company in order to avoid direct or indirect competition with the operation of business of the Listed Company. In addition, if unfair impact may be produced on the Listed Company in the areas of market share, business opportunities and resource allocation of the Company and the other companies under the control of the Company, the Company will voluntarily give up and make efforts to cause the other companies under the control of the Company to give up business competition with the Listed Company.</p> <p>The Company undertakes that starting from the date of issue of this Letter of Undertaking, it will compensate the Listed Company for any losses suffered or expenses incurred by the Listed Company as a result of the violation of any provisions of this undertaking by the Company. This Letter of Undertaking continues to be effective during the period in which the Listed Company legally and validly subsists and the company is the controlling shareholder (or beneficial controller) of the Listed Company."</p>	Long term	To date, Jingcheng Holding has not committed any act in violation of the undertaking
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the maintaining the independence of the Listed Company	Jingcheng Holding undertakes that after the completion of this Material Asset Reorganisation, it will warrant the independence of the personnel, assets, finances, organizations, businesses of the Listed Company. Jingcheng Holding makes concrete undertaking in the areas of personnel independence, asset independence, financial independence, organizational independence, business independence. That undertaking continues to be valid, cannot be altered and is irrevocable during the period in which Jingcheng Holding is the controlling shareholder (or beneficial controller) of the Listed Company. If Jingcheng Holding is in violation of the above undertaking and causes economic losses to the Listed Company, Jingcheng Holding will compensate the Listed Company.	Long term	As of the date of disclosure, Jingcheng Holding has closed the financial management platform and centralized fund management platform to the Company's subsidiaries. Jingcheng Holding has not performed any act in violation of the undertaking.

## SECTION 7 IMPORTANT MATTERS

### (VIII) Fulfillment of commitments *(cont'd)*

(1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period *(cont'd)***

#### APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the handling of the liabilities of Beiren Printing Machinery Holdings Limited	Jingcheng Holding undertakes: "1. Within 30 days from the receipt of a notice on this matter of Material Asset Reorganisation of Beiren Holdings by the creditors of Beiren Holdings, within 45 days from the date of the first announcement on this matter of Material Asset Reorganisation of Beiren Holdings in case of non-receipt of the notice, if they demand Beiren Holdings to make early repayment of liabilities or provide security, and Beiren Holdings has not repaid the liabilities or provided the security, the Company undertakes that it will bear the responsibilities of making early repayment of liabilities or providing security; 2. If Beiren Holdings cannot reach the creditors, and for those creditors who have not expressed clear opinion after the receipt of the notice or the expiry of the notice period, if they have expressed clearly disagreement opinion before the completion of this Material Asset Reorganisation, and Beiren Holdings has not repaid the liabilities nor provided security upon their demand, the Company undertakes that it will bear the responsibilities of early making repayment of liabilities or providing security; 3. For those creditors that Beiren Holdings really cannot reach, and those creditors who have not yet expressed clear opinion after the receipt of the notice or the expiry of the notice period, if after the completion of this Material Asset Reorganisation, the recipient of the Outgoing Assets cannot repay its liabilities, the company is in charge of the repayment. After the company has been liable for guarantee responsibility and repayment responsibility, it has the right to seek repayment from the recipient of the Outgoing Assets."	Long term	As of the date of disclosure, Jingcheng Holding has urged Beiren Group to repay the liabilities and has undertaken that if Beiren Corporation cannot repay liabilities in time, Jingcheng Holding will be responsible for the repayment and provide guarantee. The Company is not suffer from any loss arisen from claims. Jingcheng Holding has not performed any act in violation of the undertaking.
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the existing defects of the Outgoing Assets and the transfer of the outgoing liabilities	Jingcheng Holding undertakes: "The Company is fully aware of the existing defects of the Outgoing Assets, and the Company will bear any losses or legal liabilities caused by the defects of the Outgoing Assets, and will not demand Beiren Holdings to bear any losses or legal liabilities due to the defects of the Outgoing Assets, and will not refuse to sign or request to terminate, change the "Framework Agreement for Material Asset Reorganisation between Beiren Printing Machinery Holdings Limited and Beijing Jingcheng Machinery Electric Holding Co., Ltd.", the "Material Asset Reorganisation Agreement between Beiren Printing Machinery Holdings Limited and Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation" and the related agreement due to the defects of the Outgoing Assets.  If no consent of the creditors regarding the transfer of liabilities involved in the Outgoing Assets (including newly incurred liabilities for the period from the benchmark date to the settlement date) has been obtained, Beiren Group Corporation undertakes all the duties, responsibilities and expense related to the claims made by those creditors to Beiren Holdings; if Beiren Holdings bears any responsibilities or suffers any losses as a result of the claim of those liabilities, Beiren Group Corporation will fully compensate Beiren Holdings. The Company undertakes: the Company will undertake several responsibilities for those compensation responsibilities of Beiren Group Corporation."	Long term	As of the date of disclosure, Jingcheng Holding has urged Beiren Group to repay the liabilities and undertaken that if Beiren Corporation cannot repay liabilities in time, Jingcheng Holding will be responsible for the repayment and provide guarantee. The Company is not suffer from any loss arisen from claims. Jingcheng Holding has not performed any act in violation of the undertaking.
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding compensating for the possible losses which may be resulted from the moving risks of the production workshops of Beijing Tianhai Industry Co., Ltd. in Mu Lin County	Jingcheng Holding undertakes: "If, in the future, the production workshops of Tianhai Industrial in Mu Lin County is needed to be relocated due to real estate problems in defects of the lease, the Company will fully compensate in cash the Listed Company after the completion of this transaction for all the losses of Tianhai Industrial caused by the relocating process."	Long term	To date, Jingcheng Holding has not committed any act in violation of the undertaking

**(VIII) Fulfillment of commitments** (cont'd)

(1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period** (cont'd)

**APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED**

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
	Controlling shareholder	Letter of Undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the preemptive right of investees of Beiren Printing Machinery Holdings Limited	Jingcheng Holding undertakes: "The Company is fully aware of the existence of the above problems of the Outgoing Assets, and undertakes that when this reorganisation is implemented and the relevant shareholders of some of the above subsidiaries of Beiren Holdings exercise the pre-emptive right, then the Company will agree to accept the equivalent cash assets converted from the long term equity investment in the above Outgoing Assets, and will not demand to terminate or alter the Material Asset Reorganisation Agreement previously signed by all parties due to the changes in the form of the Outgoing Assets, or demand Beiren Holdings to compensate for any losses or bear any legal liabilities."	Long term	To date, Jingcheng Holding has not committed any act in violation of the undertaking
	Controlling shareholder	Letter regarding the compensating Beiren Printing Machinery Holdings Limited for the failure to meet the 2013 profit forecast	Jingcheng Holding undertakes: "Jingcheng Holding will compensate the Company by cash 100% of the amount of the loss of 2013 of the Incoming Assets and 100% of the amount of projected profit of 2013 of the Incoming Assets. (1) The amount of projected loss of 2013 of the Incoming Assets is: in the range of RMB45 million to -RMB50 million (2) 100% of the amount of projected profit of 2013 of the Incoming Assets is: RMB54.0656 million $\times 100\% = 54.0656$ million, therefore, the amount of compensation for the controlling shareholder, Jingcheng Holding is: in the range of RMB99.0656 million to RMB104.0656 million (the above date is just preliminary forecast data, the actual amount is based on the audited 2013 financial data of the Incoming Assets).  Within 10 trading days from the disclosure date of the Annual Report of 2013 of the Company, Jingcheng Holding will compensate 50% of the total compensation amount, and it will compensate the other 50% after six months."	Six months starting from the disclosure of the 2013 annual report of the Listed Company	To date, Jingcheng Holding has not committed any act in violation of the undertaking
	Recipient of the Outgoing Assets (Beiren Group)	Letter of Undertaking by Beiren Group Corporation regarding the existing defects of the Outgoing Assets and the transfer of the Outgoing Liabilities	Beiren Group undertakes: "The Company is fully aware of the existing defects of the Outgoing Assets, and the Company will bear any losses or legal liabilities caused by the defects of the Outgoing Assets, and will not demand Beiren Holdings to bear any losses or legal liabilities due to the defects of the Outgoing Assets.  If no consent of the creditors regarding the transfer of liabilities involved in the Outgoing Assets (including newly incurred liabilities for the period from the benchmark date to the completion date) has been obtained, the Company undertakes all the duties, responsibilities and expense related to the claims made by those creditors to Beiren Holdings; if Beiren Holdings bears any responsibilities or suffers any losses as a result of the claim of those liabilities, the Company will fully compensate Beiren Holdings.	Long term	As of the date of disclosure, Jingcheng Holding has urged Beiren Group to repay the liabilities and undertaken that if Beiren Corporation cannot repay liabilities in time, Jingcheng Holding will be responsible for the repayment and provide guarantee. The Company is not suffer from any loss arisen from claims. Jingcheng Holding has not performed any act in violation of the undertaking
	Recipient of the Outgoing Assets (Beiren Group)	Letter of Undertaking by Beiren Group Corporation regarding the preemptive right of investees of Beiren Printing Machinery Holdings Limited	Beiren Group undertakes: "The Company is fully aware of the existence of the above problems of the Outgoing Assets, and undertakes when this reorganisation is implemented, the relevant shareholders of some of the above subsidiaries of Beiren Holdings exercise the pre-emptive right, then the Company will agree to accept the equivalent cash assets converted from the long term equity investment in the above Outgoing Assets, and will not demand to terminate or alter the Material Asset Reorganisation Agreement previously signed by all parties due to the changes in the form of the Outgoing Assets, or demand Beiren Holdings to compensate for any losses or bear any legal liabilities."	Long term	To date, Beiren Group has not committed any act in violation of the undertaking

## SECTION 7 IMPORTANT MATTERS

### (VIII) Fulfillment of commitments *(cont'd)*

(1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period *(cont'd)***

#### APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
	Incoming Assets (Tianhai Industrial)	Letter of Undertaking regarding the authenticity, accuracy and completeness of the information provided by Beijing Tianhai Industry Co., Ltd.	Tianhai Industrial undertakes: "1. The Company has the information and documents related to this Material Asset Reorganisation (including but not limited to the original written documents, copies of documents or verbal information etc) to the intermediaries providing audit, valuation, legal and financial advisory professional services, the company warrants that the duplicates or photocopies of the documents and materials are the same as the originals, and the signatures and seals of those documents and materials are authentic, the signatories of those documents have been legally authorized and they have signed them in a valid matter; we guarantee that the relevant information provided for this Material Asset Reorganisation is authentic, accurate and complete, there is no false record, misrepresentation or material omission, and we assume the several and joint liability for the authenticity, accuracy and completeness of the information provided. 2. During the participation period of this Material Asset Reorganisation, the company will disclose in time to the Listed Company the information related to this Material Asset Reorganisation according to the relevant law, regulations, rules and relevant provisions of the CSRC and Shanghai Securities Exchange, and we guarantee for the authenticity, accuracy and completeness of the information provided, and warrant guarantee that there is no false record, misrepresentation or material omission, and we assume the several and joint liability."	During the reorganisation period	To date, Tianhai Industrial has not committed any act in violation of the undertaking
	Incoming Assets (Jingcheng HK)	Letter of Undertaking regarding the authenticity, accuracy and completeness of the information provided by Jingcheng Holding (Hong Kong) Company Limited	Jingcheng HK undertakes: "1. The Company has the information and documents related to this Material Asset Reorganisation (including but not limited to the original written documents, copies of documents or verbal information etc) to the intermediaries providing audit, valuation, legal and financial advisory professional services, the company warrants that the duplicates or photocopies of the documents and materials are the same as the originals, and the signatures and seals of those documents and materials are authentic, and the signatories of those documents have been legally authorized and they have signed them in a valid matter; we guarantee that the relevant information provided for this Material Asset Reorganisation is authentic, accurate and complete, there is no false record, misrepresentation or material omission, and we assume the several and joint liability for the authenticity, accuracy and completeness of the information provided.  2. During the participation period of this Material Asset Reorganisation, the company will disclose in time to the Listed Company the information related to this Material Asset Reorganisation according to the relevant law, regulations, rules and relevant provisions of the CSRC and Shanghai Securities Exchange, and we guarantee that the authenticity, accuracy and completeness of the information provided, and warrant guarantee there is no false record, misrepresentation or material omission, and we assume the several and joint liability."	During the reorganisation period	To date, Jingcheng HK has not committed any act in violation of the undertaking

**(VIII) Fulfillment of commitments** *(cont'd)*

(1) **The commitments of listed company or its shareholders holding more than 5% of shares, the controlling shareholder and the beneficial controller during or up to the reporting period** *(cont'd)*

**APPENDIX 1 UNDERTAKING MATTERS NOT YET DUE TO BE PERFORMED**

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
	Incoming Assets (Jingcheng Compressor)	Letter of Undertaking regarding the authenticity, accuracy and completeness of the information provided by Beijing Jingcheng Environmental Protection Development Co., Ltd.	Jingcheng Environmental undertakes: "1. The Company has the information and documents related to this Material Asset Reorganisation (including but not limited to the original written documents, copies of documents or verbal information etc) to the intermediaries providing audit, valuation, legal and financial advisory professional services, the company guarantees that the duplicates or photocopies of the documents and materials are the same as the originals, and the signatures and seals of those documents and materials are authentic, the signatories of those documents have been legally authorized and they have signed them in a valid matter; we warrant that the relevant information provided for this Material Asset Reorganisation is authentic, accurate and complete, there is no false record, misrepresentation or material omission, and we assume the several and joint liability for the authenticity, accuracy and completeness of the information provided. 2. During the participation period of this Material Asset Reorganisation, the company will disclose in time to the Listed Company the information related to this Material Asset Reorganisation according to the related law, regulations, rules and relevant provisions of the CSRC and Shanghai Securities Exchange, and we guarantee that the authenticity, accuracy and completeness of the information provided, and guarantee that there is no false record, misrepresentation or material omission, and we assume the several and joint liability."	During the reorganisation period	As of to date Jingcheng Compressor has not committed any act in violation of the undertaking

**APPENDIX 2 UNDERTAKING MATTERS WHICH HAVE PASSED THE PERFORMANCE DEADLINE BUT NOT YET PERFORMED**

Undertaking matters not yet completed	Undertaking party	Heading	Contents of the undertaking	Deadline for completion of the undertaking	Status of performance to date
Undertaking related to the Material Asset Reorganisation	Controlling shareholder	Additional undertaking by Beijing Jingcheng Machinery Electric Holding Co., Ltd. regarding the ownership issue for the Proposed Incoming Assets	Jingcheng Holding undertakes: "The Company will urge Tianhai Industrial and Jingcheng Compressor to strictly perform their undertaking, and finish the handling of the real estate ownership certificates before 31 December 2013. At the same time, in order to guarantee the fairness of the value of these Incoming Assets, the Company undertakes it will bear all the expenses incurred in the process of handling the above real estate properties with defects. If the ownership issue of the above real estate properties with defects cannot be resolved as scheduled, resulting in a loss to the Beiren Holdings after this Material Asset Reorganisation in the future, the company will make full compensation in time to the Beiren Holdings after this Material Asset Reorganisation by cash."	2013-12-31	At present, the ownership issue of the real estate properties with defects has been settled by Tianhai Industrial, and active handling of land and real estate ownership certificates are in process by Jingcheng Compressor
	Incoming Assets (Jingcheng Compressor)	Supplemental undertaking by Beijing Jingcheng Compressor Co., Ltd. regarding the resolution of real estate defects of the Company	In respect of the total of 5 counts of real estate defects of Jingcheng Compressor, it undertakes: "The Company undertakes to finish the handling of everything before 31 December 2013.	2013-12-31	At present, active handling of land and real estate ownership certificates are in progress by Jingcheng Compressor.

## SECTION 7 IMPORTANT MATTERS

### (VIII) Fulfillment of commitments *(cont'd)*

(2) **Explanation made by the Company on whether assets and projects reach original profitable forecast or not and relevant reasons if there exists profit forecast in term of assets or projects and still in the profit forecast period in the Reporting Period**

During the Reporting Period, the Company implemented material asset reorganisation. The Company forecasted its profits upon completion of reorganisation (Please refer to the announcement dated 26 September 2013 on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx for details). As at the end of the Reporting Period, the profit under the 2013 profit forecasts of the Company was RMB54,065,600 and the profit actually generated in 2013 was RMB-108,239,000. The Company did not attain the indicators under profit forecasts in 2013 resulting from decrease in sales revenues. The reasons for not attaining profit forecasts in 2013 was described in detail in the Announcement in Relation to The Compensation Made by the Substantial Shareholder for the Loss of Incoming Assets and Amount Not Attaining Profit Forecasts In 2013 and Announcement in Relation to the Expected Loss the in the Results of 2013 and Delisting Risk Warning disclosed by the Company on 28 January 2014 (Please refer to relevant announcements published on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx at [www.hkexnews.hk](http://www.hkexnews.hk) for details).

Shinewing Certified Public Accountants LLP has issued an Audit Report for the Implementation of Profit Forecasts Regarding Incoming Assets due to the Material Asset Reorganization for the Company, in which it considered that, the Special Explanation on Implementation of 2013 Profit Forecasts in Relation to Material Asset Exchange by the Company in 2013 has been prepared according to the Administrative Measures for the Material Asset Reorganisations of Listed Companies (Order No. 53 of the CSRC), which in all material aspects, fairly reflected the differences between the profits forecasted in the Company's earnings forecast and that actually attained.

For the Special Audit Report for the Implementation of Profit Forecasts by Beijing Jingcheng Machinery Electric Company Limited, please refer to the announcement dated 27 March 2014 on the website of SSE at [www.sse.com.cn](http://www.sse.com.cn) for details.

### (IX) Appointment and dismissal of accounting firms

Unit: 0,000 Yuan Currency: RMB

Is it a reappointment of accounting firm No

**Currently appointed**

Name of accounting firm (Audit of financial report)	Shinewing Certified Public Accountants LLP
Compensation of the accounting firm	105
Audit years of the accounting firm	7
Name of the accounting firm (Audit of internal control)	BDO China Shu Lun Pan Certified Public Accountants LLP
Compensation of the accounting firm	50
Audit years of accounting firm	3

### (X) Punishment and rectification of listed company and its directors, supervisors, senior management, shareholders holding more than 5% of shares, beneficial controller and buyer

During the Reporting Period, the Company and its directors, supervisors, senior management officers, shareholders holding more than 5% of shares and beneficial controller have not been checked by the CSRC, have not received any administrative punishment, have not been the subject of notice of criticism and have not been openly criticized by the stock exchange.

### (XI) Explanation on other important matters

1. **Government subsidies**

During the Reporting Period, the Company obtained subsidies granted by the government in relation to research and development expenses and post allowances for the disabled of RMB2,668,600 in total.

2. Changes of the subsidiaries that included in the consolidation scope during the Reporting Period: the companies that ceased to be included in the consolidation scope during the year due to asset exchange: Shaanxi Beiren Printing Machinery Co., Ltd., Beijing Beiren Fuji Printing Machinery Co., Ltd., Beijing Beiren Jingyan Printing Machinery Factory, Beiren Dipu Rui Printing Machinery Co., Ltd. and Beijing Beiren Printing Equipment Co., Ltd. The companies that were included in the consolidation scope during the year due to asset exchange: Beijing Tianhai Industry Co., Ltd., Jingcheng Holding (Hong Kong) Company Limited and Beijing Jingcheng Compressor Co., Ltd.

3. During the Reporting Period, the Company's subsidiaries were subject to the enterprise income tax at applicable 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 2013.

**(XI) Explanation on other important matters** (cont'd)**5. Corporate Governance Code**

The Company has been in compliance with the provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules of the Stock Exchange 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 12 months ended 31 December 2013.

**7. Share Capital**

(1) During the Reporting Period, there was no change in the total numbers 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.

**8. Progress of material assets reorganisation and connected transaction**

The Company was informed by Jingcheng Holding on 6 April 2012 that it was planning to implement a material assets reorganisation related to the Company. The Company immediately published an Announcement of Suspension of Trading for such purpose and trading of shares of the Company was suspended from 9 April 2012. It then published an Announcement of Suspension of Trading in relation to a Material Asset Reorganisation on 13 April 2012 and an Announcement of Extension of Suspension Period in relation to a Material Asset Reorganisation on 15 May 2012 and 14 June 2012 respectively. During such period, the Company published an Announcement on the Progress of Material Asset Reorganisation once every week. On 5 July 2012, the Company convened the first board meeting for the material assets reorganisation. The trading of shares of the Company was resumed on 6 July 2012 and a proposal of material reorganisation of assets and connected transaction was disclosed on the same date. On 2 November 2012, the Company convened the second board meeting for the material assets reorganisation and disclosed material assets reorganisation proposal. On 18 December 2012, proposal for material assets reorganisation was considered and passed at the extraordinary general meeting of the Company.

On 4 January 2013, the Company announced that it received the Acceptance Notice of the Application for Administrative Permission 《中國證監會行政許可申請受理通知書》 from the CSRC. On 21 January 2013, the Company announced that it received a notice from the CSRC that the vetting of the Company's Material Asset Reorganisation matters has been carried out in the 2013 second working conference and unconditionally approved by the Listed Companies Merger and Reorganisation Vetting Committee of the CSRC. Yet, on 25 January 2013, the Company received a notice from CSRC that since party/parties concerned for the Company's material asset reorganisation is/are suspected of violating the laws and such matter has been filed for investigation, the vetting of the Company's application for the material assets reorganisation has been temporarily suspended by the CSRC. On 26 September 2013, the Company received the approval in relation to the Material Assets Reorganisation of Beiren Printing Machinery Holdings Company Limited (Zheng Jian Xu Ke [2013] No. 1240) from the China Securities Regulatory Commission, whereby the Company's material asset reorganisation and connected transaction matters have been approved. The Company exchanged all of its assets and liabilities with 88.50% equity interest in Beijing Tianhai Industry Co., Ltd, 100% equity interest in Jingcheng Holding (Hong Kong) Company Limited and 100% equity interest in Beijing Jingcheng Compressor Co., Ltd. held by Jincheng Holding, with the difference is to be paid in cash by Jincheng Holding.

On 31 October 2013, the Company entered into "Material Asset Reorganisation Completion Agreement between Beiren Printing Machinery Holdings Limited and Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation" with Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation. As at the date of disclosure, each party is actively carrying out the relevant procedures for registration of change in certain land use rights of outgoing assets and change in businesses for certain subsidiaries. The Company will continue to press on with the follow-up work in respect of the material asset reorganisation and connected transaction, and perform the information disclosure obligation in accordance with the requirements of relevant laws and regulations.

Since the Company purchased assets due to the Material Asset Reorganisation and connected transactions and the Company cannot achieve 80% of the estimated profit as previously made, the Chairman and the General Manger of the Company together with the independent financial advisor, accountant and the relevant professionals so hired for such reorganisation hereby sincerely apologize to all investors. The relevant apology statement together with the Annual Report will be published on Shanghai Securities News and Securities Daily.



## SECTION 8 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

### (I) Changes in share capital

#### (1) Statement of changes in shares

##### 1. Statement of changes in shares

Unit: share

	Before change		Increase and decrease (+,-) in change				After change		
	Amount	Proportion (%)	Issuance of new shares	Bonus issue	Conversion	Other	Subtotal	Amount	Proportion (%)
					from reserves				
(I) Shares subject to trading moratorium (Nil)									
1. State-owned shares									
2. State-owned legal person shares									
3. Other domestic shares									
Including:									
Domestic non-state-owned legal person shares									
Domestic natural person shares									
4. Foreign shares									
Including:									
Overseas legal person shares									
Overseas natural person shares									
(II) Circulating shares not subject to trading moratorium									
1. Renminbi ordinary shares	322,000,000	76.3					322,000,000	76.3	
2. Foreign shares listed domestically									
3. Foreign shares listed overseas	100,000,000	23.7					100,000,000	23.7	
4. Others									
(III) Total shares	<u>422,000,000</u>	<u>100</u>					<u>422,000,000</u>	<u>100</u>	

##### 2. Explanation on the changes in shares

Beiren Group, the former controlling shareholder of the Company, transferred 201,620,000 shares of the Company it held to Jingcheng Holding without consideration and the transfer procedure was completed. Currently, Jingcheng Holding is the controlling shareholder of the Company holding approximately 47.78% of the Company.

##### 3. Effect of changes in shares on financial indicators such as earnings per share and net assets per share for the most recent year and most recent period

Changes in the shares of the Company do not have any effect on the financial indicators such as earnings per share and net asset per share for the most recent year and the most recent period.

##### 4. Other disclosure deemed necessary by the Company or required by securities regulatory authorities

The company does not have other disclosures or disclosures required by securities regulatory authorities.

#### (2) Changes in shares subject to trading moratorium

During the Reporting Period, there is no change in shares subject to trading moratorium of the Company.

## SECTION 8 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

### (II) Issuance and listing of securities

(1) **Each issuance of securities for the three years ended as of the end of the Reporting Period**

For the three years ended as of the end of this Reporting Period, the Company has not issued or listed and securities.

(2) **Changes in the total number of shares of the Company and shareholders' structure and changes in the asset and liability structure of the Company**

During the Reporting Period, there is no change in the total number of shares and structure of shares of the Company due to bonus shares or allotment of shares.

(3) **Existing internal employee shares**

As of the end of the reporting period, the Company does not have internal employee share.

### (III) Share price of the Company during the reporting period

1. **Share prices of H shares in 2013:**

Opening price as of the beginning of the year:	HKD2.58
Closing price as of the year end:	HKD3.16
Highest price:	HKD4.16
Lowest price:	HKD2.06

2. **Share prices of A shares in 2013:**

Opening price as of the beginning of the year:	RMB6.25
Closing price as of the end of the year:	RMB8.21
Highest price:	RMB12.05
Lowest price:	RMB5.76

### (IV) Shareholders and beneficial controllers

(1) **Number of shareholders and their shareholdings**

*Unit: share*

**Total number of shareholders during the Reporting Period** 17,280 (in which: 17,203 holders of A shares, 77 holders of H shares)

**Total number of shareholders as of the end of the fifth trading day before the disclosure date of the Annual Report** 17,903 (in which: 17,827 holders of A shares, 76 holders of H shares)

**Shareholding of top ten shareholders**

Name of shareholder	Nature of shareholder	Shareholding ratio (%)	Total number of shares held	Increase/decrease during the Reporting Period	Number of shareholdings subject to trading moratorium	Number of shares pledged or frozen
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	State-owned legal-person	47.78	201,620,000	0	0	Nil
HKSCC NOMINEES LIMITED	Unknown	23.45	98,953,199	112,000	0	Unknown
Ningbo Liyuan Import and Export Co., Ltd.	Unknown	0.44	1,865,269	1,865,269	0	Unknown
Sun Hongli	Unknown	0.40	1,699,419	1,699,419	0	Unknown
Shanghai Kai Shan Investment Co., Ltd.	Unknown	0.28	1,179,388	1,179,388	0	Unknown
Zhongrong International Trust Co., Ltd - Rongxin No.150 Capital Trust Contract	Unknown	0.27	1,123,438	1,123,438	0	Unknown
Beijing Haohong Real Estate Co., Ltd.	Unknown	0.25	1,052,925	1,052,925	0	Unknown
Beijing Tonglong Investment Consulting Co., Ltd.	Unknown	0.24	1,000,000	-1,208,124	0	Unknown
Xin Huaibo	Unknown	0.23	966,900	966,900	0	Unknown
Beijing Rixin Economic & Trade Development Co., Ltd.	Unknown	0.20	833,977	833,977	0	Unknown

## SECTION 8 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

### (IV) Shareholders and beneficial controllers *(cont'd)*

#### (1) Number of shareholders and their shareholdings *(cont'd)*

##### Particulars of top ten holders of shares not subject to trading moratorium

Name of shareholder	Number of shares not subject to trading moratorium	Class and number of shares	
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	201,620,000	RMB ordinary shares	201,620,000
HKSCC NOMINEES LIMITED	98,953,199	Foreign shares listed overseas	98,953,199
Ningbo Liyuan Import and Export Co., Ltd.	1,865,269	RMB ordinary shares	1,865,269
Sun Hongli	1,699,419	RMB ordinary shares	1,699,419
Shanghai Kai Shan Investment Co., Ltd.	1,179,388	RMB ordinary shares	1,179,388
Zhongrong International Trust Co.,Ltd – Rongxin No.150 Capital Trust Contract	1,123,438	RMB ordinary shares	1,123,438
Beijing Haohong Real Estate Co., Ltd.	1,052,925	RMB ordinary shares	1,052,925
Beijing Tonglong Investment Consulting Co., Ltd.	1,000,000	RMB ordinary shares	1,000,000
Xin Huaibo	966,900	RMB ordinary shares	966,900
Beijing Rixin Economic & Trade Development Co., Ltd.	833,977	RMB ordinary shares	833,977

Explanation on the connected relationship of the shareholders and action in concert among the aforesaid shareholders

As of the Reporting Period, shares subject to trading moratorium held by the Company were all listed for circulation in the market. The Company is not aware of any connected relationship among the aforesaid shareholders, nor is the Company aware of any parties acting in concert as defined in Measures for Management on Information Disclosure of Changes in Shareholdings of Listed Company's Shareholders.

- ① Among the top ten shareholders of the Company, Jingcheng Holding is the controlling shareholder of the Company.
- ② HKSCC Nominees Limited held shares on behalf of its clients and the Company has not been notified by HKSCC Nominees Limited that there was any holder of H Shares who separately held 5% or more of the total share capital of the Company.
- ③ None of the shareholders holding 5% or more of the Company's shares are in such position where their shares have been pledged or frozen.
- ④ Beiren Group, the former controlling shareholder of the Company, transferred 201,620,000 shares of the Company it held to Jingcheng Holding without consideration and the transfer procedure was completed. Currently, Jingcheng Holding is the controlling shareholder and beneficial controller of the Company holding approximately 47.78% shares of the Company.
- ⑤ Save as disclosed above, Directors were not aware of any person (not being a Director, supervisor or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.
- ⑥ Purchase, sale or redemption of the Company's listed securities  
  
During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.
- ⑦ Pre-emptive Rights  
  
There is no provision for pre-emptive rights under the relevant laws of the PRC and the Articles of Association of the Company.
- ⑧ Convertibles, options, warrants or other similar rights  
  
As of 31 December 2013, the Company did not issue any convertible securities, options, warrants or any other similar rights.

## SECTION 8 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

### (V) Controlling shareholders and beneficial controller

#### (1) Controlling shareholder

##### 1. Legal person

Unit: Yuan Currency: RMB

Name	Beijing Jingcheng Machinery Electric Holding Co., Ltd.
The person in charge of the unit or legal representative	Ren Ya Guang
Date of establishment	8 September 1997
Code of the organisation	63368621-7
Registered capital	1,695,587,082.96
Principal business	Within the scope of authorization, management of state-owned assets; management of equities; external fundraising and investment. The company has six major business sectors including numerical control machine, engineering machine, storage and transportation of gas, environment protection industry, new energy and thermal power generation. It has six business units including logistics industry, hydraulic industry, switch industry, printing machine, electrical machine industry and electric wires and cables. It combines engineering design, product development, manufacture of equipment and technical service together, provides high quality professional integrated mechanics and electric equipments and services to industrial fields such as electricity, metallurgy, Nessler, transportation, engineering construction, manufacture of machines and aerospace and others, for provision of quality professional mechanical and electrical integrated equipment and services.
Operating achievement	The company is one of the 500 largest enterprises in China. It realized operating income of more than RMB20 billion in 2013. The core industrial sectors of the company include numerical control machine, equipment for storage and transportation of gas, equipment for power generation and transmission and transformation of electricity, environmental protection industry, engineering machine and printing machine, all being in the leading position in the country.
Financial position	Financial position for the company for 2013 (unaudited): operating income: RMB21.03 billion; income from principal business: RMB20.757 billion; total profit: RMB145 million; net profit: RMB41 million; total asset: RMB37.005 billion; net asset: 11.090 billion.
Cash flow and future development strategy	The company will use "lead by target, lead by model, lead by value and lead by product" as the guiding principle for the development strategy of the Twelfth five year plan. It will make its mission to produce superior machines to equip the world. It will uphold good in technique and serve with sincerity as the core value, based on the operating philosophy of rewarding shareholders and benefiting employees and the society, try its best to become a company which is equipped with leading technology and application ability, create value for customers in the core market and become a leading equipment manufacturer and service provider in the world.

## SECTION 8 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

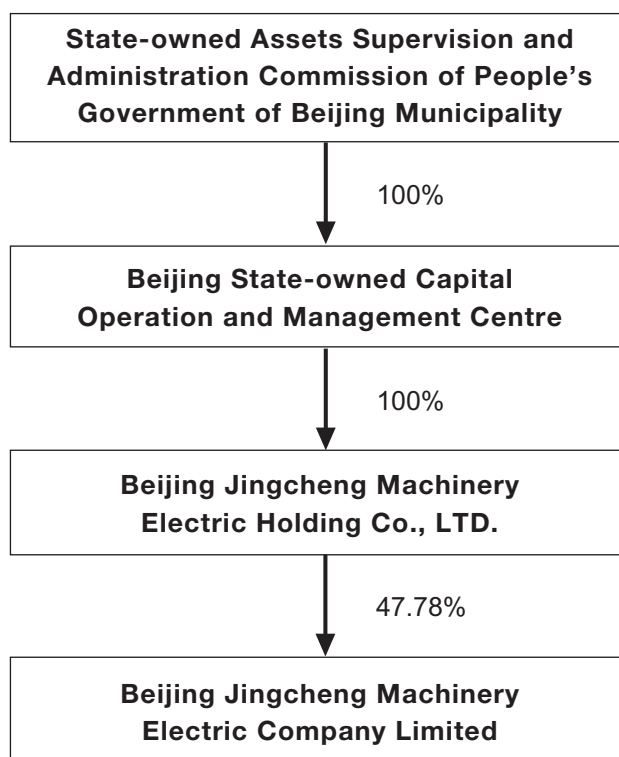
### (V) Controlling shareholders and beneficial controller *(cont'd)*

#### (2) Explanation on Change of Controlling Shareholder

On 7 December 2012, the Company received the "Confirmation on Transfer Registration from the Shanghai Branch Office of China Securities Depository and Clearing Corporation Limited" (《中國證券登記結算有限公司上海分公司過戶登記確認書》), confirming that the relevant procedures for the transfer of 201,620,000 shares in the Company without consideration to Jingcheng Holding by Beiren Group Corporation, the former controlling shareholder of the Company, in relation to the administrative transfer of state-owned shares have been completed. Following the completion of such transfer, the total share capital of the Company remains unchanged, of which 201,620,000 shares, representing 47.78% of the total share capital, are held by Jingcheng Holding, the controlling shareholder of the Company. Hence Jingcheng Holding is both the controlling shareholder and beneficial controller of the Company. The above matters were disclosed on the website of the Shanghai Stock Exchange and the website of the Hong Kong Stock Exchange on 7 December 2012; and were disclosed on Shanghai Securities News on 8 December 2012.

#### (3) Beneficial controller

##### 1. Property right and controlling relationship between the Company and beneficial controller



### (VI) Details of other legal person shareholders holding 10% or more of shares

As at the end of this Reporting Period, the Company did not have any legal person shareholder holding 10% or more of its shares.

## SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

### 1. Change of shareholding and remuneration

#### (I) Change in shareholding and remuneration of current and the resigned Directors, Supervisors and Senior Management Officers during the Reporting Period

Unit: share

Name	Position	Sex	Age	Appointment date	End date of appointment	Shareholdings at the beginning of the year	Shareholdings at the end of the year	Change in the amount of shareholdings in the year	Reason for change	Total remuneration before tax received from the Company during the Reporting Period (RMB0'000)	Total remuneration received from shareholder entities during the Reporting Period (RMB0'000)
Jiang Zili	Chairman	Male	45	16 December 2013	18 May 2014	0	0	0	-	-	47.63
Wang Pingsheng	Vice Chairman	Male	64	16 December 2013	18 May 2014	0	0	0	-	74.85	0
Hu Chuanzhong	Director and General Manager	Male	44	16 December 2013	18 May 2014	0	0	0	-	71.79	-
Wu Dongbo	Director	Female	41	29 May 2012	18 May 2014	0	0	0	-	0	26.81
Wu Yanzhang	Director and Deputy General Manager	Male	49	16 December 2013	18 May 2014	0	0	0	-	29.25	
Li Junjie	Director and Deputy General Manager	Male	35	16 December 2013	18 May 2014	0	0	0	-	49.51	
Jiang Chi	Director and Chief Accountant	Female	38	29 May 2012	18 May 2014	0	0	0	-	37.58	0
Zhang Shuangru	Independent Non-executive Director	Male	70	29 May 2012	18 May 2014	0	0	0	-	4	0
Wang Hui	Independent Non-executive Director	Female	52	18 May 2011	18 May 2014	0	0	0	-	4	0
Xie Bingguang	Independent Non-executive Director	Male	58	18 May 2011	18 May 2014	0	0	0	-	4	0
Wang Deyu	Independent Non-executive Director	Male	39	18 May 2011	18 May 2014	0	0	0	-	4	0
Liu Zhe	Chairman of the Supervisory Committee	Female	35	16 December 2013	18 May 2014	0	0	0	-	42.83	0
Han Bingkui	Supervisor	Male	58	16 December 2013	18 May 2014	0	0	0	-	56.68	
Ruan Aihua	Supervisor	Female	51	16 December 2013	18 May 2014	0	0	0	-	13.17	0
Jiao Ruifang	Secretary to the Board of Directors	Female	36	18 May 2011	18 May 2014	0	0	0	0	40.52	0
Xie Yuemei	Chief Engineer	Female	55	5 November 2013	18 May 2014	0	0	0	-	56.92	0
Zhang Peiwu	Former chairman	Male	50	18 May 2011	16 December 2013	0	0	0	-	40.89	0
Chen Bangshe	Former Director and General Manager	Male	47	29 May 2012	16 December 2013	0	0	0	-	40.63	0
Teng Mingzhi	Former Director	Male	41	18 May 2011	16 December 2013	0	0	0	-	-	40.28
Li Shenggao	Former Director	Male	37	18 May 2011	16 December 2013	0	0	0	-	25.66	0
Wei Li	Former Director	Female	51	18 May 2011	16 December 2013	0	0	0	-	25.66	0

## SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

### 1. Change of shareholding and remuneration (cont'd)

#### (I) Change in shareholding and remuneration of current and the resigned Directors, Supervisors and Senior Management Officers during the Reporting Period (cont'd)

Unit: share

Name	Position	Sex	Age	Appointment date	End date of appointment	Shareholdings at the beginning of the year	Shareholdings at the end of the year	Change in the amount of shareholdings in the year	Reason for change	Total remuneration before tax received from the Company during the reporting period (RMB0'000)	Total remuneration received from shareholder entities during the reporting period (RMB0'000)
Wang Liansheng	Former Chairman of the Supervisory Committee	Male	55	18 May 2011	16 December 2013	0	0	0	-	32.21	0
Guo Xuan	Former Supervisor	Male	43	18 May 2011	16 December 2013	0	0	0	-	25.66	0
Wang Huiling	Former Supervisor	Female	50	18 May 2011	16 December 2013	0	0	0	-	6.79	0
Kong Dagang	Former Deputy General Manager	Male	55	18 May 2011	31 October 2013	0	0	0	-	32.09	0
Chen Changge	Former Deputy General Manager	Male	46	18 May 2011	31 October 2013	0	0	0	-	29.98	0
Xue Kexin	Former Deputy General Manager	Male	48	15 March 2012	31 October 2013	0	0	0	-	29.39	0
Cheng Tianming	Former Deputy General Manager	Male	52	15 March 2012	31 October 2013	0	0	0	-	29.29	0
Total	/	/	/	/	/	0	0	0	/	807.35	114.72

Note:

- (1) The remuneration of Zhang Peiwu, Chen Bangshe, Teng Mingzhi, Li Shenggao, Wei Li, Wang Liansheng, Guo Xuan, Wang Huiling, Kong Dagang, Chen Changge, Xue Kexin, Cheng Tianming are the sum amounts from January to October.
- (2) The remuneration of other directors, supervisors and senior management officers are the total amounts from January to December.
- (3) None of the directors, supervisors and senior management officers had been granted with any equity interest as an incentive by the Company during the Reporting Period.
- (4) Save as disclosed hereinabove, none of the directors, supervisors and senior management officers or any of their associates, as at 31 December 2013, had any interest in the shares of the Company or its associated corporations (as defined in the SFO). None of the directors and supervisors or their spouse or children under the age of 18 were granted with any right to acquire the securities of the Company or had exercised any such right.
- (5) Save as those set out in the register required to be maintained by directors and supervisors under SFO, during the year, the Company did not engage in any arrangement which would enable the directors or supervisors of the Company or any other corporation to acquire any interest in any shares or debt securities of the Company, nor did the directors or supervisors have any interest required to be recorded in the register under the SFO.
- (6) Save as disclosed hereinabove, none of the directors, supervisors and senior management officers of the Company, as at 31 December 2013, had any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
- (7) Save as disclosed hereinabove, none of any other directors, supervisors and senior management officers of the Company or their respective associates were granted by the Company or its subsidiaries with any right to acquire shares or debentures of the Company or had exercised any such right as at 31 December 2013.

## 1. Change of shareholding and remuneration *(cont'd)*

### (II) Profiles of directors, supervisors and senior management officers during the last five years:

Jiang Zili, Chinese, male, aged 45, Chairman. He obtained a Ph.D. and is a senior engineer of professor grade. Mr. Jiang served as the director of Environmental Protection Institute, Beijing Research Institute of Mechanical and Electrical Technology; vice-president and the president of Beijing Research Institute of Mechanical and Electrical Technology; party committee, director and general manager of Beijing Machinery and Electricity Institute CO., LTD.; chairman of Beiren Machine Tool Works Co., LTD.; chairman of Zhejiang Jingcheng Renewable Resources Co., Ltd.; and chairman of Hohhot Solid Waste Disposal and Treatment Co., Ltd. (呼和浩特固廢處置有限公司). In 2009, Mr. Jiang received on-job training in Taizhou government in Zhejiang province as the Deputy Secretary – General. He is currently the deputy general manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. He was appointed as the Chairman of the Board of the Company on 16 December 2013. Mr. Jiang has rich experience in capital operation and business operation and management.

Wang Pingsheng, Chinese, male, aged 64, Vice Chairman. He obtained a bachelor's degree and is a senior engineer. Mr. Wang worked at Beijing Metal Structures Factory(北京金屬結構廠) as a technician and the deputy director of the workshop. He served as the deputy factory director and factory director of the Beijing High Pressure Gas Cylinders Factory(北京高壓氣瓶廠). He was also the general manager of Beijing Tianhai Industry Co., Ltd. He is currently the chairman of Beijing Tianhai Industry Co., Ltd, Beijing Jingcheng Compressor Co., Ltd and Jingcheng Holding (Hong Kong) Company Limited. He was appointed as the Vice Chairman of the Board of the Company on 16 December 2013.

Hu Chuansong, Chinese, male, aged 44, Director and General Manager of the Company. He obtained a bachelor degree in mechanical engineering from Tsinghua University and an EMBA from the University of Texas at Arlington, US. He is a senior engineer. Mr. Wu was a technician, assistant engineer, deputy director, director, vice president of engineering, deputy manager of technical quality department, and deputy general manager of Tianhai Industry Co., Ltd. He was also the chairman of Tianjin Tianhai High Pressure Containers Co., Ltd. He is currently the general manager, director and party secretary of Beijing Tianhai Industry Co., Ltd, director and general manager of Jingcheng Holding (Hong Kong) Company Limited as well as the director of Tianjin Tianhai High Pressure Containers Co., Ltd. and Langfang Tianhai High Pressure Containers Co., Ltd. He was appointed as the general manager of the Company on 31 October 2013 and was appointed as the Director of the Company on 16 December 2013.

Wu Dongbo, Chinese, female, aged 41, Director. She is a postgraduate and a senior accountant. Ms. Wu worked as an accountant in Beijing Xidan Commercial District Construction and Development Company (北京西單商業區建設開發公司), the manager of the advisory department of Beijing Fangyuan Huazxin Certified Public Accountants Company Limited, the auditing head of Beijing Jingcheng Machinery Electric Holding Co., Ltd, and is now the head of the audit department of Beijing Jingcheng Machinery Electric Holding Co., Ltd. Ms. Wu possesses extensive experience in corporate management and financial management.

Wu Yanzhang, Chinese, male, aged 49, Director and Deputy General Manager of the Company. He obtained a bachelor's degree in Machinery Manufacturing Management at Hefei University of Technology and EMBA at China Europe International Business School. Mr. Wu served as the dispatcher of the production department, the deputy department head, assistant to factory head and the director of office of Beijing No. 1 Machine Tool Plant (北京第一機床廠), the Sino General Manager of OKUMA-BYJC (Beijing) Machine Tool Co. Ltd (北一大隈公司), the director of Communications Office, the director of office, the head of Legal Department, the head of Non-financial Corporate Management Department and the head of Asset Management Department of Beijing Jingcheng Machinery Electric Holding Co., Ltd. He is currently the director and the general manager of Jingcheng Compressor Co., Ltd. He was appointed as the Deputy General Manager and Director of the Company on 5 November 2013 and 16 December 2013 respectively.

Li Junjie, Chinese, male, aged 35, Director and Deputy General Manager of the Company. He obtained a bachelor degree in industrial economics from Taiyuan Heavy Machinery Institute and an EMBA degree from Guanghua School of Management of Peking University. He was an accountant of finance department, salesman of marketing department and deputy manager of human resources department in Beijing Tianhai Industry Co., Ltd. He is currently the deputy party secretary and deputy general manager of Beijing Tianhai Industry Co., Ltd. He was appointed as Deputy General Manager of the Company on 31 October 2013 and Director on 16 December 2013.

Jiang Chi, Chinese, female, aged 38, Director and Chief Accountant, graduated from Beijing Technology and Business University with a degree in Economics. Ms. Jiang is a senior accountant and worked in Beijing Double-Crane Pharmaceutical Co., Ltd. as the Accountant, Century Industry Investment Co., Ltd. as Financial Officer, China National Pharmaceutical Group Corporation as Assistant to Financial Manager, Huayi Pharmaceutical Co. Ltd. as Financial Manager, Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd. as Budget Financial Officer and Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd. as Deputy Head of Financial Planning Department. Ms. Jiang has served Beiren Printing Machinery Holdings Limited (Currently called Beijing Jingcheng Machinery Electric Company Limited) since October 2011 and has been appointed as the Chief Accountant of Beiren Printing Machinery Holdings Limited. At present, Ms Jiang was appointed as the director, deputy general manager and chief legal counsel of Beijing Tianhai Industry Co., Ltd., the director and financial controller of Beijing Jingcheng Compressor Co., Ltd. and the director and financial controller of Jingcheng Holding (Hong Kong) Company Limited. Ms. Jiang has years of experience in financial management.

Zhang Shuangru, Chinese, male, aged 70, Independent Non-executive Director, Senior economist, graduated from archeology, Department of History, Peking University. Mr. Zhang has served as deputy director of personnel department and deputy manager in China Printing Corporation (中國印刷公司). He was appointed as the chairman of China Printing Corporation, the deputy general manager of China Printing Group Corporation (中國印刷集團) and the chairman of C&C Joint Printing Co., (Beijing) Ltd. (北京華聯印刷有限公司), and presently the vice officer of the National Technical Committee on Printing of Standardization of Administration of China (全國印刷標準化技術委員會) and managing vice-chairman of Printing Technology Association of China (中國印刷技術協會). Mr. Zhang received special subsidy from the State Council in 1994 and The Bisheng Printing Outstanding Achievement Award in 2009. Mr. Zhang began to serve the Company as a non-executive director of the Company on 29 May 2012.



## 1. Change of shareholding and remuneration *(cont'd)*

### (II) Profiles of directors, supervisors and senior management officers during the last five years: *(cont'd)*

Wang Hui, Chinese, female, aged 52, Independent Non-executive Director, a post doctorate, a deputy researcher. Ms. Wang was a technician and engineer of Tianjin Engineering Mechanics Institute of Department of Mechanics; Chief of Quality Control Section, Chief of Technology Department of Guangdong Shunde Zhenhua Automotive Rearview Mirror Limited of China Auto Corporation; Chief of Technology Innovation and Development and Research Center of Economic and Management College of Tsinghua University; senior manager of China Huarong Asset Management Corporation; senior business director of Debenture Business Department, General Manager of M&A Business and Management Department, senior manager of Institutional Enterprise M&A and Development Strategy Department of China Securities Co., Ltd. She is now Chairman and General Manager of Zhonghai Kaitian (Beijing) Asset Management Co., Ltd. Ms. Wang began to serve the Company as a non-executive director of the Company on 18 June 2008.

Xie Bingguang, Chinese, male, aged 58, Independent Non-executive Director, LL.M., a solicitor. Mr. Xie is now Head and a senior solicitor of Beijing Hualian Law Firm, and interceder of China International Trade Arbitration Commission and International Chamber of Commerce of China; arbitrator of Beijing Arbitration Commission; member of Criminal Committee of All China Lawyers Association; member of Civil Law Affairs Committee of Beijing Municipal Lawyers Association; member of Real Estate Affairs Committee of Beijing Municipal Lawyers Association; and director of Beijing Law Society and Economic Society. Mr. Xie began to serve the Company as a non-executive director of the Company on 18 June 2008.

Wang Deyu, Chinese, male, aged 39, Independent Non-executive Director, MBA, a Certified Public Accountant. Mr. Wang was a loan officer of Yantai branch of Bank of China; auditor of Zeng Fu Cheng Accounting Firm in (曾福成會計公司) Singapore; special assistant to General Manager of Yantai Wanhua Polyurethanes Co., Ltd.; Senior Consultant of BearingPoint (Shanghai) Limited; and manager of PricewaterhouseCoopers (Beijing) Company. He is currently Financial Director of Sichuan Lessin Department Store Ltd. Mr. Wang began to serve the Company as a non-executive director of the Company on 18 June 2008.

Liu Zhe, Chinese, female, aged 35, Chairman of the Supervisory Committee. She is a senior policy advisor with a bachelor's degree in engineering. Ms. Liu was a teacher, group leader of teaching and research and Youth League secretary of Light Industry Branch of Beijing Industry and Trade Technicians College, Youth League secretary and director of publicity department of the party/company of Jingcheng Holding. Currently, she is deputy party secretary, secretary of discipline inspection commission and chairman of labour union of Beijing Tianhai Industry Co., Ltd and secretary of the party committee of Beijing Jingcheng Compressor Co., Ltd. She served as the Chairman of the Supervisory Committee of the Company from 16 December 2013.

Han Bingkui, Chinese, male, aged 58, supervisor, graduate of economics and management and is a senior accountant. Mr. Han was chief of finance division and accountant of Beijing High Pressure Gas Cylinder Factory (北京高壓氣瓶廠), head of finance department of the Company and Industry Co., Ltd. Currently, he is director, chief financial officer and department head of finance department of Tianhai Industry Co., Ltd. She served as the supervisor of the Company from 16 December 2013.

Ruan Aihua, Chinese, female, aged 51. She is a supervisor and policy advisor. Ms. Ruan was the production director responsible for production management of the Four Factory and the head of organisation department of Beijing First General Machinery Plant (北京第一通用機械廠). Also, she was the secretary of discipline inspection commission, chairman of labour union and employee director of Beijing Jingcheng Environmental Protection Development Co., Ltd.. Now, she is the deputy Party secretary of Beijing Jingcheng Compressor Co., Ltd. She served as the supervisor of the Company from 16 December 2013.

Jiao Ruifang, Chinese, female, aged 36, Secretary to the Board of Directors, MBA from The Chinese University of Hong Kong, and a senior project manager. She was Head of corporate planning of Beijing Beizhong Steam Turbine Generator Company Limited; Consultative Manager and Project Manager of Beijing Jinhaitai Capital Market Research Centre (北京金海泰資本市場研究中心); and head of Strategic Planning and head of Asset Investment of Beijing Jingcheng Machinery Electric Holding Co, LTD. She started working in Beiren Printing Machinery Holdings Limited from October 2006. Currently, she is secretary to the Board of Directors of Beiren Printing Machinery Holdings Ltd. (now named as Beijing Jingcheng Machinery Electric Company Limited) and deputy general manager of Beijing Tianhai Industry Co., Ltd. She has rich experience in industry enterprises and management consultant companies, and is familiar with corporate governance, formulation of strategy, management planning, foreign investment and asset reorganisation.

Xie Yuemei, Chinese, female, aged 55, Chief Engineer. She graduated with a bachelor's degree in Engineering (with specialization in Mechanical Engineering). She served as a senior engineer of professor grade. Ms. Xie served as a technician responsible for institutional product design at Beijing High Pressure Gas Cylinder Factory (北京高壓氣瓶廠), the deputy head of Technology Section, the head of Technology Department of Beijing Tianhai Industry Co., Ltd. as well as the chief engineer and the head of Technology and Quality Department and the quality assurance engineer of Containers Company (容器公司). She is now the chief engineer of Beijing Tianhai Industry Co., Ltd. She was appointed as the Chief Engineer of the Company on 5 November 2013.

Zhang Peiwu, Chinese, male, aged 50, former Chairman, a postgraduate (master degree) in printing mechanics and a senior economist. Mr. Zhang taught in Xi'an University of Technology of Shaanxi Province and was Deputy General Manager and Legal Representative of Sichuan Printing Materials Company (四川省印刷物資公司), Manager of Materials Company of China Printing Materials Corporation (中國印刷物資總公司器材公司), assistant to General Manager of Beiren Group Corporation and served concurrently as the General Manager of Operation and Sales Company. He started working as the general manager in Beiren Printing Machinery Holdings Limited from September 2006. He has been appointed as Director from July 2007 to December 2013 and the Chairman of Beiren Printing Machinery Holdings Limited from January 2012 to December 2013. He has years of experience in marketing and corporate management.

## 1. Change of shareholding and remuneration *(cont'd)*

### (II) Profiles of directors, supervisors and senior management officers during the last five years: *(cont'd)*

Chen Bangshe, Chinese, male, aged 47, former Director and General Manager, is a postgraduate (master degree) and a senior engineer. Mr. Chen was the Chief Engineer and Deputy Plant Manager of Shaanxi Printing Machinery Plant, and Vice Chairman and General Manager of Shaanxi Huanggong Group Holdings. Mr. Chen has been the General Manager of Shaanxi Beiren Printing Machinery and he is currently the Chairman of the Company. Mr. Chen has served as General Manager of Beiren Printing Machinery Holdings Limited from March 2012 to October 2013. Mr. Chen was honored with the titles of the "Labor Model of Shaanxi Province", "Outstanding Contributions Experts in Shaanxi Province", "Outstanding Packaging Entrepreneur in China", "The Ninth Bisheng Printing Outstanding New Comer Award" as well as "Top 100 Excellent Printing Entrepreneur in Modern China". Mr. Chen has extensive experience in corporate management and printing machinery design.

Teng Mingzhi, Chinese, male, aged 41, former Director, Research Master degree in mechanical and electrical integration, senior engineer. Mr Teng was Deputy Head of Propaganda Unit of the Committee of the Party, Officer of the Secretariat, Assistant to the Director of Beijing Mechanical and Electrical Institute; Deputy Director of Beijing Mechanical and Electrical Institute; Deputy Director off Resource Allocation and Company Reform of Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd.; Director of Strategic Planning and Technology of Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd. At present, Mr. Teng is Secretary to the Board, Director of the Board Office, Director of the Communist Party Committee Office and Director of Dispatched Directors and Supervisors Office of Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd. Mr Teng has rich experience in strategic management and technical management. Mr. Teng began to serve the Company as a non-executive director of the Company on 18 May 2011.

Li Shenggao, Chinese, male, aged 37, former Director, graduate from Harbin University of Science and Technology with a bachelor degree in accounting. He further obtained a master degree from Guanghua Management College, Beijing University. Mr. Li is a certified accountant and senior account. He was an accountant, the manager of financial department and the assistant to the Chief Accountant of Babcock & Wilcox Beijing Company Ltd (a Sino American company), the general manager of Beijing Yan Long Import and Export Co., Ltd. (a legal person) and the general manager of 無錫市北人協民印刷機械廠 (a legal person). Since October 2008, he has been the CFO of Beiren Group Corporation, the general manager of 上海北人集團綜合貿易商廈 (a legal person), the vice chairman of Beijing Beiren Gunze Machinery Co., Ltd (a sino-japanese company), a director of 海門北人印刷機有限公司 and the general manager of the Shenzhen branch of Beiren Group Corporation (person-in-change). Mr. Li has in-depth knowledge in the comprehensive budget management and cost control, corporate internal control and risk management as well as corporate financial planning and tax planning. Mr. Li began to serve the Company as a non-executive director of the Company on 18 May 2011.

Wei Li, Chinese, female, aged 51, former Director, Editor and graduate of printing mechanics from Xi'an Polytechnic, graduate of EMBA of Arlington Campus, University of Texas. Ms. Wei was Chief Editor, Director of Printing Technology Magazine Company of China Printing Science and Technology Research Institute; Director, Deputy Director of China Printing Science and Technology Research Institute. At present, she is the Deputy General Manager of Beiren Group Company, Director of Beijing Printing Machinery Institute, General Manager of 北京北人大酒店 etc. Ms. Wei is familiar with the printing and publishing sector, and has extensive experience in corporate governance, strategy and investment, human resources management, remuneration and incentive and administration. Ms. Wei began to serve the Company as a non-executive director of the Company on 18 May 2011.

Wang Liansheng, Chinese, male, aged 55, former Chairman of the Supervisory Committee, is a degree holder and a senior political engineer. Mr. Wang had been the Head of Promotion Department of Party Committee and the Supervisor of Party Committee Office of Beiren Group Corporation, the Assistant to Head of Production Plant of Web-fed Offset Press Branch of the Company, as well as the Head of Promotion Department of Party Committee of Beiren Group Corporation and the Company. Mr. Wang started working in Beiren Printing Machinery Holdings Limited from April 1981. He is currently the Deputy Secretary of Party Committee and the Secretary of Disciplinary Committee of the Company. He has been appointed as the Supervisor and Chairman of the Supervisory Committee of Beiren Printing Machinery Holdings Limited from November 2009 to December 2013. Mr. Wang has years of experience in corporate management.

Guo Xuan, Chinese, male, aged 43, former supervisor, a university graduate of Bachelor of Science (BS) and an engineer. Mr. Guo was Head of the Production Section of the Gear Plant of Beiren Printing Machinery Holdings Ltd, Deputy Director of Human Resources Department of Beiren Printing Machinery Holdings Ltd, Deputy General Manager of Singlesheetfed Offset Printing Presses Manufacture Branch, and General Manager of the Third Manufacture Subsidiary; and Head of the Business Administration and Operation Department of Beiren Printing Machinery Holdings Ltd. Mr. Guo was working in Beiren Printing Machinery Holdings Limited from October 1992 to February 2012. He is currently Assistant General Manager of Beiren Group Corporation. He has been appointed as the supervisor of Beiren Printing Machinery Holdings Limited from July 2008 to December 2013. Mr. Guo has working experience in human resources management and corporate management.

Wang Huiling, Chinese, female, aged 50, former supervisor, obtained a degree in corporate management, a degree in Economics and is a senior economist and internationally registered internal auditor. Ms. Wang started working in Beiren Printing Machinery Holdings Limited from August 1987 and has been the consolidated planner of Beiren Printing Machinery Holdings Limited and the manager of its subsidiaries. She has been appointed as Deputy Head and Head of Business Administration and Operation Department since May 2008. Ms. Wang has been appointed as the Head of Strategy and Operation Management Department and the Secretary to the board of directors of Shaanxi Beiren Printing Machinery Company Limited, a subsidiary of the Company. She has years of experience in corporate management as well as financial analysis.

## SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

### 1. Change of shareholding and remuneration *(cont'd)*

#### (II) Profiles of directors, supervisors and senior management officers during the last five years: *(cont'd)*

Kong Dagang, Chinese, male, aged 55, former Deputy General Manager, a senior engineer of professor grade. He graduated from Xi'an University of Technology with degrees of Bachelor of Printing Engineering and Master of Management. He was Vice Chief Engineer of Beiren Printing Machinery Holdings Ltd and Chief Engineer of No. 1 and 3 Printing Machine Factories, and Plant Manager of No.5 Printing Machine Factory. He was General Manager of Beijing Beirenfuji Printing Machinery Company Limited; and was CEO and Chairman of Haimen Beirenfuji Printing Machinery Company Limited; Mr. Kong started working in Beiren Printing Machinery Holdings Limited from July 1982. He has been appointed as Deputy General Manager of Beiren Printing Machinery Holdings Ltd from March 2007 to October 2013. He was elected by the China Association for Science and Technology in February 1986 to pursue the study of corporate management in Japan for a year, and was granted the State Council Special Allowance in 2007. He has years of experience in product development, corporate operation and corporate management.

Chen Changge, male, Chinese, aged 46, former Deputy General Manager, graduated from the Business School of the University of International Business and Economics, an MBA. Mr. Chen was Secretary of League Committee of Beiren Group Corporation; Chief Production Coordinator, Workshop Manager, Assistant to Production Manager and Secretary of Party Committee of Beiren Printing Machinery Holdings Limited Single/Double Color Branch, Member of Party Committee of Beiren Printing Machinery Holdings Limited; and General Manager and Secretary of Party Committee of Web-fed Branch. He has been the Deputy General Manager of Beiren Printing Machinery Holdings Limited from September 2010 to October 2013. Mr. Chen has extensive experience in corporate culture research, production management and corporate operation.

Xue Kexin, Chinese, male, aged 48, former Deputy General Manager, is a postgraduate (master degree) and an economist. Mr. Xue was the technical planner for the production and technology division of the Company, assistant to the head of division; Deputy Director and Director of Department of Business Administration and Operation of the Company, Supervisor of the Supervisory Committee of the Company and secretary to the Board of Directors and Deputy General Manager of Shaanxi Beiren Printing Machinery Limited. He is currently Chairman of Beijing Beiren Fuji Printing Machinery Limited. He has been appointed as the Assistant General Manager of Beiren Printing Machinery Holdings Limited from 15 March 2012 to October 2013. Mr. Xue has extensive experience in production management, marketing business operation and management.

Cheng Tianming, Chinese, male, aged 52, former Deputy General Manager, a postgraduate (master degree) and an engineer. Mr. Cheng acted as the Director of the general manager's office of the Company, Deputy General Manager of Beiren Hotel, Deputy General Manager of Single sheet-fed Offset Printing Presses Branch and Director of Department of Quality Assurance of the Company. He has been appointed as the Deputy General Manager and Head of Department of Production Management of Beiren Printing Machinery Holdings Limited from 15 March 2012 to October 2013. Mr. Cheng has extensive experience in production and management as well as corporate management.

### 2. Positions of current and the resigned Directors, Supervisors and Senior Management Officers during the Reporting Period

#### (1) Positions in Shareholder Entities

Name	Name of shareholder entity	Position(s)	Date of appointment	End of appointment
Jiang Zili	Jingcheng Holding	Deputy General Manager	1 September 2010	
Wu Dongbo	Jingcheng Holding	Head of Audit and Legal Affairs Department	1 August 2008	
Teng Mingzhi	Jingcheng Holding	Secretary to the Board	1 September 2011	
Li Shenggao	Beiren Group Corporation	Chief Financial Officer	10 October 2008	
Wei Li	Beiren Group Corporation	Deputy General Manager	1 December 2009	
Guo Xuan	Beiren Group Corporation	Deputy General Manager	1 March 2012	

#### (2) Positions in Other Entities

As of the end of this Reporting Period, no directors, supervisors and senior management officers undertake positions in other entities.

### 3. Remunerations of Directors, Supervisors and Senior Management Officers

Decision making process of remuneration of Directors, Supervisors and Senior Management Officers	Proposal is made by Remuneration and Monitoring Committee of the Board, reviewed and approved by the Board and reported to the general meeting through the Board for approval.
Basis for determination of remuneration of Directors, Supervisors and Senior Management Officers	It is determined in accordance with the annual average salary of respective directors, supervisors and senior management officers, including the three levels of high, medium and low in the same industry, and the annual salary standard of the listed companies overseas, together with responsibilities, working hours, working missions and outstanding contributions of related persons of the Company.
Actual payment to the remuneration of Directors, Supervisors and Senior Management Officers	“Change in the shareholding and remuneration of the Directors, Supervisors and Senior Management Officers” (see chart).
Total actual remuneration of all Directors, Supervisors and Senior Management Officers at the end of the Reporting Period	8.0735 million Yuan

### 4. Changes in Directors, Supervisors and Senior Management Officers

Name	Position	Changes	Reason for change
Jiang Zili	Chairman	appointed	Elected as Chairman
Wang Pingsheng	Vice Chairman	appointed	Elected as Vice Chairman
Hu Chuanzhong	Director and General Manager	appointed	Elected as Director and appointed as General Manager
Wu Yanzhang	Director and Deputy General Manager	appointed	Elected as Director and appointed as Deputy General Manager
Li Junjie	Director and Deputy General Manager	appointed	Elected as Director and appointed as Deputy General Manager
Liu Zhe	Chairman of the Supervisory Committee	appointed	Elected as Chairman of the Supervisory Committee
Han Bingkui	Supervisor	appointed	Elected as Supervisor
Ruan Aihua	Supervisor	appointed	Elected as Supervisor
Xie Yuemei	Chief Engineer	appointed	Appointed as Chief Engineer
Zhang Peiwu	Former chairman	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Chen Bangshe	Former Director and General Manager	resigned	Submit resignation due to the Company's material asset reorganisation and exchange of relevant businesses
Teng Mingzhi	Former Director	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Li Shenggao	Former Director	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses

#### 4. Changes in Directors, Supervisors and Senior Management Officers

(cont'd)

Name	Position	Changes	Reason for change
Wei Li	Former Director	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Wang Liansheng	Former Chairman of the Supervisory Committee	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Guo Xuan	Former Supervisor	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Wang Huiling	Former Supervisor	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Kong Dagang	Former Deputy General Manager	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Chen Changge	Former Deputy General Manager	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Xue Kexin	Former Deputy General Manager	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses
Cheng Tianming	Former Deputy General Manager	resigned	Submit resignation due to the Company's Material Asset Reorganisation and exchange of relevant businesses

#### 5. The core Technical Team or key Technical Staff of the Company

The Company possess an integrated development in gas cylinder, energy accumulator, pressure vessel and the associated equipment, cylinder for gas vehicle, hoop-wrapped gas cylinders, gas-storage special container, bundle device, cryogenic gas cylinder, LNG cylinder, aluminum cylinder, composite cylinder (vehicular natural gas storage cylinder, gas cylinder for respirator and water treatment container), testing equipment of composite cylinders, low temperature storage and transportation containers, piston compressor, membrane compressor and nuclear-level membrane compressor by its own research and development team. The Company has the core technical team and key technical staff in the aspects of gas storage and transportation and the field of compressor. During the Reporting Period, the core technical team and key technical staff of the Company are stable and thus the technical research and development projects can be proceeded gradually as planned.

## 6. Details of Staff of the Parent Company and major subsidiaries

### (1) Details of Staff

Number of existing employees of the Parent Company	56
Number of existing employees of major subsidiaries	3,106
Total number of existing employees	3,106
Number of retired staff who incurred expenses of the Parent Company and major subsidiaries	512

### Profession

Professional type	Number of person
Production staff	2,021
Sales staff	188
Technical staff	240
Financial staff	42
Administrative staff	161
Others	510
Total	3,162

### Educational Background

Education level	Number of persons
University graduates or above	473
Associate degree	321
Secondary technical graduates	873
Senior high school graduates and below	1,495
Total	3,162

### (2) Remuneration

The total remuneration of employees paid during the Reporting Period amounted to RMB227,685,200.

### (3) Remuneration Policies

The Company implemented diversified salaries system based on the performance of positions as the main remuneration system. On the basis of performance-based salary standards of positions, the salary level of the each position is determined by job evaluation with reference to labor market for confirming the relative value of the post, so as to ensure the internal and external equality of salaries level. On this basis, the remuneration policy is to be implemented subject to different personnel and nature of work to undertake a diversified salaries system such as the implementation of broadband compensation and technological innovation incentives for technical staff; the sales commission approach for marketing staff; piecework or hourly wage system for production workers.

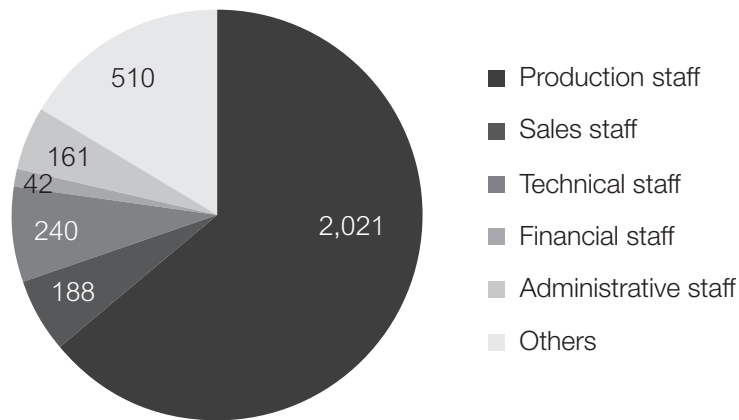
### (4) Training Plan

In order to have better planning of training work of this year, since the end of last year to the beginning of this year, the Company's 2013 training program is formulated in accordance with the development and planning of the Company and needs of each department; aiming at strengthening the management of training as well as enhancing the planning, validity and relevance of the training works required by the company. In 2013, various trainings for high-level organizations were completed; and orientation programs for new staffs were organized. The technical and production staff had participated into the "safety production management" training and welder training. From January 2013, six batches of welders totaling 101 joined the training tests for welder certificate of pressure vessel, of which 99 obtained operation qualification. The mid-level and above management personnel have been organized to join the "quality system and duties and responsibility of positions" training. The marketing staff had joined the "marketing-market training and research" training and group leaders had jointed the "special training class for enhancement of theory and practical skills for group leaders". According to the Company's 2013 training program, 239 training sessions (including 182 training sessions for quality system carried out by each department in May), and 38 trainings for new staffs were organized. The training completion rate reached over 95%.

6. Details of Staff of the Parent Company and major subsidiaries (cont'd)

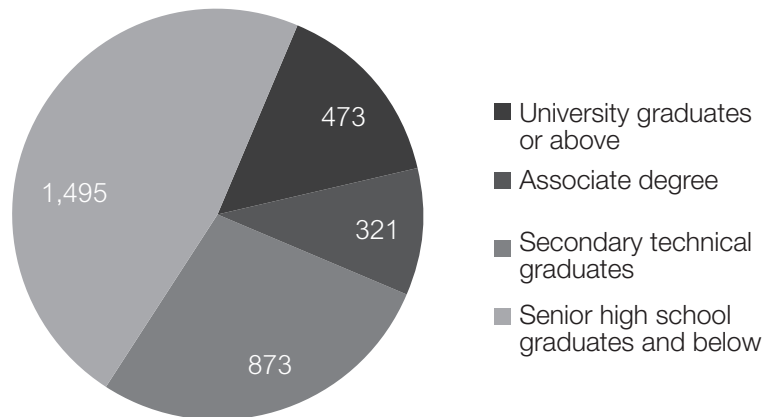
(5) Chart of Professions

Professions of Staff



(6) Chart of Education level

Education level of Staff



(7) Labour outsourcing

Total working hours for labour outsourcing (hour)

Tianhai Industry: 61,896

Total remuneration paid for labour outsourcing (RMB Yuan)

Tianhai Industry: 935,205

### (I) Corporate Governance and Insiders Registration and Management System

During the Reporting Period, the Company has constantly perfected its corporate governance structure as a legal person, has improved and implemented the internal control system of the Company, and has regulated corporate operation in accordance with the Company Law, Securities Law and other laws and regulations and requirements of regulatory authorities. The General Meeting, the Board, the Supervisory Committee and managers of the Company have well defined power and responsibilities, allowing them to maintain checks and balances and coordinate with each other. The Company has been in compliance with the requirements as specified in the documents of the regulatory authorities in the aspects of its main governance such as shareholders and general meetings, controlling shareholder and the listed company, directors and the Board, supervisors and the Supervisory Committee, performance evaluation and incentive and constraint mechanisms, the stakeholders, information disclosure and transparency. There is no difference between the actual governance of the Company and relevant requirements specified by the Company Law and the CSRC.

During the Reporting Period, as the Company's Material Asset Reorganisation has been approved by the CSRC, the Company made amendments to the provisions of the existing Articles of Association, the Rules of Procedure for the General Meeting, the Rules of Procedure for the Board, Rules of procedure for the Supervisory Committee and Implementing Rules of each committee under the Board. The following amendments were made in the Articles of Association of the Company: (1) the name of the Company changed from Beiren Printing Machinery Holdings Limited to Beijing Jingcheng Machinery Electric Company Limited, (2) Article 230 Basic Principal of the Profit Distribution Policy of the Company, and Article 231 The Review Procedures of Profit Distribution of the Company of the Articles of Association. Such amendments were submitted to the First Extraordinary Meeting in 2013 of the Company for examination and approval after have been passed at the Twelfth and Thirteenth Meetings of the Seventh Board and the Fourteenth Meeting of the Seventh Supervisory Committee of the Company respectively and separately.

During the Reporting Period, the Company has been in strict compliance with the requirements of the Registration and Management System for Persons with Access to the Company's Insider Information during the course of Material Asset Reorganisation. The relevant persons who took part in the Material Asset Reorganisation including agencies, controlling shareholders as well as Directors, Supervisors and senior management officers are registered for record and filing so as to ensure that the circulation of insider information minimized.

The Company's resolution regarding the "Registration and Management System for Persons with Access to the Company's Insider Information" was examined and approved in the First Extraordinary Meeting of the Seventh Board held on 16 December 2011; and was disclosed on the website of the Shanghai Stock Exchange and the website of the Stock Exchange.

During the Reporting Period, the major aspects of corporate governance are as follows:

#### 1. In relation to shareholders and general meetings

The Company was able to treat all Shareholders equally with due respect and to safeguard their interests. In particular, medium-sized and minority Shareholders are entitled to their status and to fully exercise their rights with their legal interests being protected. The Company ensures that Shareholders are entitled to their right of access to information and right to participate in decision-making in respect of material events of the Company as required by laws and administrative rules and regulations. In accordance with the relevant requirements set out in the Rules of Procedure for the General Meeting, it can be ensured that general meetings are convened and held in a legal, regulated and orderly manner and, in respect of voting for connected transactions, the relevant persons are arranged to abstain from voting pursuant to the relevant requirements in such manner that connected transactions are open, equal and fair.

#### 2. In relation to directors and the Board

The Board of Directors of the Company comprises 11 directors, of whom, 4 are independent non-executive directors. The Board has set up the Strategic Committee, the Audit Committee, the Nomination Committee and the Remuneration and Monitoring Committee. During the Reporting Period, all directors were able to strictly perform their duties of good faith and due diligence. The Board exercised its power and authority in strict compliance with the requirements of laws and regulations and the Articles of Association to ensure the regulated operation of the Company. Proposals put forward at the Board meetings were sufficiently discussed and resolved in a scientific, prompt and cautious manner. Directors of the Company were selected and appointed in strict compliance with the required procedures set out in the Articles of Association. According to the requirements of the Standard of Corporate Governance for PRC Listed Companies, the Company has given full play to the functions of the Special Committees of the Board and the four independent non-executive directors pursuant to the relevant requirements of the Rules of Procedure for the Board of Directors, Detailed Implementation Rules for the Special Committees of the Board of Directors and Working System for Independent Directors.



**(I) Corporate Governance and Insiders Registration and Management System** *(cont'd)***3. In relation to supervisors and the Supervisory Committee**

The Supervisory Committee of the Company comprises 3 Supervisors, of whom, 2 are Supervisors for Shareholder representatives and 1 is Supervisor for staff representative. The Supervisory Committee of the Company is committed to being accountable to all Shareholders. Taking the Financial Controller as the core, the Supervisory Committee supervises the Directors, general managers and senior management officers of the Company to protect the safety of the assets of the Company, reduce financial risks and safeguard the legal interests of the Company and the Shareholders. The Supervisory Committee has the capacity to carry out extensive communication with shareholders, staff and other stakeholders so as to ensure the launch of the supervisory work. The Rules of Procedure for the Supervisory Committee formulated by the Company facilitates the exercising of power of all supervisors. The Supervisory Committee convenes regular meetings and extraordinary meetings in strict compliance with the rules and procedures.

**4. In relation to stakeholders**

The Company is able to fully respect and protect the legal interests of stakeholders so as to achieve a coordinated balance among the interests of various parties including shareholders, staff and the community for purposes of jointly facilitating the continuous and healthy development of the Company.

**5. In relation to information disclosure and investors relationship**

The Secretary to the Board of Directors is designated by the Company for being responsible for handling information disclosure, and receiving Shareholders' visits and enquiries. The Company shall disclose the relevant information in a true, accurate, complete and timely manner in accordance with the Listing Rules of the SSE and The Stock Exchange to practicably ensure that investors will be able to obtain the relevant information equally.

**6. During the reporting period, the Company did not need to make any rectification regarding governance.****(II) Independence and Completeness between the Company and the Controlling Shareholders with respect to Business, Personnel, Assets, Organisation and Finance**

	<b>Being Independent and complete or not</b>	<b>Description</b>
Business	Yes	The Company has complete business structure with capability of carrying out its business independently. There exists no competition within the same industry between the Company and controlling shareholders. The controlling shareholders do not directly or indirectly interfere with the operation of the Company.
Personnel	Yes	The Company is independent of the controlling shareholder with respect to labour, personnel and wage management. Senior management officers including the General Manager, Deputy General Managers, the Secretary to the Board of Directors and the Chief Accountant receive their remunerations in the Company.
Assets	Yes	The Company has independent and complete systems for production, supply and sales, and the ancillary facilities.
Organisation	Yes	The Company has different production, marketing and sales and office sites from those of the controlling shareholders. The Company has an independent management organization and a complete management and organization system entirely separated from the major shareholders.
Finance	Yes	The Company has established an independent finance department and an independent finance, accounting and audit system. The Company has established a complete financial management system with a separate bank account.

### **(III) Explanation on intra-industry -competition**

During the Reporting Period, the Company implemented the Material Asset Reorganisation and exchanged the relevant business. There existed no intra-industry competition.

### **(IV) Establishment and Implementation of Appraisal and Incentive Mechanism for Senior Management Officers during the Reporting Period**

During the Reporting Period, the Board of the Company and the senior management officers entered into and executed the Performance Assessment Contract for Senior Management Officers. The Board assessed the performance of the senior management officers every six month. After the Remuneration and Monitoring Committee of the Board has completed the appraisal of the senior management officers based on the said contract for confirmation, such appraisal may be submitted to the Board for its examination and approval.

### **(V) Corporate Governance Report**

The Directors of the Company believe that corporate governance is crucial to the success of the Company. Therefore, the Company adopts various measures to maintain corporate governance of high standard.

The documents related to corporate governance of the Company include the Articles of Association, Rules of Procedure for the General Meeting, and Rules of Procedure for the Board of Directors, Rules of Procedure for the Supervisory Committee, Implementation Rules of the Special Committees of the Board of Directors, Code of Practice of General Managers and Code of Practice of the Secretary to the Board of Directors. To achieve the highest level of corporate governance, the Board of the Company has set up four special committees, namely, the Strategic Development Committee, the Audit Committee, the Remuneration and Monitoring Committee and the Nomination Committee.

During the Reporting Period, the Company was in compliance with the code provisions stipulated in the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules.

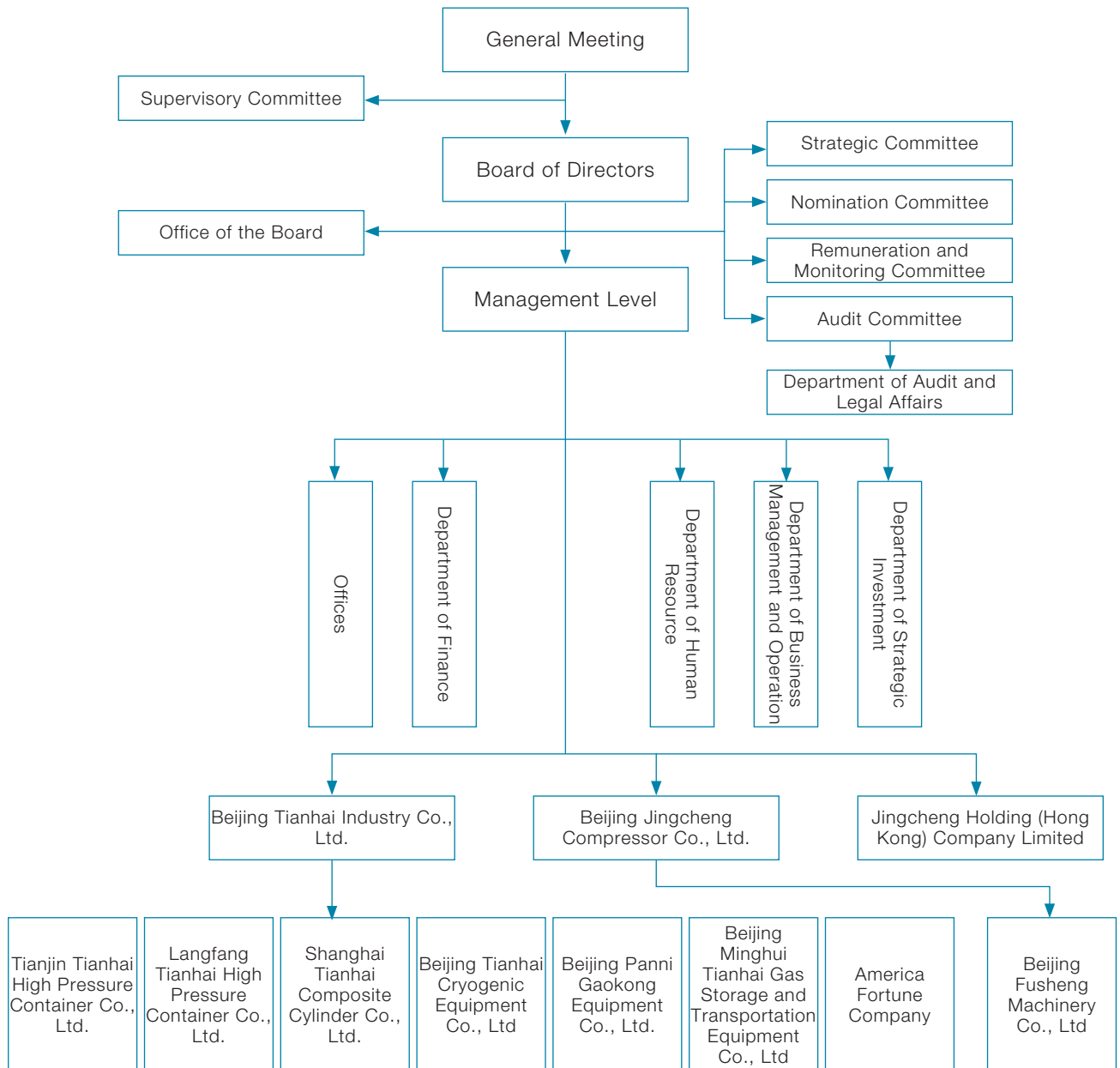
During the Reporting Period, the Company has adopted the requirements in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. For the purposes of this Report, the Company has enquired all the Directors specifically and all of them have confirmed with the Company that they have completely complied with the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers during the Reporting Period.

The Company has received the Statement Regarding the Confirmation of Independence submitted by the four independent non-executive directors pursuant to the requirements of Rule 3.13 of the Listing Rules, and the Board of the Company believes that the said four independent non-executive directors are independent.

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

The structural chart for the corporate governance of the Company is as follows:



**(V) Corporate Governance Report** *(cont'd)*

**1. Directors and Composition of the Board of Directors**

The Board of the Company consists of eleven directors, including five executive directors, two non-executive directors, and four independent non-executive directors and the independent non-executive directors account for more than one third of the total members of the Board. The members in the Board of Directors are as follows:

**Executive directors**

Wang Pingsheng	Vice Chairman
Hu Chuanzhong	Director and General Manager
Wu Yanzhang	Director and Deputy General Manager
Li Junjie	Director and Deputy General Manager
Jiang Chi	Director and Chief Accountant

**Non-executive director**

Jiang Zili	Chairman
Wu Dongbo	Director

**Independent non-executive director**

Zhang Shuangru	Director
Wang Hui	Director
Xie Bingguang	Director
Wang Deyu	Director

*Note:*

The executive directors and non-executive directors of the Company have rich experience in production, operation and management and make reasonable decisions in respect of the matters proposed by the Board. Among the four independent non-executive directors, one is a fellow member in printing industry, one is postdoctorate associate researcher with extensive experience in corporate mergers and acquisitions and financing, one is a PRC solicitor with accomplishments in law, the other is a PRC registered accountant with many years of experience in respect of corporate management advisory and accounting practice. Such independent non-executive directors have full capability of assessing internal control and reviewing financial report. The composition of the Board was in full compliance with the requirements of the relevant domestic and overseas laws and regulations and standardized documents.

During the Reporting Period, to the best of the knowledge of the Board, there exists no relationship between and among the directors of the Board (including the Chairman and the General Manager) with respect to finance, business, family and relatives or other material/relevant relationship required to be disclosed.

The Company is in strict compliance with the relevant binding terms for securities transactions by directors as set out by the domestic and Hong Kong regulatory authorities and are always adhering to the principle of being in strict compliance with terms.

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

#### 2. Attendance of directors at the Board meetings

Name of director	Independent director or not	Required attendance during the year	Attendance at the Board meetings				Absence from two consecutive meetings or not	Attendance at general meeting	Attendance at general meetings
			Attendance in person	Attendance by communication equipment	Attendance by proxy	Absence			
Jiang Zili	No	1	1	0	0	0	No	1	
Wang Pingsheng	No	1	1	0	0	0	No	1	
Hu Chuanzhong	No	1	1	0	0	0	No	1	
Wu Dongbo	No	14	14	9	0	0	No	2	
Wu Yanzhang	No	1	1	0	0	0	No	1	
Li Junjie	No	1	1	0	0	0	No	1	
Jiang Chi	No	14	14	0	0	0	No	2	
Zhang Shuangru	Yes	14	13	9	1	0	No	1	
Wang Hui	Yes	14	14	9	0	0	No	2	
Xie Bingguang	Yes	14	13	9	1	0	No	1	
Wang Deyu	Yes	14	13	9	1	0	No	2	
Zhang Peiwu	No	13	13	9	0	0	No	2	
Chen Bangshe	No	13	13	9	0	0	No	2	
Teng Mingzhi	No	13	12	9	1	0	No	1	
Li Shenggao	No	13	12	9	1	0	No	2	
Wei Li	No	13	13	9	0	0	No	2	
Number of board meetings convened during the year									14
Among which: number of meetings convened on-site									5
Number of meetings convened by communication equipment									9
Number of meetings by combining the above two ways									0

Note:

#### Appointment or dismissal of the Company's directors, supervisors and senior management during the Reporting Period

- (1) In light of the Material Asset Reorganisation of the Company and the change of its related business, former Directors, namely, Mr. Zhang Peiwu, Mr. Chen Bangshe, Mr. Teng Mingzhi, Mr. Li Shenggao and Ms. Wei Li had resigned as the Directors and members of the committees of the Company. Former Supervisors, namely Mr. Wang Liansheng, Mr. Guoxuan and Ms. Wang Huiling had resigned as the Supervisors of the Company. The First Extraordinary General Meeting of the Company for 2013 was held on 16 December 2013, at which the appointment of Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Wu Yanzhang and Mr. Li Junjie as additional Executive Directors of the Company was examined and adopted, Mr. Jiang Zili as the additional Non-executive Director of the Company and Ms. Liu Zhe, Mr. Han Bingkui and Ms. Ruan Aihua as the additional Supervisors of the Company was examined and adopted. At the Thirteenth Meeting of the Seventh Board of Directors held on 16 December 2013, the election of Mr. Jiang Zili as the Chairman of the Board and Mr. Wang Piansheng as the Vice Chairman of the Board was examined and adopted. At the Fifteenth Meeting of the Seventh Supervisory Committee, the election of Ms. Liu Zhe as the Chairman of the Supervisory Committee was examined and adopted.
- (2) In light of the Material Asset Reorganisation of the Company and the change of its related business, Mr. Chen Bangshe, the former General Manager, Mr. Kong Dagang and Mr. Chen Changge, Mr. Xue Kexin and Mr. Cheng Tianming, the former Deputy General Managers, had resigned as the General Manager and Deputy General Managers of the Company respectively. At the Twelfth Meeting of the Seventh Board of Director of the Company held on 31 October 2013, the appointment of Mr. Hu Chuanzhong as the General Manager and Mr. Li Junjie as the Deputy General Manager of the Company was examined and adopted. At the Fourteenth Extraordinary Meeting of the Seventh Board of Directors held on 5 November 2013, the appointment of Mr. Wu Yanzhang as the Deputy General Manager and Ms. Xie Yuemei as Chief Engineer of the Company was examined and adopted.
- (3) The Thirteenth Meeting of the Seventh Board of Directors was held on 16 December 2013, at which the following election was examined and adopted: (i) the election of Mr. Jiang Zili, Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Wu Yanzhang and Mr. Zhang Shuangru as the members of the Strategic Committee under the Board, among whom, Mr. Jiang Zili as the convener; (ii) the election of Mr. Zhang Shuangru, Ms. Wang Hui and Mr. Hu Chuanzhong as the members of Nomination Committee under the Board, among whom, Mr. Zhang Shuangru acts as the convener; (iii) the election of Mr. Wang Deyu, Mr. Xie Bingguang and Ms. Wu Dongbo as the members of Audit Committee under the Board, among whom, Mr. Wang Deyu acts as the convener; and (iv) the election of Ms. Wang Hui, Mr. Wang Deyu and Mr. Wang Pingsheng as the members of the Remuneration and Monitoring Committee, among whom, Ms. Wang Hui acts as the convener.

### (V) Corporate Governance Report *(cont'd)*

#### 3. Independent Non-executive Directors' Objection to the Relevant Matters of the Company

During the Reporting Period, the independent non-executive directors of the Company did not object to the proposals put forward at the Company's Board meetings and such meetings other than Board meetings during the year.

#### 4. The establishment and completeness, major details of the relevant working system of independent directors and the performance of duties by the independent directors

- (1) The relevant working system of independent non-executive directors: In accordance with the relevant requirements of the "SRC" and the Company, the Company has established the Working system of Independent Non-executive Directors and the Working System of Annual Report for Independent Directors.
- (2) The major content of the working system of independent non-executive directors: The working system of independent non-executive directors of the Company mainly provides for the relevant work of independent nonexecutive directors in respect of the general requirements, qualifications for appointment, independence, the nomination, election and change of independent non-executive directors, obligations and rights. The Working System of Annual Report for Independent Directors mainly requires the independent non-executive directors to understand the operation of the Company, maintain communication with and supervise and monitor the annual audit accountant during the course of preparing and disclosing the annual report.
- (3) Performance of duties by the independent non-executive directors: independent non-executive directors of the Company include the experts in respect of accounting, legal, management and technical aspects, forming reasonable structures of personnel and professionals. Being accountable to all shareholders and in compliance with laws and regulations, the independent non-executive directors diligently fulfilled their duties and participated in the general meetings and board meetings of the Company actively and earnestly, proposed plans and strategies for the long-term development and management of the Company, and made professional independent opinions regarding the significant matters of the Company including the election of directors, connected transactions, appropriation of capital by major shareholders and external guarantees, producing constructive effects on the scientific decision-making by the Board of Directors, the governed operation and development of the Company and practically safeguarding and maintaining the interests of the medium-sized shareholders and the minority shareholders. During the Reporting Period, the independent non-executive directors have issued independent opinions in respect of election of directors of the Company, appointment of senior management officers, ordinary connected transactions and the Material Asset Reorganisation and Connected Transactions. Subsequent to the end of the accounting year, the independent non-executive directors have listened to the report of the management level of the Company on the operation and the progress of significant events, and conducted on-site investigation. Prior to the commencement of the audit conducted by the CPA for annual audit, the independent non-executive directors communicated with the financial controller in respect of the annual audit arrangements. During the audit of the annual report, the independent nonexecutive directors focused on the continuous communications with the annual audit CPA for annual audit, proposed amendments to the audit plan submitted by the annual audit accountant, convened meetings with CPA for annual audit and communicated on the issues identified during the audit process.

#### 5. Chairman and General Manager

The Chairman and the General Manager of the Company are assumed by different persons, and their respective duties are clearly divided.

The Chairman, the legal representative of the Company, is elected by more than half of all directors of the Board. The Chairman is responsible for corporate planning and strategic decision-makings and chairing the Board, and ensuring that the Board will examine and adopt all involved matters in an appropriate manner for facilitating the effective operation of the Board.

The Chairman is entitled to preside over the general meetings, to convene and chair the Board meetings, to examine and check the implementation of the resolutions of the Board, and to sign the securities issued by the Company and other important documents. Upon authorised by the Board, the Chairman can also convene the general meetings and provide guidance to the Company's important business activities during the adjournment of the Board meetings.

The General Manager is appointed by the Board and is accountable to the Board. The General Manager leads the management to take charge of daily production, operation and management of the Company, and organisation and implementation of all resolutions of the Board. As required by the Board or the Supervisory Committee, the General Manager will report to the Board or the Supervisory Committee, on a regular basis, regarding the execution and performance of major contracts, and the utilisation of funds, as well as the profit and loss.

### (V) Corporate Governance Report *(cont'd)*

#### 6. Executive Directors, Non-executive Directors and Independent Non-executive Directors

Like the other directors, the existing non-executive directors and independent non-executive directors of the Company have the term of office being three years, commencing from 18 May 2011 to the conclusion of 2013 Annual General Meeting.

No Director or Supervisor proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

#### 7. Authority and Power of the Board of Directors

##### (1) The Board of Directors exercised the authority and power conferred by laws and regulations and the Articles of Association. Such power mainly includes:

To convene general meetings and implement such resolutions of the general meetings;

To decide upon the annual operating plan and material investment plan of the Company;

To formulate and prepare the financial budget, profit distribution plan, basic management mechanism and material acquisition or disposal plan of the Company;

To appoint or dismiss the Company's General Manager and to appoint or dismiss the Company's senior management officers including the Deputy General Manager(s) and the financial controller based on such nominations made by the general manager;

To propose to the general meeting to re-appoint or replace the Company's accounting firms being responsible for the Company's audit work;

To examine and adopt the report of the Company's manager(s);

To exercise the financing and borrowing rights of the Company and decide upon such matters concerning the mortgage, lease and transfer of the Company's material assets.

##### (2) Work of the committees under the Board of Directors

The Board has set up four Special Committees, namely, the Strategic Committee, Audit Committee, Remuneration and Monitoring Committee and Nomination Committee. Each committee has formulated its own implementation rules, which were approved by the Board.

##### ***Performance of duties by the Strategic Committee under the Board of Directors***

The main duties of the Strategic Committee are to formulate the strategic rules of the Company, to supervise the implementation of strategies and to timely adjust the strategies and the governance structure of the Company.

The Strategic Committee formulates the policies regarding corporate governance with its main scope of authority and power including.:

- (1) To formulate and review the policies and normal practice regarding corporate governance, and make recommendations to the Board;
- (2) To review and monitor the training and continuous professional development of the directors and senior management officers;
- (3) To review and monitor the Company's policies and normal practice regarding its observance of legal and regulatory requirements;
- (4) To formulate, review and monitor the code of conduct and compliance manual of employees and directors;
- (5) To review the company's observance of the "Code" and the disclosure in the "Corporate Governance Report".

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

#### 7. Authority and Power of the Board of Directors *(cont'd)*

##### (2) Work of the committees under the Board of Directors *(cont'd)*

##### **Performance of duties by the Strategic Committee under the Board of Directors *(cont'd)***

The Strategic Committee comprises five directors. During the Reporting Period, the Strategic Committee convened two meetings. Details of such meetings are as follows:

- (1) On 20 January 2013, the resolution regarding the establishment of Beijing Beiren Printing Equipment Co., Ltd. made by the investment of RMB1,000,000 contributed by the Company was examined and passed.
- (2) On 4 February 2013, the resolution regarding the capital increase to Beijing Beiren Printing Equipment Co., Ltd made by the Company was examined and passed.

The members of the Strategic Committee and their attendance at the meetings are as follows:

Name	Description	Required Attendance in 2013	Actual attendance
Jiang Zili (Chairman of the Board)	Chairman of the Committee	0	0
Zhang Shuangru (Independent Non-executive director)	Member of the Committee	2	2
Wang Pingsheng (Vice chairman of the Board)	Member of the Committee	0	0
Hu Chuanzhong (Director and General Manager)	Member of the Committee	0	0
Wu Yanzhang (Director and Deputy General Manager)	Member of the Committee	0	0
Zhang Peiwu (Former chairman of the Board)	Former chairman of the Committee	2	2
Chen Bangshe (Former executive director)	Former member of the Committee	2	2
Teng Mingzhi (Former non-executive director)	Former member of the Committee	2	2
Jiang Chi (Former executive director)	Former member of the Committee	2	2

##### **Performance of duties by the Audit Committee under the Board of Directors**

The authority and power of the Audit Committee was formulated in accordance with advice provided in "A Guide for Effective Audit Committees" issued by Hong Kong Institute of Certified Public Accountants, Corporate Governance Codes as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and the "Code of Corporate Governance for Listed Companies in China" issued by the CSRC. Its major duties include: to review and monitor the quality and procedure of the financial reporting of the Group, to review the completeness and effectiveness of the internal control system of the Company, to appoint independent auditors, to coordinate their work and review the quality and efficiency of their work, and, lastly, to review all written reports issued by internal auditors and the management's feedback on such reports.

The Audit Committee of the Board of Directors was serious and responsible and worked diligently and honestly in performing the obligations to be assumed. During the Reporting Period, six meetings of the Audit Committee of the Board were convened, details of which are as follows:

- (1) On 30 January 2013, the management of the Company reported the operation of the Company for 2012 to the Audit Committee and the independent directors of the Company.
- (2) On 20 February 2013, the auditing firms of financial report and internal control report communicated with the Audit Committee and the independent directors of the Company in respect of the issues identified the auditing work of the annual report and the internal control for 2012 respectively. The Audit Committee enquired about the issues they concerned one by one. The independent directors and the management level of the Company communicated with the auditors of the financial report and internal control regarding the preparation of the annual report and internal control report for 2012 respectively.



### (V) Corporate Governance Report *(cont'd)*

#### 7. Authority and Power of the Board of Directors *(cont'd)*

##### (2) Work of the committees under the Board of Directors *(cont'd)*

##### **Performance of duties by Audit Committee under the Board of Directors *(cont'd)***

- (3) On 20 February 2013, the Audit Committee under the Board and the independent directors of the Company reviewed and verified the audit reports issued respectively by ShineWing Certified Public Accountant and BDO China Shu Lun Pan Certified Public Accounts LLP. Upon reviewed and verified, the Audit Committee believed that: 1) the audit report on internal control issued by BDO China Shu Lun Pan Certified Public Accounts LLP was examined and reviewed by the Audit Committee. Upon examined and reviewed, the Audit Committee believed: the audit report on internal control for 2012 issued by BDO China Shu Lun Pan Certified Public Accounts LLP was true and reliable. The report objectively and fairly reflected the internal control of the Company as at 31 December 2012 as well as the result of internal control for 2012, being in compliance with the relevant regulations and policies. 2) The audit report issued by ShineWing Certified Public Accountant was examined and reviewed by the Audit Committee. Upon examined and reviewed, the Audit Committee believed: the 2012 financial report audited by the ShineWing Certified Public Accountant was true and reliable. The financial report fairly and accurately reflected the Company's financial position on 31 December 2012 and the operating results for 2012. The preparation of the financial report was in compliance with the relevant regulations and financial policies. 3) According to the audit work undertaken by ShineWing Certified Public Accountant and its performance in 2012, the Audit Committee agreed upon the resolution concerning the proposed payment of 2012 audit fee totally amounted to RMB1,050,000 to ShineWing Certified Public Accountant. 4) According to the audit work undertaken by BDO China Shu Lun Pan Certified Public Accounts LLP and its performance in 2012, the Audit Committee agreed upon the resolution concerning proposed payment of 2012 audit fee totally amounted to RMB350,000 to BDO China Shu Lun Pan Certified Public Accounts LLP. 5) Based on the performance of ShineWing Certified Public Accountant in providing auditing services in 2012, the Audit Committee decided to re-appoint ShineWing Certified Public Accountant as the financial auditing firm regarding the Company's 2013 financial report for 2013. 6) Based on the performance of BDO China Shu Lun Pan Certified Public Accounts LLP in providing auditing services for the Company in 2012, the Audit Committee decided to re-appoint BDO China Shu Lun Pan Certified Public Accounts LLP as the auditing firm regarding the Company's internal control for 2013. 7) The proposal regarding the provision for impairment of assets of the Company for 2012 was examined and passed. 8) The proposal regarding no profit distribution plan for the year 2012 of the Company was examined and passed. 9) The proposal regarding the self assessment report on the internal control of the Company for 2012 was examined and passed. 10) The proposal of a connected transaction concerning the entrustment of casting parts processing by Beijing Beiyong Casting Company Limited, an associate of the Company was reviewed and passed. 11) The proposal of a connected transaction concerning a housing lease agreement with Beijing Beiyong Casting Company Limited, an associate of the Company was reviewed and passed. 12) The proposal in respect of the signing of the agreement between the Company and the associated company Beijing Monigraf Automatic Systems Company Limited on the purchase of remote colour control system was reviewed and adopted. 13) The plan of audit work for 2013 was reviewed and passed. 14) The plan of internal control work for 2013 was reviewed and passed. 15) The proposal of write-off of bad debts of the Company was examined and adopted and passed. All the above resolutions were submitted to the Board of Directors for examined and adoption.
- (4) On 17 April 2013, the Audit Committee examined and adopted the 2013 First Quarterly Report of the Company; reviewed and approved the resolution of writing-off the bad debts of Shaanxi Beiren Printing Machinery Company Limited, which was submitted to the Board of Directors for examination and adoption.
- (5) On 22 July 2013, the Audit Committee reviewed and approved the 2013 Interim Financial Report of the Company, in written form of resolution. The Audit Committee of the Board reviewed and audited the financial statements of the 2013 Interim Report. Upon reviewed and verified, the Audit Committee believed that: the contents of the statements are true and reliable and fairly and accurately reflected the operating results of the Company for the first half of 2013. The preparation of the report was in compliance with the relevant regulations and financial policies. The Audit Committee decided to submit the financial statements and the report summary of the 2013 Interim Report to the Board of Directors for examination and adoption. Mean while the Audit Committee also reviewed and approved the resolutions on the provision for impairment of the Company for the half year of 2013 and submitted them to the Board of Directors for examination and adoption.
- (6) On 23 October 2013, the Audit Committee reviewed and approved the 2013 Third Quarterly Report of the Company. The Audit Committee agreed to submit the 2013 Third Quarterly Report of the Company to the Board of Directors for review.

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

#### 7. Authority and Power of the Board of Directors *(cont'd)*

##### (2) Work of the committees under the Board of Directors *(cont'd)*

##### **Work on 2013 Annual Report and communication with accounting firm**

- (1) On 24 January 2014, the management of the Company reported the operation of the Company for 2013 to the Audit Committee and the independent directors of the Company.
- (2) On 27 February 2014, the auditing firms of financial report and internal control report communicated with the Audit Committee and the independent directors of the Company in respect of the issues identified, the auditing work of the annual report and the internal control for 2013 respectively. The Audit Committee enquired about the issues they concerned one by one. The independent directors and the management level of the Company communicated with the auditors of the financial report and internal control regarding the preparation of the annual report and internal control report for 2013 respectively.
- (3) On 27 March 2014, the Audit Committee under the Board and the independent directors of the Company reviewed and verified the audit reports issued respectively by ShineWing Certified Public Accountant and BDO China Shu Lun Pan Certified Public Accounts LLP. Upon examination and verification, the Audit Committee believed that: 1) the audit report on internal control issued by BDO China Shu Lun Pan Certified Public Accounts LLP was examined and reviewed by the Audit Committee. Upon examination and review, the Audit Committee believed: the audit report on internal control for 2013 issued by BDO China Shu Lun Pan Certified Public Accounts LLP was true and reliable. The report objectively and fairly reflected the internal control of the Company as at 31 December 2013 as well as the result of internal control for 2013, being in compliance with the relevant regulations and policies. 2) The audit report issued by ShineWing Certified Public Accountant was examined and reviewed by the Audit Committee. Upon examination and review, the Audit Committee believed: the 2013 financial report audited by the ShineWing Certified Public Accountant was accurate and reliable. The financial report fairly and accurately reflected the Company's financial position on 31 December 2013 and the operating results for 2013. The preparation of the financial report was in compliance with the relevant regulations and financial policies. 3) According to the audit work undertaken by ShineWing Certified Public Accountant and its performance in 2013, the Audit Committee agreed upon the resolution concerning the proposed payment of 2013 audit fee totally amounted to RMB1,050,000 to ShineWing Certified Public Accountant. 4) According to the audit work undertaken by BDO China Shu Lun Pan Certified Public Accounts LLP and its performance in 2013, the Audit Committee agreed upon the resolution concerning the proposed payment of 2013 audit fee totally amounted to RMB500,000 to BDO China Shu Lun Pan Certified Public Accounts LLP. 5) Based on the performance of ShineWing Certified Public Accountant in providing auditing services in 2013, the Audit Committee decided to re-appoint ShineWing Certified Public Accountant as the financial auditing firm regarding the Company's 2014 financial report. 6) Based on the performance of BDO China Shu Lun Pan Certified Public Accounts LLP in providing auditing services for the Company in 2013, the Audit Committee decided to re-appoint BDO China Shu Lun Pan Certified Public Accounts LLP as the auditing firm regarding the Company's internal control for 2014. 7) The proposal of the Company for 2012 was examined and passed. 8) The proposal regarding no profit distribution plan for the year 2013 of the Company was examined and passed. 9) The proposal regarding the self assessment report on the internal control of the Company for 2013 was examined and passed. 10) The plan of audit work for 2014 was reviewed and passed. 11) The plan of internal control work for 2014 was reviewed and passed. All the above resolutions were submitted to the Board of Directors for examination and adoption.

The members of the Audit Committee and their attendance at the meeting are as follows:

Name	Description	Required Attendance in 2013	Actual attendance
Wang Deyu (Independent non-executive director)	Chairman of the Committee	6	6
Xie Bingguang (Independent non-executive director)	Member of the Committee	6	6
Wu Dongbo (Non-executive director)	Member of the Committee	0	0
Li Shenggao (Former non-executive director)	Former member of the Committee	6	6

**(V) Corporate Governance Report** *(cont'd)***7. Authority and Power of the Board of Directors** *(cont'd)***(2) Work of the committees under the Board of Directors** *(cont'd)***Performance of duties by the Remuneration and Monitoring Committee under the Board of Directors**

The major duties of the Remuneration and Monitoring Committee are to study and review the Company's remuneration policy and incentive mechanism, to determine; with responsibility delegated by the Board, the remuneration packages of the Company's executive directors and senior management officers; to formulate the appraisal standard for directors and senior management officers of the Company and to assess them; and to submit the results of assessment to the Board for review and approval.

The Remuneration and Monitoring Committee comprises of three Directors. During the Reporting Period, the Remuneration and Monitoring Committee convened three meetings. Details of such meetings are as follows:

- (1) On 25 February 2013, the assessment results of the Performance Assessment Contract for Senior Management Officers for 2012 was reviewed and passed and submitted to the Board for examination and adoption.
- (2) On 23 July 2013, the 2013 Performance Assessment Contract for Senior Management Officers for 2013 was reviewed and passed, and the assessment results of the Performance Assessment Contract for Senior Management Officers for the first half of 2013 was reviewed and passed and submitted to the Board for examination and adoption.
- (3) On 31 October 2013, the resolution regarding the signing of written contract with additional directors was reviewed and examined and passed and submitted to the Board for examination and adoption.

In 2013, the Remuneration and Monitoring Committee of the Board continued to strengthen their work and further intensify the assessment regarding the senior management officers of the Company so as to help the Company formulate a better remuneration and assessment system.

The members of the Remuneration and Monitoring Committee and their attendance at the meetings are as follows:

Name	Description	Required Attendance in 2013	Actual attendance
Wang Hui (Independent non-executive director)	Chairman of the Committee	3	3
Wang Deyu (Independent non-executive director)	Member of the Committee	3	3
Wang Pingsheng (Vice Chairman)	Member of the Committee	0	0
Zhang Peiwu (Former chairman)	Former member of the Committee	3	3

**Performance of duties by the Nomination Committee under the Board of Directors**

The major duties of the Nomination Committee are to study and suggest on the candidates and election standard and procedures for directors and the senior management officers.

The Nomination Committee comprises three directors. During the Reporting Period, the Nomination Committee convened three meetings. Details of such meetings are as follows:

- (1) On 1 February 2013, the candidates for directors and supervisors for Beiren Printing Equipment Co., Ltd, a subsidiary of the Company were reviewed for recommendation, and submitted to the Board for examination and adoption.
- (2) On 31 October 2013, the candidates for directors and senior management officers for the Company due to the Material Asset Reorganisation and change of relevant business of the Company were reviewed for recommendation, and submitted to the Board for examination and adoption.
- (3) On 4 November 2013, considered and recommended the candidates for directors and senior management officers for the Company, and candidates for directors for Jingcheng Compressor, a subsidiary of the Company were reviewed for recommendation.

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

#### 7. Authority and Power of the Board of Directors *(cont'd)*

##### (2) Work of the committees under the Board of Directors *(cont'd)*

##### **Performance of duties by the Nomination Committee under the Board of Directors *(cont'd)***

The nomination process, recommendation procedure and the qualifications and basic requirements for directors are set out in the Articles of Association and by-laws of the Company. During the Reporting Period, the Nomination Committee supervised and guided addition of directors of the Company's Board of Directors and replacement of the candidates of directors and supervisors of subsidiaries, and successfully completed such task.

The members of the Nomination Committee and their attendance at the meetings are as follows:

Name	Description	Required Attendance in 2013	Actual attendance
Zhang Shuangru (Independent non-executive director)	Chairman of the Committee	3	3
Wang Hui (Independent non-executive director)	Member of the Committee	3	3
Hu Chuanzhong (Director and General Manager)	Member of the Committee	0	0
Wei Li (Former non-executive director)	Former member of the Committee	3	3

#### 8. Remunerations of Directors and Senior Management Officers and Assessment of the Board

##### (1) Service contracts of directors and supervisors

The Directors and Supervisors have entered into written contracts with the Company wherein the main contents thereof are as follows:

- (1) Each contract for the Directors of the Seventh Board of Directors and Supervisors of the Seventh Supervisory Committee shall commence from 18 May 2011 to and until the conclusion of 2013 Annual General Meeting.
- (2) The basic salary of the executive directors who hold senior management positions in the Company will range from RMB150,000 to RMB200,000 for the first year of their tenure. The basic salary for the second and third year of their tenure will be adjusted based on the performance of the Company, where the maximum will not exceed 120% of the basic salary of the previous year and the minimum will not be less than 90% of the basic salary of the first year of tenure. The amount of their year-end bonus will be determined at the sole discretion of the Board, realized based on the execution of the Performance Contract entered into by and between the senior management officers and the Board each year. The annual fee of independent non-executive directors is RMB40,000. The annual fee of non-executive directors does not exceed RMB40,000. The annual fee of supervisors of the Company does not exceed RMB40,000.

##### (2) Appraisal and Motivation Mechanism for Senior Management

During the Reporting Period, the Board of the Company entered into the Performance Assessment Contract for Senior Management with the senior management officers and would assess their performance semi-annually. The Remuneration and Monitoring Committee of the Board would propose the appraisal of the senior management officers to the Board for examination and approval in accordance with the completion of the performance contracts by the senior management officers.

- (3) As at the balance sheet date or at any time during the year, other than the service contracts mentioned hereinabove, the Company has not entered into any contracts of significance in which any of its directors and supervisors had a direct or indirect material interest.
- (4) The directors of the Company perform their duties in an honest, trustworthy and diligent manner, and for the best interests of the Company and all shareholders. The supervisors of the Company seriously execute their duties as supervisors and strictly perform their obligations as supervisors and exercise their power as supervisors.

## SECTION 10 CORPORATE GOVERNANCE AND GOVERNANCE REPORT

### (V) Corporate Governance Report *(cont'd)*

**9. Pursuant to the authority and power conferred by the Articles of Association, the management level of the Company undertakes the major duties as follows:**

To be responsible for organising and implementing the Company's annual operating plan and investment plan;

To propose the establishment of internal management institution for the Company;

To propose the basic management mechanism for the Company;

To appoint or dismiss such management members whose appointment and dismissal are not subject to the Board of Directors;

To formulate the basic regulations for the Company.

**10. Audit and accountability**

At the 2012 Annual General Meeting convened on 26 April 2013, the Company re-appointed ShineWing Certified Public Accountants as the domestic and overseas auditors of the Company for 2013 Financial Report and appointed BDO China Shu Lun Pan Certified Public Accounts LLP as the accountant for 2013 internal control report and authorised the Board to determine the remunerations of these two auditing firms.

During the Reporting Period, ShineWing Certified Public Accountants reviewed the attached financial report prepared under the PRC Accounting Standards and BDO China Shu Lun Pan Certified Public Accounts LLP reviewed the internal control report of the Company.

During the Reporting Period, none of the analysis on the remuneration of the auditor for the provision of non-audit services to the Company was provided by ShineWing Certified Public Accountants and BDO China Shu Lun Pan Certified Public Accounts LLP.

During the Reporting Period, the audit fee payable to ShineWing Certified Public Accountants amounted to RMB1,050,000. The audit fee includes all fees related to audit services provided to the Company by the auditors, including audit fee and review fee. The audit fee payable to BDO China Shu Lun Pan Certified Public Accounts LLP amounted to RMB500,000. The audit fee includes the review fee paid to auditor for reviewing the effectiveness of the design and implementation of the internal control contained in the Company's financial report.

As at 31 December 2013, ShineWing Certified Public Accountants has provided auditing services for the Company for 7 years, and BDO China Shu Lun Pan Certified Public Accounts LLP has provided auditing services for the Company for 3 years.

A proposal regarding whether ShineWing Certified Public Accountants and BDO China Shu Lun Pan Certified Accounts LLP are to be re-appointed as the Company's auditors for the year 2014 will be submitted to the 2013 Annual General Meeting.

During the Reporting Period, directors are separately assuming the responsibilities of preparing the financial report and internal control report. Please refer to "Auditor's Report and Financial Statements" as set out in Section 12 and "Internal Control" as set out in Section 11 of this Annual Report, for the particulars of the opinions on the financial report and internal control report issued by ShineWing Certified Public Accountants and BDO China Shu Lun Pan Certified Public Accounts LLP respectively.

The statements made by the independent auditors of the Company on their responsibilities for the financial statements are set out in "Auditor's Report and Financial Statements" in Section 12 of this report.

**11. Internal control**

Details on the internal control of the Company implemented by the Board of Directors are set out in the section headed "Internal Control" as set out in Section 11 of this Annual Report.

**12. Delegation of authority by the Board of Directors**

During the Reporting Period, any implementation of delegation of authority by the Board of Directors to the operation management level shall be subject to the approval of the Board of Directors. Such delegation also requires the operation management level to regularly report the implementation results regarding such matters under such delegation. The Board has not delegated any authority with respect to managerial or administrative functions to its committees thereunder.

### (V) Corporate Governance Report *(cont'd)*

#### 13. Corporate governance functions

During the Reporting Period, the Board of Directors performed its duties regarding corporate governance: (1) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (2) to review and monitor the training and continuous professional development of directors and senior management; (3) to review and monitor the Company's policies and practices on the compliance with legal and regulatory requirements; (4) to develop, review and examine the staff's manual applicable to employees and directors; and (5) to review the Company's compliance with the code and disclosure in the Corporate Governance Report. Details on the implementation of the foregoing matters are set out in the section headed "Internal Control" as set out in section 11 of this Annual Report.

#### 14. Annual General Meeting and communications with Shareholders

The 2012 Annual General Meeting was held on 26 April 2013, at which the following resolutions were examined and reviewed:

##### Ordinary resolutions:

1. To examine, review and approve the 2012 Annual Report of the Company; 2. to examine, review and approve the 2012 Working Report of the Board of Directors of the Company; 3. to examine, review and approve the 2012 Working Report of the Supervisory Committee of the Company; 4. to examine, review and approve the 2012 Financial Report of the Company audited by ShineWing Certified Public Accountant; 5. to formulate and approve the 2012 Internal Control Report of the Company audited by Shu Lun Pan Certified Public Accountants LLP; 6. to examine, review and approve the resolution of the Company regarding no distribution of any profit for the year 2012; 7. to examine, review and approve re-appointment of SHINEWING Certified Public Accountants for the Company's 2013 financial reports, and to authorise the Board of Directors to enter into employment contracts with it and determine its remuneration; 8. to examine, review and approve re-appointment of Shu Lun Pan Certified Public Accountants LLP as the Company's 2013 internal control auditor, and to authorize the Board of Directors to enter into employment contracts with it and determine its remuneration; 9. to examine, review and approve the duty performance report of the Company's independent non-executive directors for 2012. The results of poll of the foregoing resolutions were published on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx at [www.hkexnews.hk](http://www.hkexnews.hk) on 26 April 2013.

The first extraordinary general meeting of 2013 was held on 16 December 2013, at which the following resolutions were considered and approved:

##### Ordinary resolutions:

1. To examine, review and approve the resolution regarding the replacement of certain directors of the Company: (1) To examine, review and approve Mr. Jiang Zili as the non-executive director of the Seventh Session of the Board of Directors of the Company; (2) To examine, review and approve Mr. Wang Pingsheng as the executive director of the Seventh Session of the Board of Directors of the Company; (3) To consider and approve Mr. Hu Chuanzhong as the executive director of the seventh session of the Board of Directors of the Company; (4) To examine, review and approve Mr. Wu Yanzhang as the executive director of the Seventh Session of the Board of Directors of the Company; (5) To examine, review and approve Mr. Li Junjie as the executive director of the Seventh Session of the Board of Directors of the Company; 2. to examine, review and approve the resolution regarding the remuneration of the directors replaced and execution of the written contracts; 3. to examine, review and approve the resolution regarding the replacement of certain supervisors of the Company: (1) To examine, review and approve Ms. Liu Zhe as the supervisor of the Seventh Session of the Supervisory Committee of the Company; (2) To examine, review and approve Mr. Han Bingkui as the supervisor of the Seventh Session of the Supervisory Committee of the Company; 4. to examine, review and approve the resolution regarding the remuneration of the supervisors replaced and execution of the written contracts; 5. The resolution in relation to the disposal of certain assets through Beijing Tianhai Industrial Co., Ltd was examined, reviewed and approved. Special resolutions: 6. The resolution in relation to the amendments made to the Articles of Association was examined, reviewed and approved; 7. The resolution in relation to the amendment made to the Rules of Procedure to the General Meeting of Shareholders was examined, reviewed and approved; 8. The resolution in relation to the amendment made to the Rules of Procedure for the Board of Directors was examined, reviewed and approved; 9. The resolution in relation to the amendment made to the Rules of Procedure for the Supervisory Committee was examined, reviewed and approved. The results of the poll of the foregoing resolutions were published on the websites of SSE at [www.sse.com.cn](http://www.sse.com.cn) and HKEx at [www.hkexnews.hk](http://www.hkexnews.hk) on 16 December 2013.

Two shareholders' general meetings of the Company were convened during the Reporting Period, at which all resolutions were passed by way of poll. The directors, supervisors, senior management officers, members of the Board's committees, attorneys and auditors of the Company were present at the meetings. The directors and senior management officers answered all questions raised by investors at the meetings.

During the Reporting Period, the Company formulated the Procedures for Shareholders' Nomination of Candidates to Be Elected as a Director of the Company, and amended documents including the Articles of Association, the Management System on Connected Transactions and the Management System on Registration Regarding Insiders of Insider Informations.

### (V) Corporate Governance Report *(cont'd)*

#### 15. Secretary to the Board

- (1) The Secretary to the Board is a senior management officer of the Company.
- (2) The Secretary to the Board is appointed by the Board of Directors of the Company and reports duty to the Chairman.
- (3) The main duties of the Secretary to the Board include: to assist the directors with their handling of the day-to-day business of the Board; to continuously provide the directors with, remind the directors of, and ensure that the directors are aware of, the domestic and foreign regulators' regulations, policies and requirements in respect of the operation of the Company; to assist the directors and managers in proper compliance with domestic and foreign laws, regulations, the Articles of Associations and other relevant rules in exercising their power and performing their functions; to be responsible for organizing and preparing the documents of the Board and of the shareholders' general meetings; to duly keep meeting minutes; to ensure that decisions made at meetings are made in accordance with statutory procedure and to know well of the implementation of the resolutions of the Board of Directors; to be responsible for arranging and coordinating the disclosure of information, coordinating the relationship with investors and enhancing the transparency of the Company; to participate in arranging for capital market financing; to handle the relationship with intermediary organisations, regulators and the media, and to promote good public relations.

#### 16. Participation in trainings by directors, supervisors and senior management officers

To further develop and update the knowledge and skills of the directors (Mr. Zhang Peiwu, Mr. Chen Bangshe, Mr. Teng Mingzhi, Ms. Wu Dongbo, Mr. Li Shenggao, Ms. Wei Li, Ms. Jiang Chi, Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang, Mr. Wang Deyu), supervisors and senior management officers such that they can better serve the Company, the directors, supervisors and senior management officers of the Company, during the Reporting Period, participated in trainings in relation to the Listing Rules, Corporate Governance, Corporate Internal Control, Prevention of Insider Trading, Information Disclosure, and Responsibilities of the Directors. During the Reporting Period, the Secretary to the Board participated in professional trainings for no less than 15 learning hours and the directors and supervisors participated in professional trainings for no less than 8 learning hours.

#### 17. Statement regarding Responsibility financial statements by the Board of Directors

This statement is made for Shareholders to differentiate the respective responsibilities of the Directors and the auditors in connection with service reports which should be read in conjunction with the statement regarding responsibility by auditors contained in the auditors' report set out in the financial statements.

The Board of Directors is of the opinion that as the Company's resources are sufficient for its operation in the foreseeable future, the financial statements have been prepared based on the going concern principle, and that in preparation of such financial statements, applicable accounting policies were completely implemented, supporting by reasonable and prudent judgment and valuation, and that the preparation of the statements is in compliance with all accounting standards the Board of Directors considers applicable.

The Directors are responsible for ensuring that the accounts record prepared by the Company reasonably and accurately reflects the Company's financial position, and that the financial statements are in compliance with relating accounting requirements in the PRC and Hong Kong.

#### 18. Supervisory Committee's description on risks identified in the Company

During the Reporting Period, the Supervisory Committee had no objection to any supervisory matters.

#### 19. Statement of the Company: Based on the information that is publicly available to the Company and within the knowledge of Directors, the Company maintained sufficient public float during the Reporting Period and up to the date of this report.

### (V) Corporate Governance Report *(cont'd)*

#### 20. Shareholders' Right

##### (a) To convene an extraordinary general meeting

Where Shareholders request to convene an extraordinary general meeting or class meeting, the following procedures shall be followed:

- (i) Two or more Shareholders who collectively hold more than 10% (10% inclusive) of the voting shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same content in same format and may define the meeting agenda. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request(s). The aforesaid number of shares held shall be calculated as of the date when the written request(s) was put forward by the shareholders.
- (ii) In the event that the Board fails to give a notice of convening such meeting within thirty days upon receipt of the aforesaid written request(s), the shareholders who put forward the request(s) may convene such meeting of their own accord within four months upon receipt of the request by the Board, and the procedures for convening such meeting shall be the same as those for convening a general meeting by the Board where possible.

The expenses reasonably incurred by shareholders in convening and holding such a meeting because of the Board's failure to hold such meeting at the aforesaid request shall be borne out by the Company and shall be deducted from any payment due by the Company to directors of misconduct.

Where the Shareholders decide to convene a general meeting of their own accord, it/they shall give a written notice to the Board and shall simultaneously file the case with the local office of the CSRC and the stock exchange in the locality where the Company operates for record.

Prior to the announcement of the resolution of the General Meeting, the shareholding by the convening Shareholders shall be not less than 10%. When the convening Shareholders deliver a notice of General Meeting and make the announcement of the resolution of the General Meetings, the convening shareholders shall submit the relevant evidencing materials to the local office of the CSRC and the stock exchange in the locality where the Company operates.

- (b) The content of such proposal to be submitted to the General Meeting shall fall in the scope of the authority and power of the locality shall have definite topics to be discussed and specific matters for resolution and shall be in compliance with the relevant provisions of the laws, administrative regulations and the Company's Articles of Association.

Shareholders that independently or collectively hold 3% or more of the shares in the Company may make a temporary proposal and submit it to the convener(s) in written form ten days prior to the convening of the general meeting. The convener(s) shall deliver a supplementary notice of the general meeting to announce the content of the temporary proposal within two days upon receipt of the proposal.

Except as provided in the preceding paragraph, after delivering a notice of General Meeting, the convener(s) may not make any amendments to the proposals included in the notice or add any new proposals. Where the election of directors or supervisors is proposed to be discussed at a general meeting, the detailed information about the candidates for directors or supervisors shall be sufficiently disclosed in the notice of the general meeting, including:

- (i) Personal information regarding educational background, working experience and concurrent positions;
- (ii) Whether he/she has any related relationship with the Company or its controlling shareholders or actual controllers;
- (iii) The number of shares held in the Company to be disclosed; and
- (iv) Whether he/she has been punished by the CSRC and other authorities and penalised by the stock exchange.

A single proposal shall be made for each candidate for a director or a supervisor, except for directors or supervisors elected by way of cumulative voting system.

- (c) Shareholders may send their enquires requiring the Board's attention to the Secretary to the Board at the registered address of the Company. The contact details are set out in the "Company Profile" section of the Annual Report. Questions about the procedures for convening or putting forward proposals at an AGM or extraordinary general meeting may also be put forward to the Secretary to the Board in the same manner.



## SECTION 11 INTERNAL CONTROL

### I. Responsibility statement

In 2013, the Company underwent material asset reorganization. According to the new organizational structure, the Company established a leadership group on internal control, which is responsible for the guidance, supervision, organisation and implementation of internal control establishment work. Persons in charge of such implementation work were clearly defined and the actual implementation of internal control establishment work were well defined.

For the internal control of the Company, according to the requirements of the Board of Directors and in line with the new strategic development objective and the changes in internal and external environment, the Company conducted an overall evaluation on the original risks and the risk newly identified, of which 59 risk points were amended, 46 added and 35 cancelled. On the basis of this, the risk database was fully updated, which included a total of 96 risk points, of which 4 are material risk points, 39 are moderate risk points and 53 are low risk points. Pursuant to such, the Company amended the internal control manual, improved measures for the internal control and optimized its business processes. Meanwhile, the Company perfected its identification standards on the internal control deficiencies and amended its evaluation manual of internal control.

### II. Overview of the Company's establishment of internal control system

#### (I) Purpose of the Company's establishment of internal control system

1. To establish and perfect the internal organisational structure which is in line with modern management requirements, to formulate scientific decision-making mechanism, implementation and monitoring mechanism, so as to ensure the realisation of the Company's operational management goals;
2. To establish an effective risk control system, strengthen risk management and process control, so as to ensure the stable and reliable operation of all business activities of the Company;
3. To strengthen the control, remove loopholes, eliminate latent dangers, timely identify and correct all errors and fraud, so as to protect the safety and integrity of the Company's assets;
4. To regulate the Company's accounting acts and enhance the quality of accounting information, so as to ensure the trueness, accuracy and completeness of the accounting information and financial statements;
5. To ensure a thorough implementation of the relevant laws and regulations of the State and the Company's internal control system.

#### (II) Principles followed by the Company when establishing its internal control system

1. **Principle on comprehensiveness**  
Internal control should take part in the whole process from decision-making, execution to supervision and cover all types of business and matters of the enterprise and its subordinated units. By targeting on crucial control areas in the course of dealing with business, its implementation should be applied to all aspects such as decision-making, execution, supervision and feedback in a practical manner.
2. **Principle on importance**  
Internal control should focus on important business issues and high-risk area on the basis of the comprehensive control.
3. **Principle on balance of power**  
Internal control should establish counter-control and counter-monitoring between governance structure and organisational establishment, and allocation of duties and power and business workflow with the operating efficiency being taken into account.
4. **Principle on adaptability**  
Internal control should fully take into consideration the actual conditions of the Company, and should accommodate with the scale of operation, scope of business, competitiveness and risk level of the enterprise and be adjusted in a timely manner subject to changes in such conditions and be continuously perfected and enhanced.
5. **Principle on cost effectiveness**  
Internal control should exert a balance between cost and expected effect so as to achieve effective control with appropriate cost.

### III. Five key elements of the Company's internal control

#### (I) Internal environment

##### 1. Corporate governance organizations

Being in strict compliance with the requirements of laws and regulations such as the Company Law, the Company clearly defined the rules of procedures and relevant procedures for the general meeting of Shareholders, the Board of Directors, the Supervisory Committee, the Strategic Committee, the Nomination Committee, the Audit Committee and the Remuneration and Monitoring Committee, forming a scientific and effective mechanism of responsibilities division and balance.

The general meeting of Shareholders enjoys the legal rights stipulated by laws and regulations and the Articles of Association of the Company, and is entitled to legally exercise its voting rights on various material matters including enterprise operation policies, financing, investment and profit distribution.

The Board of Directors is responsible for implementing the resolutions made by the general meeting, and it is accountable to and shall report to the general meeting. Important decisions related to significant investment projects, acquisition and merger, acquiring important assets and signing important contracts and agreements will be made by the Board of Directors. The Chairman acts as the Company's legal representative. During the adjournment of the Board of Directors, the Chairman will be authorised by the Board of Directors to exercise part of the duties of the Board of Directors.

The Supervisory Committee acts as the Company's monitoring organisation that it is accountable to and shall report to the general meeting. The principal duties of the Supervisory Committee are to monitor whether directors and senior management officers have any behaviours violating legal regulations and harming the Company and its shareholders' interests while implementing company duties, as well as to monitor the Company's financial situation.

The Strategic Committee of the Board of Directors is a special organ established by the Board of Directors which is principally responsible for studying and issuing opinions on the long-term development strategies and material investment decisions of the Company.

The Nomination Committee of the Board of Directors is a special organ established by the Board of Directors which is principally responsible for studying and issuing opinions on candidates and election standard and procedures for directors and senior management officers.

The Remuneration and Monitoring Committee of the Board of Directors is a special organ established by the Board of Directors which is principally responsible for formulating the appraisal standard for directors and senior management officers of the Company and to assess them as well as for formulating and examining the remuneration policies and proposals of directors and senior management officers and is accountable to the Board of Directors.

The Audit Committee of the Board of Directors is a special organ established by the Board of Directors which is principally responsible for the communication, supervision and checking of internal and external audit work of the Company and for supervision and checking of the execution of the internal control system of the Company.

The managers are responsible for implementing the resolutions resolved at the general meeting and by the Board, and taking charge of the management of the Company's production and operation. According to the provision of the Articles of Association, the Company's senior management officers, including the general manager, deputy general manager, chief accountant and the secretary to the Board of Directors, shall be appointed and dismissed by the Board of Directors. Under the leadership of the general manager, who is in charge of the Company's management level, the deputy general manager and other senior management officers shall be sharing other management work.

##### 2. Organisation establishment of the Company

Based on comprehensive consideration on the nature of the enterprise, the Company adheres to the principles of equality regarding duties and power, concise and high efficiency and coordinated operation and has established a new management framework system which includes seven functional departments and offices namely the Office of the Board of Directors, Office of the Company, Strategic Investment Department, Enterprise Management and Operation Department, Department of Human Resources, Department of Finance and Department of Audit and Legal Affairs.

The Company further defined the principal duties of all departments and formulated an internal control system featuring vertical control and mutual checking and balances among each department and branch of the Company, which poses significant effects on the daily operation and management and risk prevention of the Company.

Depending on the holding of equity and in accordance with the Company Law and the Articles of Association, the Company strengthened the control and management of its subsidiaries, paying great attention on such important matters as development strategies, financial budget and final settlement, major investment and financing, material guarantee, important personnel appointment and removal, disposal of major assets and establishment of internal control system.

### III. Five key elements of the Company's internal control *(cont'd)*

#### (I) Internal environment *(cont'd)*

##### 3. Authorisation management of the Company

The Company has established its management system of authorization and entrustment, and regulated relevant activities related to authorization so as to further improve the Company's corporate governance structure, regulate authorizations of the Company and its legal representative and protect legitimate rights of the Company and related parties. According to different period and procedures of authorization, it can be classified as annual authorization and special authorization regarding individual matters.

##### 4. Internal audit of the Company

The Audit Committee was established under the Board of Directors by the Company, which is responsible for reviewing the Company's internal control, supervising the effective implementation of internal control and self-assessment in this regard, coordinating the audit of internal control and other relevant matters. The person-in-charge of the Audit Committee was served by an independent director who has corresponding independence, good work ethics and professional competence. The Department of Audit and Legal Affairs was established under the Audit Committee, which is responsible for daily affairs concerning internal audit. The Department of Audit and Legal Affairs shall report any deficiencies in internal control which are identified during the course of supervision and inspection in accordance with the working procedures of internal audit of the Company. For material deficiencies in internal control system identified during the course of supervision and inspection, the Department has the authority to report directly to the Board of Directors and its Audit Committee and Supervisory Committee and supervise and examine the progress and result of the rectification made to such deficiency of internal control.

##### 5. Human resources of the Company

To standardize human resources management of the Company, the Company formulated the complete human resources management system based on the relevant laws and regulations and the actual condition of the Company. This system standardized management requirements in respect of the introduction, development, application, cultivation, evaluation, motivation and demission of human resources of the Company. Each human resources policy of the Company is formulated on the basis of the human-oriented philosophy, fully reflecting the coordination and unity of the interests between the Company and its employees. The Company strictly complied with relevant laws and regulations including Labour Contract Law so as to regulate each activity in relation to human resources management of the Company.

The Company attaches great importance to cultivation of good faith and working ethical values of employees, and instills good professional ethics in its staff through various methods such as way of on-site training and network propaganda. The Company highly values the improvement of competence of employees, conducted on-going training to facilitate enhancement of employees' working skills.

##### 6. Corporate culture, anti-fraudulent system and social responsibility of the Company

The Company pursues to contribute to the well-being of the community, reciprocate its shareholders and benefit its staff. The Company continues to run the system of publicising factory affairs and sticks to the systems including reception day of leaders of the Company, connection points and staff suggestion box, treating "problem-solving and doing solid work" for the staff as the standard of scaling work. The Company cares about the thoughts of its employees and pay close attention to their benefits, aiming at solving their practical difficulties. The Company re-casted its corporate culture through the four steps, namely, mind enhancement, value amalgamation, system scientification and behaviour unification. Other than cultivating the value of being active and positive as well as social responsibility and encouraging honesty, credibility, passion and respect for work, learning, innovation and spirit of maintain leading position, it also establishes a modern management vision and strengthens awareness on risks, so that the completion of various works can be actively accelerated, which ultimately facilitates scientific development of the Company.

Anti-fraudulent system refers to a series of consolidated preventive or eradicated measures that are adopted before fraudulent events has happened or occurred. With adhering to the principles of combining punishment with prevention, emphasizing on prevention, the Company pays attention to appreciating the education of occupational ethics, creating suitable condition to help staff alleviate their pressure, clearly defining the key areas and points of anti-fraudulent works as well as responsibilities and authorizations of relevant organs to regulate the procedures of whistle-blowing, investigation, handling, reporting and remedying for anti-fraudulent cases; strengthening the punishment for fraudulent acts and establishing a system of punishment. Anti-fraudulent efforts are scientifically managed through the four segments of planning, implementation, assessment and rectification. Planning is the detection of risk-points and formulation of preventive measures. Implementation refers to the careful execution of all anti-fraudulent measures. Assessment involves inspecting the status of implementation of the anti-fraudulent measures. Rectification means the correction of any existing problem and enhancement of the preventive measures based on the assessment results.

### III. Five key elements of the Company's internal control *(cont'd)*

#### (I) Internal environment *(cont'd)*

##### 6. Corporate culture, anti-fraudulent system and social responsibility of the Company *(cont'd)*

In order to earnestly perform its social responsibilities, strengthen the management of internal control in aspects of environmental protection, energy saving, safety production, production quality, maintenance of rights and interests of employees and employment promotion, the Company and its subsidiaries formulated a series of rules and procedural documents according to relevant laws and regulations, continuously invested in efforts and conducted strict examination, which effectively promoted the implementation of relevant regulations and systems.

#### (II) Risk assessment

Focusing on the overall objective and specific targets of each business regarding internal control, the Company has been collecting internal and external risk factors, identifying various risk elements and made assessment on them by means of combining quantitative and qualitative methods so as to establish a risk information inventory. The Company classified those risks into material, moderate and low risk based on assessment results, selected appropriate risk management strategies and clearly defined control measures, responsible departments and positions in terms of the Company's risk preference and tolerance.

Based on the changes in the internal and external environment, the Company captures the change of risks and adjusts its coping strategies in a timely manner, and the risk inventory and corresponding internal control documentation are amended accordingly, in order to ensure control and timely adjustment after taking into account internal risks and accommodation to changes in the external environment, so as to safeguard the normal economic operations environment of the Company.

#### (III) Control activities

Together with the results of the risk assessment, the Company integrated the control measures based on the objectives of internal control to keep risk exposure within tolerance level. The main control measures taken by the Company include:

##### 1. Control of separation of incompatible duties

According to the principles of separation of incompatible duties, the Company developed a series of detailed positions and division of labour system in each department and area and amended the description on responsibilities of all positions, wherein the incompatible duties with respect to the dealing of business, authorization and approval, review and supervision, accounting record and custody of properties are strictly separated.

##### 2. Control of authorization and approval

The Company strengthened the authorisation management system and implemented approval procedures of decision making for material matters in strict accordance with the Articles of Association and the rules of procedures for the General Meeting, Board of Directors and Supervisory Committee. In regard to claims of fees related to the sales business, procurement business and normal business that occurred on a frequent basis, as well as financing within the scope of authorisation, an examination and approval system was taken place at all levels in each relevant unit and department. With respect to all contracts signed externally, the Company strictly complied with the requirement and process of legal authorisation.

##### 3. Accounting system control

The Company created an independent accounting organisation. The establishment of fairly reasonable positions as well as duties and powers related to finance management, accounting and auditing, coupled with the assignment of relevant staff ensured the smoothness of finance work. There is a precise division of labour in the accounting organisation and the position responsibilities system is in place. Every position is able to perform the checks and balances function, while the functions of approval, implementation and recording are separated.

The Company strictly implemented accounting rules for enterprises set by the State as well as relevant regulations, established a finance management system for the Company and clearly set up processing procedures for accounting certificates, account books and accounting reports. The Company has developed a series of rules in connection with accounting, analysis and finance management including management systems on finance, finance reporting, monetary fund and budget. These finance and accounting systems greatly ensured the work of regulating the Company's account auditing, strengthening account monitoring, securing the accuracy of finance and accounting data, preventing errors and removing loopholes. In accordance with the requirements of the Securities Regulatory Commission, an accurate and complete finance and accounting report of the listed company was provided in a timely manner, which gave an accurate, objective and equal reflection on the Company's financial position and business results, and provided relevant parties including shareholders, the general public and government departments with reliable and accurate accounting information on the Company, and truly fulfilled our social responsibilities and obligations.

## SECTION 11 INTERNAL CONTROL

### III. Five key elements of the Company's internal control *(cont'd)*

#### (III) Control activities *(cont'd)*

##### 4. Control of property protection

The Company restricted direct access of unauthorised staff to company property. Measures such as regular inventory check, property records, account auditing and property insurance were in place to ensure the integrity of all property. The Company has established a series of safekeeping systems for assets and accounting files, coupled with necessary equipment and specified staff basically ensured the safety and integrity of assets and records. The Company enhanced its security management, implemented strict registration system for external persons and strengthened the check for assets when people leave, which effectively prevent loss of assets.

##### 5. Budget control

The Company further improved its budget management system, and the finance budget (including cash flow budget) and business budget, capital budget and financing budget jointly constituted an entire budget covering the economic operation of the Company. Guiding by the Company's annual operational goals, the Company, through preparation of annual budget, conducted overall investigation, estimation, calculation and description for its operational activities, financing activities, investment activities and finance activities during the budget period, and controlled the implementation processes and results. The Company strictly carried out budget adjustment process, enhanced budget assessment and effectively organised and coordinated production and operating activities so as to realize effective allocation of its resources and to procure the achievement of its strategic goals.

##### 6. Operation analysis control and performance assessment control

The Company carries out operation analysis on a monthly basis, which mainly includes the completion of operation targets, control and analysis on key businesses such as production, supply and sales, and eventually formed reports in it these regards. The operation analysis of the Company effectively integrates with the relevant information and standardised the operation direction and methods of the entire company, which effectively prevents the risk of each segment of all business being out of control.

The Company established and perfected its performance assessment mechanism, broken down its operation targets into each responsible department and position and conducted strict examination, which strongly promoted the implementation of relevant control requirements.

#### (IV) Information and communication

The Company implemented the information reporting system which defines the reporting requirements and relevant details for different business units and subsidiaries. Contents of reports mainly include: monthly management statement, quality analysis report, purchasing analysis report, market analysis report (including sales analysis report) and management reports of subsidiaries. By receiving relevant key information on operation management effectively, the Company guaranteed the provision of information for the management officers of the Company to make correct decisions.

The Company set up an effective information sharing system based on its information communication channels. As to the design of external and internal communication channels, the Company realised the effective and efficient transmission between external information and the associated departments of the Company. Both vertical sharing of internal information between different levels and horizontal sharing between parallel departments are effective. Smooth channels for upward, downward, parallel, external/internal information transmission are established. In addition, through effectively application of modern information platforms including OA, CRM and U8, the Company increased its overall operational efficiency, and effectively exercised control of information and communication of the Company.

#### (V) Internal supervision

The Company established coordinated supervision system on internal control, clearly defined duties and authorities of each unit and functional department in aspects of internal supervision and evaluation and regulated working procedures, methods and requirements for internal supervision.

The internal supervision of the Company is classified as daily supervision and special supervision. The regular and continuous supervision is performed by the Company toward establishment and implementation of internal control, while targeted supervision is performed regarding one or more special aspects of internal control when greater adjustments or changes occurred in relation to the Company's development strategies, organisation structure, operating activities, business processes and staffs in key positions.

The Company formulated evaluation standards for internal control, defined the working organization, standards, procedures, methods and recognition of deficiencies concerning evaluation on internal control. The Company performed scheduled or non-scheduled evaluation on internal control, and rectified the deficiencies identified in time so as to realize self-improvement and continued enhancement of internal control.

#### IV. The implementation of the internal control system

In 2013, the Company performed material asset reorganisation. In order to ensure that the internal control of the Company adapts to the new operation environment and management requirements and fully upgrades the internal control level, the Company comprehensively sorted out its operation flow, updated internal control manual and perfected evaluation standards for internal control and established more normative operation, supervision and evaluation mechanisms for internal control.

**(I) Revising and improving the rules and systems of the Company**

In order to adapt to the transformation of the function positioning, the Company convened an extraordinary meeting, in which, the newly amended Articles of Associations and the Rules of Procedure for the General Meeting, the Board of Directors and the Supervisory Committee were considered and approved, and the Company's governance was improved. Accordingly, the Company amended, improved and supplemented totally 38 rules and systems, concerning various aspects of the Company such as the decision-making, daily operation and control and management of subsidiaries, and further consolidated the basis of the internal control.

**(II) Comprehensively streamlining the business process, and updating the risk database and the internal control manual**

The Company comprehensively streamlined 9 tier-1 business processes including the organizational structure, development strategies, human resources, finance activities, guarantee business, financial reports, comprehensive budgets, contract management, and internal information transfer, formed the results of the internal control such as business process framework, process chart, table of information of process steps, guides for authorities, table of separation of incompatible responsibilities and the internal control matrix, recognized and evaluated risks in various process steps, updated the risk database of the Company, and meanwhile, placed the internal control measures over the business process. Based on the streamlining of processes, the Company determined the internal control measures, responsible departments and positions, evidence of implementation of control, control methods and control frequency for various risks.

In order to ensure the overall efficiency of the internal control, the Company made exquisite arrangements for the construction of the internal control for subsidiaries, requiring all of them to comprehensively streamline the business process, identify and evaluate various risks, optimize the internal control measures, improve various rules and systems according to the unified standards and form the internal control application manual. Beijing Tianhai Industry Co., Ltd., Beijing Jingcheng Compressor Co., Ltd, Tianjin Tianhai Company, Langfang Tianhai Company, Tianhai Cryogenic Equipment Co., Ltd. completed the construction according to the requirements, established and improved the working mechanism of the internal control, formed the risk database and the internal control manual and implemented them faithfully.

#### V. Self assessment on the implementation of the Company's internal control system during the year

**1. Evaluation of the Supervisory Committee**

The Supervisory Committee was able to truly fulfill its duties in accordance with the provisions of the Company Law and the Articles of Association as the Company's monitoring arm. It convened Supervisory Committee meetings on a regular basis, effectively monitored the Company's financial reports; senior management officers' violating behaviours and behaviours harming shareholders' interest, as well as the Company's internal control system.

### V. Self assessment on the implementation of the Company's internal control system during the year *(cont'd)*

#### 2. Self-evaluation of internal control

According to the provisions of the The Basic Standard for Enterprise Internal Control, the internal control and its supporting guidance as well as the other the internal control regulation requirements (hereinafter referred to as "Corporate Internal Control Standard System"), combining with the internal control system and evaluation methods of the Company, based on the routine supervision and special supervision over the internal control, in order to improve the governance level of the Company, promote the operation and management, guarantee the healthy operation and safeguard the lawful rights and interests of investors, we have evaluated the effectiveness of the internal control of the Company as of 31 December 2013.

#### 1 Important statements

According to the requirements of Corporate Internal Control Standard System, Board of Directors of the Company is responsible for establishing, improving and effectively implementing the internal control, evaluating the effectiveness of the internal control and disclosing the internal control evaluation report truly. The Supervisory Committee shall supervise the internal control established and implemented by the Board of Directors. The Management is responsible for organizing and leading the routine operation of the internal control of the Company. The Board, the Supervisory Committee and the Directors, supervisors and senior management officers of the Company confirm that information contained in this report is true, accurate, and complete without any false and misleading statements or material omissions, and assume several and joint liability for the above.

The objectives of the Company's internal control are to reasonably guarantee the authenticity and completeness of information of the compliance, asset security, financial report and relevant information of operation and management of the Company, improve the operating efficiency and results, and promote the realization of development strategies. Owing to the inherent limitations of the internal control, reasonable guarantees shall only be provided for realizing the above objectives. In addition, changes in situation may result in that the internal control becomes inappropriate or the extent to which the compliance with policies and process is lessened. There may be certain risks in presuming the effectiveness of future internal control according to the evaluation results of the internal control.

#### 2 Conclusion of the internal control evaluation

According to the recognition of material deficiencies in the internal control over the Company's financial reporting, on the benchmark date of the internal control evaluation report, there are no material deficiencies in the financial reporting. The Board is of the opinion that, the Company has maintained, in all material respects, effective internal control over financial reporting in accordance with the requirements of Corporate Internal Control Standard System and the relevant provisions.

According to the recognition of material deficiencies in the internal control over the Company's non-financial reporting, on the benchmark date of the internal control evaluation report, the Company has not identified any material deficiencies in the internal control over non-financial reporting.

From the benchmark date of the internal control evaluation report to the date of issuing the internal control evaluation report, there are no factors that may impose any impacts on the result of the effectiveness of the internal control.

#### 3 Internal control evaluation

##### (1) Scope of the internal control evaluation

The Company determines the main units, business and events and high-risk areas that are included in the scope of the internal control evaluation based on the risk-oriented principle. Main units included in the scope of evaluation include all the departments and divisions of the Company and 5 subsidiaries. The total assets included in the evaluation scope accounts for 77.16% of the total assets of the consolidated financial statements of the Company, and the total operating income accounts for 93.96% of the total operating income of the consolidated financial statements of the Company; main business and events included in the evaluation scope include: the organizational chart, development strategies, human resources, social responsibilities, corporate culture, risk assessment, information communication, internal supervision, procurement management, inventory management, production management, new product development, quality management, sales management, investment management, fixed asset management, cost, preparation of financial reports, financing management, budget management, and capital fund management; high-risk areas with focus concerns mainly include credit risks, market risks, operation risks, legal risks, operating risks and strategic risks, etc.

The units, businesses and events and high-risk areas that are included in the above-mentioned evaluation scope cover the main aspects of the Company's operation and management without material omission.

## V. Self assessment on the implementation of the Company's internal control system during the year *(cont'd)*

### 2. Self-evaluation of internal control *(cont'd)*

#### 3 Internal control evaluation *(cont'd)*

##### (2) **Working basis of internal control evaluation and recognition standards for deficiencies**

In accordance with requirements of the laws and regulations, including the requirements of the internal control standard system, the Basic Standards for Corporate Internal Control and The Guidance on Corporate Internal Control Evaluation, the Company organized and conducted its internal control evaluation.

In view of the size of the company, industry characteristics, risk preference and tolerance, the Board of Directors, in accordance with the requirements for material, major and general deficiencies as specified in the enterprise internal control standard system, differentiated financial reporting related and non-financial reporting related and formulated specific standards for recognition of deficiencies that is applicable to the Company, which are in consistent with those of past years. The recognition standards of internal control deficiencies defined by the Company are as follows:

- 1) *The recognition standards of financial reporting related internal control deficiencies*  
Quantitative standards for evaluation of financial reporting related internal control deficiencies defined by the Company are as follows:

Material deficiencies: potential misstatement of operating income: misstatement  $\geq 0.5\%$  of the total operating income; potential misstatement of total profit: misstatement  $\geq 5\%$  of the total profit; potential misstatement of total assets: misstatement  $\geq 0.5\%$  of the total assets; potential misstatement of equity: misstatement  $\geq 0.5\%$  of the total equity.

Major deficiencies:  $0.2\%$  of the total operating income  $\leq$  misstatement  $< 0.5\%$  of the total operating income;  $2\%$  of the total profit  $\leq$  misstatement  $< 5\%$  of the total profit;  $0.2\%$  of the total assets  $\leq$  misstatement  $< 0.5\%$  of the total assets;  $0.2\%$  of the total equity  $\leq$  misstatement  $< 0.5\%$  of the total equity.

General deficiencies: misstatement  $< 0.2\%$  of the total operating income; misstatement  $< 2\%$  of the total profit; misstatement  $< 0.2\%$  of the total assets; misstatement  $< 0.2\%$  of the total equity.

Qualitative standards for evaluation of financial reporting related internal control deficiencies defined by the Company are as follows:

Material deficiencies: Separate deficiency or together with other deficiencies lead to the failure to avoid, identify or correct the material misstatement in the financial reporting on a timely basis. In case of the occurrence of the following situations, material deficiencies are recognised:

- A. Ineffective control environment;
- B. The misconduct committed by directors, supervisors and members of senior management officers;
- C. The external audit identifies material misstatement in the current financial report which has not been identified by the Company during its operation;
- D. Material deficiencies identified and reported to the management have not been rectified after a reasonable period of time;
- E. The supervision of the Company's Audit Committee and Department of Audit and Legal Affairs over the internal control is proved to be ineffective;
- F. Other deficiencies which may affect the correct judgment of the statement users.

Major deficiencies: Separate deficiency or together with other deficiencies lead to the failure to avoid, identify or correct the misstatement in the financial reporting on a timely basis, which does not reach or exceed the level of importance but is still worth the attention of the management.

General deficiencies: Other internal control deficiencies that do not constitute material or major deficiencies.



## V. Self assessment on the implementation of the Company's internal control system during the year *(cont'd)*

### 2. Self-evaluation of internal control *(cont'd)*

#### 3 Internal control evaluation *(cont'd)*

##### (2) Working basis of internal control evaluation and recognition standards for deficiencies *(cont'd)*

###### 2) The recognition standards of non-financial reporting related internal control deficiencies

Quantitative standards for evaluation of non-financial reporting related internal control deficiencies defined by the Company are as follows:

Recognition of material deficiency:

Direct property losses amount: more than RMB10.00 million;

Material adverse effects: relatively materially affect the Company and are disclosed by way of announcement.

Recognition of major deficiency:

Direct property losses amount of between RMB1.00 million and RMB10.00 million (inclusive) or the imposition of punishment by national government authority which does not adversely affect the Company

Recognition of general deficiency:

Direct property losses amount of less than RMB1.00 million (inclusive) or the imposition of punishment by government authority at or below provincial level which does not adversely affect the Company

Qualitative standards for evaluation of non-financial reporting related internal control deficiencies defined by the Company are as follows:

In case of the occurrence of the following situations, material deficiencies are recognised. Other situations are recognised as major deficiencies or general deficiencies by its effect respectively.

- A. Violation of the State's laws, regulations or regulatory documents;
- B. Unscientific material decision-making process;
- C. Lack of systems are likely to result in systemic failures;
- D. Material or major deficiencies are not rectified;
- E. Other situations that materially affect the Company.

##### (3) Recognition of internal control deficiencies and rectifications

###### 1) Recognition of internal control deficiencies in financial reporting and rectifications

According to the standards for recognition of internal control deficiencies in financial reporting, during the Reporting Period, the Company has 3 major deficiencies in the internal control over financial reporting.

The details of major deficiencies are respectively:

Deficiency 1: the incompatible responsibilities are not separated and the bank reconciliation statement is not verified

- A: Nature and impact of the deficiency  
The deficiency is an operating deficiency. The bank reconciliation statement of the subsidiary Tianhai Cryogenic Equipment Co., Ltd is prepared by the cashier, and upon examination, there is no signature of relevant reviewer. In practice, department leaders audit the reconciliation statement and verify with the bank statement on a monthly basis but did not sign upon completion of such verification. The bank reconciliation statement prepared by the cashier does not comply with the principle of separation of incompatible positions and may lead to fraud: As the reviewer failed to sign and confirm, this means that it will be difficult to judge whether such control has been effectively implemented.

- B: Rectification  
After the problem is found, the subsidiary, Tianhai Cryogenic Equipment Co., Ltd has made timely rectification and explicitly prescribed that the bank reconciliation statement shall be prepared by accounting personnel in addition to the cashier and shall be verified and signed by the director of the finance department.

## V. Self assessment on the implementation of the Company's internal control system during the year *(cont'd)*

### 2. Self-evaluation of internal control *(cont'd)*

#### 3 Internal control evaluation *(cont'd)*

##### (3) **Recognition of internal control deficiencies and rectifications** *(cont'd)*

- 1) *Recognition of internal control deficiencies in financial reporting and rectifications (cont'd)*  
 Deficiency 2: Relevant system for elimination and disposal of fixed assets has not been established.

- A: Nature and impact of the deficiency  
 This deficiency is a design deficiency. The subsidiary Langfang Tianhai High Pressure Container Co., Ltd. has not established a relevant system for elimination and disposal of fixed assets. In practice, the elimination and disposal of fixed assets require the determination and verification of several departments and tiers with approval documents; however, the process is not established in form of a system. Failure to establish relevant system for elimination and disposal of fixed assets may lead to an unreasonable disposal price for disposal of fixed assets, ambiguity of the implementation department and failure to carry out relevant liabilities concerning the disposal.
- B: Rectification  
 After the problem is found, Langfang Tianhai High Pressure Container Co., Ltd. on the basis of the existing Administrative Measures for Mobility, Transfer and Scrap of Equipment, prepares the Administrative Measures for Elimination and Disposal of Fixed Assets, explicitly prescribes relevant liabilities and refines the process of elimination and disposal.

Deficiency 3: The pledge and mortgage management system for fixed assets has not been established.

- A: Nature and impact of the deficiency  
 The deficiency is a design deficiency. The subsidiary Tianjin Tianhai High Pressure Container Co., Ltd has not established a pledge and mortgage management system for fixed assets. In practice, the pledge of fixed assets shall be carried out after it is considered and approved by the Board; however, the process is not established in form of system. Failure to establish a pledge and mortgage management system for fixed assets may lead to lack of standardization in pledge and mortgage management of fixed assets and may cause loss of assets to the Company.
- B: Rectification  
 After the problem is identified, Tianjin Tianhai High Pressure Container Co., Ltd establishes the System of Tianjin Tianhai High Pressure Container Co., Ltd for Asset Pledge and Mortgage Management to standardize the management.

After the above-mentioned rectifications are made, on the benchmark date of the internal control evaluation report, there are no material or major deficiencies in the internal control over financial reporting of the Company.

**V. Self assessment on the implementation of the Company's internal control system during the year** *(cont'd)*

**2. Self-evaluation of internal control** *(cont'd)*

**3 Internal control evaluation**

**(3) Recognition of internal control deficiencies and rectifications** *(cont'd)*

**2) Recognition of internal control deficiencies in non-financial reporting and rectifications**

According to the above-mentioned standards for recognition of internal control deficiencies in non-financial reporting, during the reporting period, the Company has 1 major deficiency in the internal control over non-financial reporting.

The detail of the major deficiency is: the application for the patent has not been duly examined and approved

**A: Nature and impact of the deficiency**

The deficiency is an operating deficiency. Relevant processes and requirements for the declaration, examination and approval of the patent application are specified in the Patent Management System of the subsidiary, Beijing Jingcheng Compressor Co., Ltd. It is found in the test that the subsidiary handles the matters concerning the declaration though oral application and approval without any evidence of control implementation, resulting in the inability to verify if the application for the patent has been duly examined and approved. Failure of duly examination and approval of the patent application may lead to the disclosure of the important trade secrets.

**B: Rectification**

After the problem is found, Beijing Jingcheng Compressor Co., Ltd designs the Form for Approval of Patent Declaration, and strictly handles the matters concerning patent declaration through written application and approval.

After the above-mentioned rectifications are made, on the benchmark date of the internal control evaluation report, there are no material or major deficiencies in the internal control over non-financial reporting of the Company.

**(4) Effect of the implementation of internal control system.**

Through the effective implementation of internal control system, the Company's risk management level was enhanced and the Company's operational management capabilities in fierce market competition were increased substantially, laying a solid foundation for the Company's objective of economic development. The Board of Directors of the Company is of the opinion that, the Company, in accordance with the provisions of relevant laws, regulations and relevant departments, established and perfected complete and reasonable internal control which generally ensured the normal operation of the Company's production and operating activities, and reduce operation risk, financial risk and compliance risk. Based on the self assessment of the internal control, the implementation of the internal control in all relevant significant aspects related to the financial report as at 31 December 2013 was deemed effective.

This report was considered and approved at the Fourteenth Meeting of the Seventh Board of Directors on 27 March 2014.

Board of Directors of  
**Beijing Jingcheng Machinery Electric Company Limited**  
27 March 2014

**(II) Auditors' Report on Internal Control Over Financial Reporting**

Xin Kuai Shi Bao Zi [2014]No.210293

To all shareholders of Beijing Jingcheng Machinery Electric Company Limited:

We have audited the effectiveness of internal control over financial reporting of Beijing Jingcheng Machinery Electric Company Limited (hereinafter referred to as the "Company") as of December 31, 2013 based on criteria established in Audit Guidelines for Enterprise Internal Control and related standards established in the Professional Standards for Certified Public Accountants of China.

**1. The Company's responsibilities regarding the internal control**

According to Basic Standards for Enterprise Internal Control, Implementation Guidelines for Enterprise Internal Control and Guidelines for Evaluation and Assessment on Effectiveness of Enterprise Internal Control, the Company's board of directors is responsible for maintaining effective internal control over financial reporting and assessment of the effectiveness of internal control over financial reporting.

**2. Responsibilities of Certified Public Accountants**

Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting and to disclose any material weaknesses of internal control over non-financial reporting matters we noticed based on our audit.

**3. Inherent Limitations of Internal Control**

Because of its inherent limitations, internal control over financial reporting may not prevent and detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk wherein controls may become inadequate because of changes in conditions, or wherein the degree of compliance with the policies or procedures may deteriorate.

**4. Opinion on Audit regarding the internal control over financial reporting**

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on Basic Standards for Enterprise Internal Control and the relevant provisions.

**BDO China Shu Lun Pan**  
Certified Public Accountants LLP

Certified Public Accountant of China: **Yan Yanfei**  
Certified Public Accountant of China: **Jiang Gui Cheng**

Shanghai, China  
March 27, 2014

**(III) Investigation System of Responsibility for Significant Errors in the Annual Report and its Implementation**

The Company has established the Investigation System of Responsibility for Significant Errors of Information Disclosure in the Annual Report, which will stringently investigate in accordance with the system, the responsibility of related staff who have caused significant errors of information disclosures in annual reports due to the failure to perform or correctly perform their duties and obligations in the course of information disclosure in annual reports.

During the Reporting Period, there were no incidents of significant information disclosure error in the annual report for the Company.

### Auditor's Report

XYZH/2013TJA2024

#### To the shareholders

#### Jingcheng Holding Machinery Electric Holding Co., Ltd:

We have audited the accompanying consolidated financial statements of Jingcheng Holding Machinery Electric Holding Co., Ltd ("the Company"), which comprise the consolidated and parent's balance sheet and consolidated and parent's statement of changes in owners' equity as at 31 December 2013, and the consolidated and parent's income statement, the consolidated and parent's cash flow statement for the year then ended 2013, and the notes to the consolidated financial statements.

#### Management's Responsibility for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements. This responsibility includes: (1) preparing these consolidated financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to ensure that the consolidated financial statements are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated and parent's financial position of the Company as at 31 December 2013, and the consolidated and parent's financial performance; the consolidated and parent's cash flows of the Company for the year then ended 2013, in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

**ShineWing**  
Certified Public Accountants

27 March 2014

Chinese Certified Public Accountants: **Ma Chuanjun**  
Chinese Certified Public Accountants: **Pang Rongzhi**

## THE CONSOLIDATED BALANCE SHEET

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
As at 31 December 2013

Unit: RMB

Item	Note	Ending balance	Beginning balance
<b>Current assets</b>			
Cash and cash equivalents	V.1	<b>337,743,216.12</b>	528,041,165.31
Transaction settlement funds			
Loans to other banks			
Financial assets at fair value through profit and loss			
Notes receivable	V.2	<b>28,387,575.12</b>	27,652,656.96
Accounts receivable	V.3	<b>407,991,348.42</b>	526,194,988.82
Prepayments	V.4	<b>41,013,304.21</b>	54,964,229.12
Insurance premium receivable			
Reinsurance premium receivable			
Reserves for reinsurance contract receivable			
Interests receivable			
Dividends receivable	V.5		113,600.00
Other receivables	V.6	<b>5,686,434.58</b>	50,795,137.59
Financial assets purchased with agreement to re-sale			
Inventories	V.7	<b>734,199,271.84</b>	995,479,780.27
Non-current assets due within one year			
Other current assets	V.8	<b>15,718,684.47</b>	
<b>Total current assets</b>		<b>1,570,739,834.76</b>	2,183,241,558.07
<b>Non-current assets</b>			
Loans and advances to customers			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	V.9	<b>63,231,444.54</b>	84,309,221.40
Investment properties	V.10	<b>9,519,696.39</b>	6,556,479.32
Fixed assets	V.11	<b>714,960,989.70</b>	1,273,027,529.95
Construction in progress	V.12	<b>278,770,258.89</b>	54,167,335.66
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	V.13	<b>173,810,162.12</b>	178,454,219.80
Research and development expenses			
Goodwill	V.14	<b>6,562,344.06</b>	6,562,344.06
Long-term deferred expenses	V.15	<b>2,634,697.21</b>	10,372,591.29
Deferred tax assets	V.16	<b>9,131,448.40</b>	6,240,684.98
Other non-current assets			
<b>Total non-current assets</b>		<b>1,258,621,041.31</b>	1,619,690,406.46
<b>Total assets</b>		<b>2,829,360,876.07</b>	3,802,931,964.53

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE CONSOLIDATED BALANCE SHEET

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
As at 31 December 2013

Unit: RMB

Item	Note	Ending balance	Beginning balance
<b>Current liabilities</b>			
Short-term loans	V.18	<b>482,613,152.34</b>	640,243,870.99
Borrowings from central bank			
Receipt of deposits and deposits from other banks			
Loans from other banks			
Financial liabilities at fair value through profit and loss			
Notes payable	V.19	<b>80,000,000.00</b>	104,200,000.00
Accounts payable	V.20	<b>395,472,131.25</b>	638,233,008.28
Advance from customers	V.21	<b>135,006,560.18</b>	179,715,862.44
Funds from selling out and repurchasing financial assets			
Fee and commission payable			
Employee benefits	V.22	<b>20,445,882.88</b>	73,342,027.24
Taxes payable	V.23	<b>2,260,951.16</b>	-8,590,412.51
Interests payable	V.24	<b>305,666.69</b>	1,150,165.34
Dividends payable	V.25	<b>1,551,900.00</b>	1,551,900.00
Other payables	V.26	<b>416,598,343.16</b>	496,567,182.31
Reinsured accounts payable			
Reserves for insurance contract			
Funds from securities trading agency			
Funds from underwriting securities agency			
Non-current liabilities due within one year			
Other current liabilities	V.27		1,250,200.56
<b>Total current liabilities</b>		<b>1,534,254,587.66</b>	2,127,663,804.65
<b>Non-current liabilities</b>			
Long-term loans			
Bonds payable			
Long-term payables			
Special Payables	V.28	<b>131,468,000.00</b>	60,562,414.47
Estimated Liabilities	V.29		2,341,476.38
Deferred tax liabilities			
Other non-current liabilities	V.30		516,075.10
<b>Total non-current liabilities</b>		<b>131,468,000.00</b>	63,419,965.95
<b>Total liabilities</b>		<b>1,665,722,587.66</b>	2,191,083,770.60
<b>Shareholders' Equity</b>			
Share capital	V.31	<b>422,000,000.00</b>	422,000,000.00
Capital reserves	V.32	<b>558,698,626.70</b>	1,182,742,879.03
Less: Treasury shares			
Specific reserves			
Surplus reserves	V.33	<b>45,665,647.68</b>	43,172,707.88
Reserve for ordinary risk			
Retained earnings	V.34	<b>-222,701,516.40</b>	-211,165,505.29
Foreign Currency Capital		<b>-89,449.76</b>	
<b>Total equity attributable to shareholders of the Company</b>		<b>803,573,308.22</b>	1,436,750,081.62
Non-controlling interest	V.35	<b>360,064,980.19</b>	175,098,112.31
<b>Total shareholder's equity</b>		<b>1,163,638,288.41</b>	1,611,848,193.93
<b>Total liabilities and shareholder's equity</b>		<b>2,829,360,876.07</b>	3,802,931,964.53

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE BALANCE SHEET OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
As at 31 December 2013

Unit: RMB

Item	Note	Ending balance	Beginning balance
<b>Current assets</b>			
Cash and cash equivalents	XIV.1	<b>9,537,212.51</b>	150,192,182.81
Financial assets at fair value through profit and loss			
Notes receivable	XIV.2		17,884,090.19
Accounts receivable	XIV.3		115,040,498.31
Prepayments	XIV.4		7,436,015.79
Interest receivables			354,422.23
Dividend receivables	XIV.5		113,600.00
Other receivables	XIV.6	<b>5,522,900.00</b>	5,832,252.91
Inventories	XIV.7		267,067,042.82
Non-current assets due within one year			
Other current assets	XIV.8		90,000,000.00
<b>Total current assets</b>		<b>15,060,112.51</b>	653,920,105.06
<b>Non-current assets</b>			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XIV.9	<b>859,685,667.59</b>	165,798,134.91
Investment properties	XIV.10		6,556,479.32
Fixed assets	XIV.11		383,247,331.04
Construction in progress	XIV.12		5,801,005.87
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	XIV.13		82,609,157.87
Research and development expenses			
Goodwill			
Long-term deferred expenses	XIV.14		9,367,320.00
Deferred tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>859,685,667.59</b>	653,379,429.01
<b>Total assets</b>		<b>874,745,780.10</b>	1,307,299,534.07

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**



## THE BALANCE SHEET OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
As at 31 December 2013

Unit: RMB

Item	Note	Ending balance	Beginning balance
<b>Current liabilities</b>			
Short-term loans	XIV.16		300,000,000.00
Financial liabilities at fair value through profit and loss			
Notes payable			
Accounts payable	XIV.17		188,703,531.09
Advance from customers	XIV.18		14,403,680.35
Employee benefits	XIV.19		37,880,698.91
Taxes payable	XIV.20		-1,755,384.69
Interests payable	XIV.21		1,019,724.67
Dividends payables			
Other payables	XIV.22	<b>13,774,136.35</b>	68,726,711.62
Non-current liabilities repayable within one year			
Other current liabilities	XIV.23		1,050,000.00
<b>Total current liabilities</b>		<b>13,774,136.35</b>	610,028,961.95
<b>Non-current liabilities</b>			
Long-term loans			
Bonds payable			
Long-term payables			
Special Payables	XIV.24		27,866,954.60
Estimated Liabilities	XIV.25		542,407.38
Deferred tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>			28,409,361.98
<b>Total liabilities</b>		<b>13,774,136.35</b>	638,438,323.93
<b>Shareholder's equity</b>			
Share capital	XIV.26	<b>422,000,000.00</b>	422,000,000.00
Capital reserves	XIV.27	<b>566,480,197.56</b>	518,165,762.89
Less: Treasury shares			
Specific reserves			
Surplus reserves	XIV.28	<b>38,071,282.24</b>	38,071,282.24
Reserve for ordinary risk			
Retained earnings	XIV.29	<b>-165,579,836.05</b>	-309,375,834.99
<b>Total shareholder's equity</b>		<b>860,971,643.75</b>	668,861,210.14
<b>Total liabilities and shareholder's equity</b>		<b>874,745,780.10</b>	1,307,299,534.07

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE CONSOLIDATED INCOME STATEMENT

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the year of 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Total operating income</b>		<b>2,828,194,349.87</b>	3,045,275,527.04
Including: Main operating income	V.39	<b>2,828,194,349.87</b>	3,045,275,527.04
Interest income			
Earned insurance premiums			
Fees and commission income			
<b>2. Total operating cost</b>		<b>2,941,375,400.58</b>	3,176,580,144.67
Including: Main operating cost	V.39	<b>2,402,264,930.73</b>	2,543,156,272.24
Interest expenses			
Fees and commission expenses			
Refunded premiums			
Net amount of compensation payout			
Net amount of reserves for reinsurance contract			
Policy dividend payment			
Reinsured expenses			
Business taxes and surcharges	V.40	<b>8,782,371.08</b>	9,329,370.20
Selling and distribution expenses	V.41	<b>158,783,476.97</b>	160,056,421.43
Administrative expenses	V.42	<b>283,060,648.76</b>	365,040,264.63
Financial expenses	V.43	<b>58,634,213.01</b>	45,089,413.43
Loss on impairment of assets	V.44	<b>29,849,760.03</b>	53,908,402.74
Add: Gain arising from the changes in fair value (loss listed with "-")			
Investment income (Loss listed with "-")	V.45	<b>4,924,368.24</b>	14,461,321.73
Including: Income from investments in associates and joint ventures (Loss listed with "-")	V.45	<b>5,566,006.23</b>	13,282,873.54
Exchange gain (Loss listed with "-")			
<b>3. Operating profit (Loss listed with "-")</b>		<b>-108,256,682.47</b>	-116,843,295.90
Add: Non-operating income	V.46	<b>5,906,019.82</b>	11,754,043.17
Less: Non-operating expenses	V.47	<b>2,653,716.06</b>	4,438,460.23
Including: Loss on disposal of non-current assets		<b>1,979,207.13</b>	1,819,131.01
<b>4. Total profit (Loss listed with "-")</b>		<b>-105,004,378.71</b>	-109,527,712.96
Less: Income tax expenses	V.48	<b>4,547,816.57</b>	14,213,603.43
<b>5. Net profit (Net loss listed with "-")</b>		<b>-109,552,195.28</b>	-123,741,316.39
Net profit attributable to shareholders of the Company		<b>-108,239,018.44</b>	-124,456,883.57
Net profit of the acquiree company before business combination under common control		<b>-32,693,979.16</b>	48,404,711.61
Non-controlling interest		<b>-1,313,176.84</b>	715,567.18
<b>6. Earnings per share</b>			
Basic earnings per share		<b>-0.26</b>	-0.29
Diluted earnings per share		<b>-0.26</b>	-0.29
<b>7. Other comprehensive income</b>	V.53	<b>-484,482.81</b>	-30,061.05
<b>8. Total comprehensive income</b>		<b>-110,036,678.09</b>	-123,771,377.44
Total comprehensive income attributable to shareholders of the Company		<b>-108,328,468.20</b>	-124,456,883.57
Total comprehensive income attributable to non-controlling interest		<b>-1,708,209.89</b>	685,506.13

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE INCOME STATEMENT OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the year of 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Total operating income</b>	XIV.30	<b>315,202,762.22</b>	388,115,225.08
Less: Total operating cost	XIV.30	<b>263,977,557.86</b>	331,642,749.31
Business taxes and surcharges	XIV.31	<b>2,686,669.91</b>	2,926,845.62
Selling and distribution expenses	XIV.32	<b>27,009,214.73</b>	30,962,967.18
Administrative expenses	XIV.33	<b>60,817,421.09</b>	123,884,141.99
Financial expenses	XIV.34	<b>10,180,550.51</b>	7,382,561.97
Loss on impairment of assets	XIV.35	<b>8,169,439.77</b>	38,897,962.74
Add: Gain arising from the changes in fair value (Loss listed with "-")			
Investment income (Loss listed with "-")	XIV.36	<b>-942,017.83</b>	-918,329.21
Including: Income from investments in associates and joint ventures (Loss listed with "-")	XIV.36	<b>-300,379.84</b>	-918,329.21
<b>2. Operating profit (Loss listed with "-")</b>		<b>-58,580,109.48</b>	-148,500,332.94
Add: Non-operating income	XIV.37	<b>202,443,672.77</b>	1,172,502.88
Less: Non-operating expenses	XIV.38	<b>67,564.35</b>	112,045.67
Including: Gain from disposal of non-current assets	XIV.38	<b>67,540.81</b>	66,467.30
<b>3. Total profit (Total loss listed with "-")</b>		<b>143,795,998.94</b>	-147,439,875.73
Less: Income tax expenses			
<b>4. Net profit (Net loss listed with "-")</b>		<b>143,795,998.94</b>	-147,439,875.73
<b>5. Earnings per share:</b>			
Basic earnings per share			
Diluted earnings per share			
<b>6. Other comprehensive income</b>			
<b>7. Total comprehensive income</b>		<b>143,795,998.94</b>	-147,439,875.73

Legal Person: Jiang Zili

Accounting Director: Hu Chuanzhong

Accounting Manager: Jiang Chi

## THE CONSOLIDATED CASH FLOW STATEMENT

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		<b>1,952,682,191.03</b>	2,059,655,265.24
Net increase in deposits from customers and deposits from other banks			
Net increase in loans from central bank			
Net increase in loans from other financial institutions			
Cash receipts of premium of direct insurance contracts			
Net cash received from reinsurance contracts			
Net increase in deposits from insurance policy holders and investment			
Net increase in disposal of financial assets held for trading			
Cash receipts of interest, fees and commission			
Net increase in placement from banks and other financial institution			
Net increase in sales and repurchase operations		<b>38,794,498.94</b>	34,600,793.48
Cash received from taxes refund		<b>15,797,357.06</b>	40,638,816.14
Cash received relating to other operating activities	V.55		
<b>Sub-total of cash inflows from operating activities</b>		<b>2,007,274,047.03</b>	2,134,894,874.86
<b>Cash paid for goods and services</b>		<b>1,480,601,163.08</b>	1,346,968,843.53
Net increase in loans and disbursement to customers			
Net increase in deposit with central bank and inter-banks			
Cash paid for claims of direct insurance contracts			
Cash paid for interest, fee and commission			
Cash paid for dividends of insurance policies			
Cash paid to and on behalf of employees		<b>490,313,983.94</b>	504,233,853.91
Payments of taxes and surcharges		<b>104,664,304.62</b>	103,972,059.25
Cash paid relating to other operating activities	V.55	<b>158,297,083.87</b>	239,892,764.11
<b>Sub-total of cash outflows from operating activities</b>		<b>2,233,876,535.51</b>	2,195,067,520.80
<b>Net cash flows from operating activities</b>		<b>-226,602,488.48</b>	-60,172,645.94
<b>2. Cash flows from investment activities:</b>			
Cash received from investment			25,249,051.91
Cash received from investments income		<b>11,008,727.28</b>	10,425,510.61
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>53,744,084.18</b>	127,605.50
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities		<b>11,716,300.00</b>	
<b>Sub-total of cash inflows from investing activities</b>		<b>76,469,111.46</b>	35,802,168.02
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>290,351,030.46</b>	82,121,860.66
Cash paid for investments			52,243,400.00
Net increase in pledged deposits			
Net cash paid to acquire subsidiaries and other business units			
Cash paid relating to other investing activities	V.55	<b>292,580,707.25</b>	8,640,556.79
<b>Sub-total of cash outflow from investing activities</b>		<b>582,931,737.71</b>	143,005,817.45
<b>Net cash flows from investing activities</b>		<b>-506,462,626.25</b>	-107,203,649.43

## THE CONSOLIDATED CASH FLOW STATEMENT

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Item	Note	2013	2012
<b>3. Cash flows from financing activities</b>			
Cash received from investment absorption		<b>200,000,000.00</b>	264,990,000.00
Including: Cash received by subsidiaries from investment absorption of non-controlling interest		<b>200,000,000.00</b>	5,000,000.00
Cash received from loans granted		<b>1,006,618,001.12</b>	800,252,340.99
Cash received from issue of bonds			
Cash received relating to other financing activities	V.55	<b>548,000,000.00</b>	414,800,000.00
<b>Sub-total of cash inflows from financing activities</b>		<b>1,754,618,001.12</b>	1,480,042,340.99
Cash paid for settlement of borrowings		<b>660,300,000.00</b>	555,000,000.00
Cash paid for dividends, profits appropriation or payments of interest		<b>52,964,630.12</b>	46,205,517.36
Including: Dividends and profits paid to non-controlling interest			
Cash paid relating to other financing activities	V.55	<b>489,410,000.00</b>	501,640,000.00
<b>Sub-total of cash outflows from financing activities</b>		<b>1,202,674,630.12</b>	1,102,845,517.36
<b>Net cash flows from financing activities</b>		<b>551,943,371.00</b>	377,196,823.63
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>-3,514,665.97</b>	-713,091.39
<b>5. Net increase in cash and cash equivalents</b>		<b>-184,636,409.70</b>	209,107,436.87
Add: Cash and cash equivalents at the beginning of the year		<b>490,533,435.19</b>	281,425,998.32
<b>6. Cash and cash equivalents at the end of the year</b>		<b>305,897,025.49</b>	490,533,435.19

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE CASH FLOW STATEMENT OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods and rendering of services		<b>244,687,705.45</b>	308,184,395.13
Cash received from taxes refund		<b>1,074,492.07</b>	15,981.49
Cash received relating to other operating activities	XIV.39	<b>10,266,019.53</b>	9,804,716.03
<b>Sub-total of cash inflows from operating activities</b>		<b>256,028,217.05</b>	318,005,092.65
Cash paid for goods and services		<b>130,997,203.56</b>	153,726,379.01
Cash paid to and on behalf of employee		<b>112,190,153.17</b>	133,562,602.62
Payments of taxes and surcharges		<b>19,917,634.11</b>	22,566,722.54
Cash paid relating to other operating activities	XIV.39	<b>45,534,846.32</b>	73,688,239.32
<b>Sub-total of cash outflows from operating activities</b>		<b>308,639,837.16</b>	383,543,943.49
<b>Net cash flows from operating activities</b>		<b>-52,611,620.11</b>	-65,538,850.84
<b>2. Cash flows from investing activities</b>			
Cash received from investment		<b>90,000,000.00</b>	95,249,051.91
Cash received from investments income			
Cash received from disposal of fixed assets, intangible assets and other long-terms assets		<b>1,136,530.00</b>	7,000.00
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities	V.39	<b>4,388,874.43</b>	6,000,259.72
<b>Sub-total of cash inflows from investing activities</b>		<b>95,525,404.43</b>	101,256,311.63
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>2,486,970.10</b>	5,020,592.26
Cash paid for investments		<b>91,000,000.00</b>	91,243,400.00
Net cash paid to acquire subsidiaries or other business units			
Cash paid relating to other investing activities	V.39	<b>267,852,514.97</b>	
<b>Sub-total of cash outflows from investing activities</b>		<b>361,339,485.07</b>	96,263,992.26
<b>Net cash flows from investing activities</b>		<b>-265,814,080.64</b>	4,992,319.37
<b>3. Cash flows from financing activities</b>			
Cash received from investment absorption			
Cash received from loans granted		<b>398,681,300.00</b>	300,000,000.00
Cash received from issue of bonds			
Cash received relating to other financing activities	V.39		
<b>Sub-total of cash inflows from financing activities</b>		<b>398,681,300.00</b>	300,000,000.00
Cash paid for settlement of borrowings		<b>210,000,000.00</b>	210,000,000.00
Cash paid for dividends, profits appropriation or payments of interests		<b>10,843,467.22</b>	12,722,288.83
Cash paid relating to other financing activities	V.39		
<b>Sub-total of cash outflows from financing activities</b>		<b>220,843,467.22</b>	222,722,288.83
<b>Net cash flows from financing activities</b>		<b>177,837,832.78</b>	77,277,711.17
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>-67,102.33</b>	-9,659.97
<b>5. Net increase in cash and cash equivalents</b>		<b>-140,654,970.30</b>	16,721,519.73
Add: Cash and cash equivalents at the beginning of the year		<b>150,192,182.81</b>	133,470,663.08
<b>6. Cash and cash equivalents at the end of the year</b>		<b>9,537,212.51</b>	150,192,182.81

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## THE CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Item	Current year									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserves	Less: Treasury shares	Specific reserves	Surplus reserves	Provision for reserves for ordinary risk	Undistributed profit	Others	Minority shareholder's equity	Total shareholders' equity
1. Balance at end of last year	422,000,000.00	1,182,742,879.03			43,172,707.88		-211,165,505.29		175,098,112.31	1,611,848,193.93
Add: Changes in accounting policies										
Correction of prior periods errors										
Others										
2. Balance at beginning of year	422,000,000.00	1,182,742,879.03			43,172,707.88		-211,165,505.29		175,098,112.31	1,611,848,193.93
3. Increase/Decrease for the year (Decrease listed with "-")		-624,044,252.33			2,492,939.80		-11,536,011.11	-89,449.76	184,966,867.88	-448,209,905.52
(1) Net profit							-108,239,018.44		-1,313,176.84	-109,552,195.28
(2) Other comprehensive income								-89,449.76	-395,033.05	-484,482.81
Sub-total of (1) and (2)							-108,239,018.44	-89,449.76	-1,708,209.89	-110,036,678.09
(3) Capital contribution and reduction		-624,044,252.33			2,492,939.80		96,703,007.33		186,675,077.77	-338,173,227.43
1. Capital contribution from equity holders									200,000,000.00	200,000,000.00
2. Share-based payments charged to equity										
3. Others		-624,044,252.33			2,492,939.80		96,703,007.33		-13,324,922.23	-538,173,227.43
(4) Profit distribution										
1. Provision for surplus reserves										
2. Provision for reserves for ordinary risk										
3. Distribution to shareholders										
4. Others										
(5) Inter transfer of shareholders' equity										
1. Transfer capital reserves to capital addition										
2. Transfer surplus reserves to capital addition										
3. Transfer surplus reserves to offset loss										
4. Others										
(6) Specific reserves										
1. Provision for current year										
2. Utilization for current year										
(7) Others										
4. Balance at end of year	422,000,000.00	558,698,626.70			45,665,647.68		-222,701,516.40	-89,449.76	360,064,980.19	1,163,638,288.41

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

# THE CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Item	Last year									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserves	Less: Treasury shares	Specific reserves	Surplus reserves	Provision for reserves for ordinary risk	Undistributed profit	Others	Minority shareholder's equity	Total shareholders' equity
<b>1. Balance at end of last year</b>	422,000,000.00	522,877,777.87			43,172,707.88		-231,668,177.08		18,360,361.92	774,742,670.59
Add: Changes in accounting policies							-		-	-
Correction of prior periods errors							-		-	-
Others		659,865,101.16					144,959,555.36		156,052,244.26	960,876,900.78
<b>2. Balance at beginning of year</b>	422,000,000.00	1,182,742,879.03			43,172,707.88		-86,708,621.72		174,382,545.13	1,735,619,571.37
<b>3. Increase/Decrease for the year (Decrease listed with "-")</b>							-124,456,883.57		685,506.13	-123,771,377.44
(1) Net profit							-124,456,883.57		715,567.18	-123,741,316.39
(2) Other comprehensive income							-		-30,061.05	-30,061.05
Sub-total of (1) and (2)							-124,456,883.57		685,506.13	-123,771,377.44
(3) Capital contribution and reduction							-			
1. Capital contribution from equity holders										
2. Share-based payments charged to equity										
3. Others										
(4) Profit distribution										
1. Provision for surplus reserves										
2. Provision for reserves for ordinary risk										
3. Distribution to shareholders										
4. Others										
(5) Inter transfer of shareholders' equity										
1. Transfer capital reserves to capital addition										
2. Transfer surplus reserves to capital addition										
3. Transfer surplus reserves to offset loss										
4. Others										
(6) Specific reserves										
1. Provision for current year										
2. Utilization for current year										
(7) Others										
<b>4. Balance at end of year</b>	422,000,000.00	1,182,742,879.03			43,172,707.88		-211,165,505.29		175,098,112.31	1,611,848,193.93

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**



# THE STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Items	Current year									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserves	Less: Treasury shares	Specific reserves	Surplus reserves	Provision for reserves for ordinary risk	Undistributed profit	Others	Minority shareholder's equity	Total shareholders' equity
1. Balance at end of last year	422,000,000.00	518,165,762.89			38,071,282.24		-309,375,834.99	668,861,210.14	422,000,000.00	518,165,762.89
Add: Changes in accounting policies										
Correction of prior periods errors										
Others										
2. Balance at beginning of year	422,000,000.00	518,165,762.89			38,071,282.24		-309,375,834.99	668,861,210.14	422,000,000.00	518,165,762.89
3. Increase/Decrease for the year (Decrease listed with "-")		48,314,434.67					143,795,998.94	192,110,433.61		48,314,434.67
(1) Net profit							143,795,998.94	143,795,998.94		
(2) Other comprehensive income										
Sub-total of (1) and (2)							143,795,998.94	143,795,998.94		
(3) Capital contribution and reduction		48,314,434.67						48,314,434.67		48,314,434.67
1. Capital contribution from equity holders										
2. Share-based payments charged to equity										
3. Others		48,314,434.67						48,314,434.67		48,314,434.67
(4) Profit distribution										
1. Provision for surplus reserves										
2. Provision for reserves for ordinary risk										
3. Distribution to shareholders										
4. Others										
(5) Inter transfer of shareholders' equity										
1. Transfer capital reserves to capital addition										
2. Transfer surplus reserves to capital addition										
3. Transfer surplus reserves to offset loss										
4. Others										
(6) Specific reserves										
1. Provision for current year										
2. Utilization for current year										
(7) Others										
4. Balance at end of year	422,000,000.00	566,480,197.56			38,071,282.24		-165,579,836.05	860,971,643.75	422,000,000.00	566,480,197.56

Legal Person: Jiang Zili

Accounting Director: Hu Chuanzhong

Accounting Manager: Jiang Chi

# THE STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE PARENT COMPANY

Prepared by: Beijing Jingcheng Machinery Electric Company Limited  
For the Year of 2013

Unit: RMB

Items	Current year									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserves	Less: Treasury shares	Specific reserves	Surplus reserves	Provision for reserves for ordinary risk	Undistributed profit	Others	Minority shareholder's equity	Total shareholders' equity
1. Balance at end of last year	422,000,000.00	518,165,762.89			38,071,282.24		-161,935,959.26	816,301,085.87	422,000,000.00	518,165,762.89
Add: Changes in accounting policies										
Correction of prior periods errors										
Others										
<b>2. Balance at beginning of year</b>	<b>422,000,000.00</b>	<b>518,165,762.89</b>			<b>38,071,282.24</b>		<b>-161,935,959.26</b>	<b>816,301,085.87</b>	<b>422,000,000.00</b>	<b>518,165,762.89</b>
<b>3. Increase/Decrease for the year (Decrease listed with "-")</b>										
(1) Net profit							-147,439,875.73	-147,439,875.73		
(2) Other comprehensive income							-147,439,875.73	-147,439,875.73		
Sub-total of (1) and (2)							-147,439,875.73	-147,439,875.73		
(3) Capital contribution and reduction										
1. Capital contribution from equity holders										
2. Share-based payments charged to equity										
3. Others										
(4) Profit distribution										
1. Provision for surplus reserves										
2. Provision for reserves for ordinary risk										
3. Distribution to shareholders										
4. Others										
(5) Inter transfer of shareholders' equity										
1. Transfer capital reserves to capital addition										
2. Transfer surplus reserves to capital addition										
3. Transfer surplus reserves to offset loss										
4. Others										
(6) Specific reserves										
1. Provision for current year										
2. Utilization for current year										
(7) Others										
<b>4. Balance at end of year</b>	<b>422,000,000.00</b>	<b>518,165,762.89</b>			<b>38,071,282.24</b>		<b>-309,375,834.99</b>	<b>668,861,210.14</b>	<b>422,000,000.00</b>	<b>518,165,762.89</b>

Legal Person: **Jiang Zili**

Accounting Director: **Hu Chuanzhong**

Accounting Manager: **Jiang Chi**

## NOTES TO THE FINANCIAL STATEMENT

### I. General Information

Jingcheng Holding Machinery Electric Holding Co., Ltd. (herein referred to as the “Company” or if it includes subsidiaries, referred to as the “Group”), originally known as Beiren Printing Machinery Holdings Company Limited, was established by Beiren Group Corporation (the “Group”) in Beijing, the People’s Republic of China (the “PRC”) as a joint stock limited company. The Group was registered on 13 July 1993. In accordance with the approval of Ti Gai Sheng (1993) No. 118 issued by the State Commission for Restructuring the Economic System of the PRC, the Group became a listed company with the right of issuing public shares in both the mainland of China and Hong Kong on 16 July 1993. In accordance with the approval of the China Securities Regulatory Commission (“CSRC”) of the State Council, the H Shares and A Shares of the Group were published in both Hong Kong and Shanghai. The Group was listed on both the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC in 1993 and 1994 respectively.

Upon approval during the General Shareholders’ Meetings on 16 May 2001 and 11 June 2002 as well as the approval of document Zheng Jian Fa Xing Zi [2002] No. 133 issued by China Securities Regulatory Commission (“CSRC”) in 2002, the Group issued 22,000,000 additional A Shares listed on the Stock Exchange, with par value of RMB 1 Yuan during the period from 26 December 2002 to 7 January 2003. After the issue of the additional share, the total outstanding shares for the Group equates to 422,000,000 shares, among which 250,000,000 are state owned institutional shares, 72,000,000 shares are issued to inland public and 100,000,000 shares are issued to offshore public, all shares are issued at par value of RMB 1 Yuan.

In accordance with the “Decision on the share right reformation of Beiren Printing Machinery Holdings Limited”, Jing Guo Zi Quan Zi No.25 (2006), (which was issued by the Committee of State-owned Assets Supervision and Administration of Beijing Government), the Company, as the sole non-floating share holder, was required to transfer the original 27,360,000 state-owned shares to the A share holders through a bonus issue on the basis of 10 for 3.8. The registration date regarding the share segregation reform was 29 March 2006.

Beiren Group Corporation since sold 21,000,000 unconditioned tradable shares through the Shanghai Stock Exchange and the Bulk Exchange Platform on 6 January 2010 and 7 January 2010 respectively. On 2 December 2010, Beiren Group Corporation sold 20,000 unconditioned tradable shares to public, which accounts for 4.98% of the total share rights held by the Group. As at 31 Dec 2011, Beiren Group Corporation held 201,620,000 state-owned institutional shares, which accounts for 47.78% of total share rights (classified as unconditioned floating shares), 120,380,000 shares which accounts for 28.52% of the total share rights (classified as unconditioned inland public shares) and 100,000,000 shares which accounts for 23.70% of the total share rights (classified as unconditioned offshore public shares).

The Company’s controlling shareholder, Beiren Group Corporation, signed “the agreement free of charge to transfer of share equity between Jingcheng Holding Machinery Electric Holding Co., Ltd. and Beiren Group Corporation” with Jingcheng Holding Machinery Electric Holding Co., Ltd (The Company’s beneficial controller) on 16 June 2012. Beiren Group Corporation has transferred the Company’s 201,620,000 unpaid A shares from its own holdings to Jingcheng Holding controller. After the transformation, the Company’s total share rights remained unchanged. Jingcheng Holding controller holds 201,620,000 shares which account for 47.78% of total share rights. The unpaid transfer of share rights was approved by the Committee of State-owned Assets Supervision and Administration of State Council on 1 September 2012. The Company has received the Shanghai Branch Registrar Confirmation Letter of the China Securities Depository and Clearing Limited Company on 7 December 2012. Thus, the relevant process has been completed.

On November 2012, the Company signed the agreement of significant asset reorganization and the supplementary agreement with Jingcheng Holdings and Beiren Group. This agreement states that the Company shall transfer all assets and liabilities to Jingcheng Holdings. The transfer includes assets which are related to business services regarding gas storage and transportation equipment from Jingcheng Holdings. As per the agreement, the difference is to be complemented by cash paid up by Jingcheng Holdings. The agreement assumes that outgoing assets are all assets of the Company. Incoming assets amount to 88.50% of the Beijing Tianhai Industry Co., Ltd. shareholding, 100% of the Jingcheng Holding (Hong Kong) Co., Ltd. shareholding and 100% of the Beijing Jingcheng Compressor Co., Ltd. shareholding which is separated from the environmental protection project. All of the above shareholdings are held by Jingcheng Holding.

On 26 September 2013, the Company received approval for the intended significant asset reorganization of Beiren Printing Machinery Holdings Company Limited from the China Securities Regulatory Commission (CSRC) (Zhengjianxuke [2013] No.1240).

On 31 October 2013, the Company signed the agreement of significant asset reorganization and delivery with Beiren Group Corporation and Jingcheng Holding. Since then, Jingcheng Holding has delivered the incoming assets to the Company and the Company has delivered outgoing assets and related employees to Beiren Group Corporation.

On December 2013, the Company changed its company name, legal representative, place of registration and business scope. The company’s name changed from Beiren Printing Machinery Holdings Company Limited to Jingcheng Holding Machinery Electric Holding Co., Ltd, The legal representative changed from Mr. Zhang Peiwu to Mr. Jiang Zili, the place of registration changed to room No. 901, No.59 building, Dongsanhuan Middle Road, Chaoyang District, Beijing City.

### I. General Information *(cont'd)*

The Company was originally engaged in developing, designing, manufacturing and selling a variety of printing press and related spare parts, packaging equipments and related spare parts, as well as technique consultations and services related to business operations.

The business scope of the Company has now changed, It includes: normal shipping; professional contractor. The general business projects includes: developing, designing, selling, installation and set up, repair low temperature storage-transport vessel, compressor (piston compressor, diaphragm compressor, nuclear membrane compressor) and related parts; equipments, electrical equipments; technique consultation and service; import and export of goods and techniques and agent.

Jingcheng Holding Machinery Electric Holding Co., Ltd. is the parent company in the group and ultimately ascertains control over the Group. Jingcheng Holding Machinery Electric Holding Co., Ltd holds major decision-making authority during, and in accordance with laws, it executes the resolution rights concerning significant business events such as the operations of the group, financing, investment, profit distribution etc. The Board of Directors is responsible for the Shareholder Meetings and legally executing the decision-making rights on business operations. The management is responsible for implementation of resolutions made by Shareholders and the Board of Directors and also presides over the operational management of the Group.

### II. Significant Accounting Policies and Accounting Estimates

#### 1. Basis of Preparation of Financial Statement

Based on the going-concern assumption, the consolidated financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises by the Ministry of Finance of the PRC, No.15 of regulations on Information Disclosures of Companies that Issue Public Offering Shares – General Rules of Preparing Financial Reports (revised in 2010) issued by China Securities Regulatory Commission (CSRC). In addition, the consolidated financial statements are prepared under applicable disclosure requirements stated in the Rules Governing the Listing of Securities issued by Hong Kong Exchange and Companies Ordinance.

#### 2. Disclaimer on the Compliance with Accounting Standards for Business Enterprises

The financial statements have been prepared by the Company and the Group in accordance with the accounting standards for business enterprises, and reflect a true and fair view of the Group's financial position as at 31 December 2013 and of the operating results and cash flows for the period then ended.

#### 3. Accounting Period

The accounting period for the Group is from 1 January to 31 December.

#### 4. Reporting Currency

The reporting currencies are Renminbi for all domestic business and USD for both Jingcheng Holding (Hong Kong) and America Fortune Company.

#### 5. Basis of accounting and measurement

The accrual basis of accounting is adopted. Furthermore, the historical cost method is used where appropriate except in the case of some financial instruments which are measured at fair value.

#### 6. Business combination

A business combination involves combining more than two separate entities into one reporting entity. The Group recognizes identified assets and liabilities on acquisition date. Combination or acquisition date is the date when the control over the acquiree is obtained.

Business combination is divided into combination under common control and combination not under common control.

##### (1) Business combination under common control

The consideration paid and net assets obtained by acquirer are measured at the carrying amounts. The difference between the carrying amount of the net assets obtained and the amount of consideration paid for the combinations adjusted to capital reserves (capital premium). If the balance of capital reserves (capital premium) is insufficient, any excess is adjusted against retained earnings.

##### (2) Business combination not under common control

The acquirer's purchase price and the acquiree's identifiable assets are recognized at their fair values at the acquisition date. When the purchase price exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. When the purchase price is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, after reassessment, if the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference through profit or loss for the current period.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 6. Business combination *(cont'd)*

##### (3) Acquiring non-controlling shareholders' equity

After acquiring control over subsidiaries, and obtaining all or partial equity from non-controlling shareholders, in the consolidated financial statements, the assets and liabilities of subsidiaries are disclosed on the price of acquisition date. The long-term equity investment increased is calculated based on updated holding rights which is the difference of net assets held from subsidiaries since acquisition date or consolidation date should be adjusted to Capital reserves (Share capital premiums); if Capital reserves (Share capital premiums) isn't enough to charge, the adjustment should be made to retain earnings.

#### 7. Preparation of consolidated financial statements

The scope of consolidated financial statements includes the Company and its controlled subsidiaries.

Control refers to the right which entitles the Group to make decisions on the financial and operational policies of the invested company, and receiving benefits from the business activities conducted by the invested company. The operation and financial position of the controlled subsidiaries is consolidated through the period of consolidation.

The significant balance, transactions and unrealized profits in the consolidation are eliminated when consolidation statements are prepared. Shareholders' equity of subsidiary and net profit and loss which are not belonging to the Company will be treated as non-controlling shareholders' equity and profit and loss, which are disclosed as separate line item under the shareholders' equity and the net profit in consolidation income statements. If the loss of non-controlling shareholders' exceeds the initial equity proportions at the beginning year owned by non-controlling shareholders in subsidiaries, the non controlling shareholders equity is written down.

When accounting policy and accounting period that subsidiaries adopt are not in accordance with the Company, Subsidiaries' financial statements should be adjusted based on the Company's accounting policy and accounting period.

For subsidiaries acquired through business combination not under common control, their financial statements should be adjusted based on identifiable fair value of net assets at the acquisition date. For subsidiaries acquired through business combination under common control, the business combination is treated occurred at the beginning of the earliest reporting period. The assets, liabilities, operation results and cash flow are recorded at the consolidation statements at its book value from the beginning of the earliest reporting period.

#### 8. Cash and cash equivalents

Cash in the cash flow statement indicates both cash on hand and the deposit held in bank which are available for payment at any time. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

#### 9. Foreign Exchange Translation for Financial Statements

##### (1) Transactions involving foreign currencies

Foreign currency transactions are translated into RMB at the spot exchange rate on the date of the transaction

The monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance date. However, the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit and loss. For non-monetary accounts measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognized is applied and the amount in RMB is consistent. For non-monetary items in foreign currency measured at fair value, the exchange rate on the date when the fair value is recognized is applied and the exchange difference is accounted into current profit and loss as a result of fair value change, or recognized as other comprehensive income and charged into capital reserves.

##### (2) Foreign Currency Translation of Financial Statements

The asset and liability items in the balance sheets are translated at a spot exchange rate as at the balance sheet date. The owner's equity items, except those classified as "retained earnings", are translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit or loss statements are translated at the average exchange rate during the accounting period. The difference arisen from the above translation's are presented separately under the owner's equity item of the balance sheets. Foreign currency cash flow is translated using the average exchange rate during the accounting period. The impact of exchange rate fluctuations on cash and cash equivalents is separately presented in the statement of cash flow.

## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 10. Financial Instruments

#### (1) Financial Assets

##### 1) **The Classification of Financial assets**

Financial assets are classified into four categories according to the purposes of investments and their economic substance. The four categories include: "Financial assets at fair value through profit or loss", "Held-to-maturity investments", "Loan and receivables" and "Available-for-sale financial assets".

Financial assets at fair value through profit or loss are those financial assets that have been acquired principally for the purpose of selling in the short terms. They are presented in the balance sheets as "Financial assets held for trading".

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments for which management has both positive intention and ability to hold to maturity.

Loan and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other class at initial recognition.

##### 2) **Recognition and Measurement of Financial Assets**

A financial asset is recognized in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities; any related directly attributable transaction costs are included in their initial costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Loan and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss are recorded as 'Gain or loss arising from changes in fair value' to current profit and loss. Interest or cash dividends received during the period in which such financial assets are held, are recognized as 'Investment income'. On disposal, the difference between the fair value of the disposal purchase consideration and the amount initially recorded are recognized as 'Gains or losses on Investment' through the current profit and loss.

Except for impairment loss and exchange gain or loss arising from foreign currency monetary financial assets, changes in fair value of available-for-sale financial assets are directly recorded in shareholders' equity. Until such financial assets is derecognized, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in equity are charged to profit or loss for the period as 'Investment income'. Interests for the period in which the assets are held is calculated using the effective interest method is charge to profit or loss for the period as 'Investment income'. Cash dividends declared by the investee company relating to available-for-sale equity instruments are charged to profit or loss for the period as 'Investment income'.

##### 3) **Impairment of Financial Assets**

The Group assesses the carrying amount of financial assets, other than those at fair value through profit and loss, at the balance sheet date. Impairment of financial assets is provided for when there is objective evidence that a financial asset is impaired.

When an impairment of financial assets carried at amortized cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit loss that have not been incurred). If there is objective evidence indicating that the value of the financial asset is recovered and recovery is related objectively to events occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit and loss for the period.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 10. Financial Instruments *(cont'd)*

##### (1) Financial Assets *(cont'd)*

##### 3) **Impairment of Financial Assets** *(cont'd)*

When there is a significant or prolonged decline in the fair value of available-for-sale financial assets, the accumulated losses in fair value that was previously directly recorded in shareholder's equity are transferred out and recognized as impairment losses. For the available-for-sale investment on debt instruments which impairment losses have been recognized, if in subsequent period, its fair value increases and the increase is objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previous recognized impairment loss is reversed into profit or loss for the period. For an investment in an equity instrument classified as available-for-sale equity on which impairment loss has been recognized, the increase in its fair value in a subsequent period is directly charged into shareholders' equity

##### 4) **Transfer of financial assets**

A financial asset is derecognized when any one of the following conditions is satisfied: i) the rights to receive cash flows from the asset expire, ii) the financial asset has been transferred and the Group transfers substantially all risks and rewards relating to the financial assets to the transferee, iii) the financial asset has been transferred to the transferee, the Group has given up its control of the financial asset although the Group neither transfers nor retains all risks and rewards of the financial asset.

Where an entity neither transfers nor retains substantially all risks and rewards of financial asset and does not give up the control over such financial asset, then the entity recognizes such financial asset to the extent of its continuous involvement and recognizes the corresponding liabilities. The extent of the continuous involvement represents the extent to which the entity exposes risks to changes in the value of such financial asset.

In the case where the financial asset as a whole qualifies for the de-recognition conditions, the difference between the carrying value of transferred financial asset and the sum of the amount received for transfer and the accumulated amount of changes in fair value that was previously recorded under other comprehensive income is charged into profit or loss for the period.

In the case where only part of the financial asset meets the criteria for de-recognition, the carrying amount of financial asset being transferred is allocated between the portions that to be derecognized and the portion that continued to be recognized according to their relative fair value. The difference between the amount of consideration received for the transfer and the accumulated amount of changes in fair value that was previously recorded in other comprehensive income of the part qualifies for de-recognition and the above-mentioned allocated carrying amount is charged to profit or loss for the period.

##### (2) **Financial liabilities**

Financial liabilities of the Group are classified as "financial liabilities at fair value through profit or loss" and "other financial liabilities" on initial recognition.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as fair value through profit or loss on initial recognition. They are subsequently measured at fair value. The net gain or loss arising from changes in fair value, dividends and interest paid related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.

Other liabilities are subsequently measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying present obligations (or part of those obligations) are discharged.

The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss for the period.

**II. Significant Accounting Policies and Accounting Estimates** (cont'd)

**10. Financial Instruments** (cont'd)

**(3) Determine the fair value of financial assets and financial liabilities**

- (a) Where there is an active trading market, the fair value of the financial instruments is determined by reference to the quoted price in the active trading market. In the active trading market, the fair value of financial assets already held by the Group or the financial liabilities that the group is proposed to assume is determined by the current bid price of the corresponding assets or liabilities. The fair value of financial assets that the Group is proposed to acquired or the liabilities already assumed by the Group is determined by the ask price of the corresponding assets and liabilities. Where the financial assets and financial liabilities do not have bid price or ask price, and there are no significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by reference to the quoted prices of recent transactions. Where there are significant changes in the operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by the quoted price of the most recent transactions as adjusted by reference to the current prices or interest rate. Where there is sufficient evidence to show that the market quoted price of the recent transactions is the fair value of such financial assets or financial liabilities is determined by the quoted price of the recent transaction after making appropriate adjustments.
- (b) Where there is no active trading market for the financial instruments, the fair value of such financial instruments are determined by valuation techniques. Valuation techniques include making reference to the price of recent market transactions by knowledgeable and willing parties; making reference to the current fair value of other financial assets that are the substantially identical to such financial assets; discounting method of cash flows, share option valuation model, etc.

**(4) Offsetting Financial Assets against Financial Liabilities**

When there is legal entitlement to offset financial assets and financial liabilities, and the parties involved both agree to record the net amount, or settling financial assets and financial liabilities aggregately (Other than netting agreement), financial assets and financial liabilities can be offset in balance sheet statement.

**(5) Equity instrument**

Equity instruments are any contracts that evidence a residual interest in the assets of an entity after deducting all its liabilities.

The transaction costs from the issuance of the Group's equity instrument is deducted from stockholder's equity.

When an entity reacquires its own equity instruments ("treasury shares"), the consideration and related expenses paid are deducted from equity.

Distributions (excluding dividends) paid on equity instruments issued should be charged directly to equity, net of any related income tax benefit. The Group does not recognize changes in fair value of equity instrument.

**11. Accounts Receivable**

Receivables include accounts receivable and other receivables. The group's accounts receivable arise from selling goods and rendering services. The group initially recognized accounts receivable in accordance to the selling price stated in the contracts signed or the amount negotiated with buyers.

Individual and portfolio methods are applied to estimate impairment loss on accounts receivable.

**(1) Accounts receivable that are individually insignificant but are individually provided for bad debts**

The basis or standard for determining the significant level of individual receivable	Consider individual receivables above RMB 5,000,000.00 as significant receivables
Provision-making Method on individual receivables above significant level	The provision of bad debts is made according to the difference between the present value of future cash flows and the book value of receivables





## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 13. Long-Term Equity Investments

Long-term equity investments mainly include long term equity investment to subsidiaries from the Group, the Group's long-term equity investment in both joint ventures and associates, and equity investments which are either with control, common control or significant influence over investees, or without those control or influence over investees and no offer or fair value can be measured reliably in the active market.

Subsidiaries defined as invested entities can be controlled by the Company; Joint-ventures defined as invested entities can be jointly controlled by the Company and other investing parties; associated enterprise defined as invested entities of which the Group has significant influence over its financial and operation decisions.

#### (1) Identify control, common control and significant influence:

Control indicates the Group has power over the invested entities' financial and operating policies and will benefit from their operating activities. When determining whether the Company has control over the invested entity, any convertible corporate bonds and executive share options held for the current period are taken into consideration as well.

Common control indicates the joint sharing of control according to the investment contract. Any one party involved cannot control the production and operation activities of the joint venture. All decisions related to principal operations and activities need the agreement from all parties.

Significant influence indicates the right to be involved in the decision-making regarding the financial and operational policies of the investee but does not constitute enough power to be deemed control or common control. Significant influence usually involves the direct ownership or indirect ownership of subsidiaries where ownership amounts to between 20% and 50% of voting rights from investees otherwise there must be solid evidence showing investors cannot be involved in investees' decision making under such conditions.

#### (2) Initial measurement

For the combination of enterprises under the same control, on the date of combination, regard the share of the book value of the owner's equity of the combination enterprise as the initial cost of the long-term equity investments. The difference between the initial cost of the long-term equity investments and the payment in cash, non-cash assets transferred as well as the book value of the debts borne and par value of equity securities issued by the merging party shall offset against the capital reserves. If the capital reserves are insufficient to dilute, the retained earnings shall be adjusted.

For the combination of enterprise not under the same control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. The positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree is recognized as goodwill. The negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree is accounted into current profit and loss account after the confirmation.

The initial cost of a long-term equity investments obtained by making payment in cash is initially measured at the purchase cost which was actually paid.

The initial cost of a long-term equity investments obtained through the issue of equity securities is measured at the fair value of the equity securities issued.

The initial cost of a long-term equity investments of an investor are measured as the value stipulated in the investment contract or agreement after considering the unfair value stipulated in the contract or agreement.

The initial cost of a long-term equity investments obtained by recombination of liabilities or the exchange of nonmonetary assets is measured in accordance with Accounting Standards for Enterprises.

#### (3) Subsequent measurement

The Group recognizes the investment in subsidiaries using the cost method and upon compiling the consolidated statements, the group subsequently uses the equity method. The Group applies the equity method on accounting for investments in joint ventures and associated companies, and the cost method on accounting for any long-term equity investments without control, with common control or with significant influence as well as situations where there are no pricing and no reliable fair value in the active market for financial assets available-for-sale.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 13. Long-Term Equity Investments *(cont'd)*

##### (3) Subsequent measurement *(cont'd)*

Under the cost method, if the long-term equity reinvestment or investment refund is incurred, the long-term equity investments cost shall be adjusted. The apportioned profit or cash dividends acquired from investees shall be recognized as current investment income.

For equity method: The current period's profit or loss is the entitled portion of the investee's profit or loss for the period. The gain or loss on investment must be determined and the book value of the long-term investment must be adjusted for factors other than net profit or losses that have impacts on investee's change in equity. When shareholding percentage remains unchanged, the gain or loss on the investment is calculated and the book value of the long term investment is adjusted accordingly; Capital reserves are also determined. When the Group determines the amount of net profit or loss from investee that it is entitled to, the fair value of the investee's assets at the acquisition date is applied as a basis for calculation basis. The entitlement is in accordance with Group's accounting policy and financial period and internal transactions between joint-ventures and associated enterprises are offset. A resulting adjustment is made to the investee's net profit or loss. The amount the group is entitled to is calculated based on both the declared dividends and cash dividends of the investee and lower book value of long-term investment accordingly. When the Group determines investee's net loss the book value of long-term investments is used as a basis and impairment is provided which could reduce the value to as low as nil when the contractual obligation to undertake additional losses is exclusive. In addition, in the case that Group has contractual obligation to undertake additional losses, then the estimated liability should be determined by the contractual amount and accounted for in the current period profit or loss. In the case that investee achieves net profits in the following periods; the Group begins to recognize return on investment after offsetting any undetermined share of losses.

The long-term equity investments for which the Group no longer has common control or significant influence over the investee as a result of the decrease of investment or other reasons, and there is no offer in the active market and of which the fair value can be reliably measured, the cost method is adopted for valuation purposes. Long term equity investments can constitute control over investees by reinvestment. In this case the cost method is adopted for valuation purposes. The equity method is adopted where an investee exists that the Group has either common control or significant influence but not control due to increased additional investment. The method will also be adopted where the Group no longer has control but only common control and significant influence over the investee due to reasons such as disposal of long-term investment.

##### (4) Disposal of long-term equity investments

The difference between the book value and the gain on disposal for long-term equity investments is accounted into the current profit or loss. For long-term equity investments measured using the equity method, they are recorded through equity based on the changes in equity which excludes the net profit made by the invested company. This amount is recorded through equity will be transferred to profit on investment for the period.

##### (5) Impairment loss of long-term equity investments

As at the balance sheet date, the Company estimates the recoverable amounts of long-term investments of subsidiaries, joint ventures and associated enterprises if there is any indicators impairment. In the case that recoverable amount is less than book value, an impairment loss is recognized through the current period profit or loss. A provision account is also raised for long-term investment impairment losses. If other equity investments are impaired, the difference between the present value of future cash flow and book value of investment is recognized as an impairment loss on the basis of similar financial assets rate of market return. Furthermore, the impairment losses are accounted through the current profit or loss account and also through the long term impairment loss provision account. The above impairment loss for long-term investment impairment loss cannot be reversed in subsequent accounting periods.

#### 14. Investment Properties

The investment properties include the rights to land use for property rented to other parties, the rights to land use for properties held for and prepared for transfer after appreciation and rights to land use for buildings that are rented to other parties.

The investment property is recognized at initial cost. The cost of an investment property by acquisition consists of the acquisition price, relevant taxes, and other expenses directly attributed to the asset. The cost of a self-built investment property is composed of the necessary expenses required for building the asset to the necessary condition for use. If the subsequent expense is related to investment property that can bring economic benefit into the Group and expense can be measured reliably, it shall be include into the cost of the investment property; otherwise, it is accounted through current profit or loss.

**II. Significant Accounting Policies and Accounting Estimates** *(cont'd)*

**14. Investment Properties** *(cont'd)*

The Group makes a follow-up measurement to the investment property through the cost pattern on the date of the balance sheet.

The investment property is amortized and depreciated basing on its useful life and the residual value. The life time and the rate of residual value applied by the Group are as follows:

<b>Classification</b>	<b>Useful life (year)</b>	<b>The rate of residual value (%)</b>	<b>Amortization rate (%)</b>
Land use right	50		2.000
Buildings	40	3	2.425

The Group will review the useful life, the estimated residual value and the amortization method of investment property on each balance sheet date, and make an appropriate adjustment if necessary.

When the investment property is changed for owner occupied, it is recognized as a fixed asset or intangible asset as at the date when the change occurred. When the property for owner occupied is changed for generating rents or capital appreciation, it is recognized as the investment property as at the date when change occurred. The book value of the property prior to the conversion is the entry value after the conversion.

If an investment property is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the investment property shall be derecognized. When an enterprise sells, transfers or disposes of any investment property, or when any investment property is damaged or destroyed, the enterprise shall deduct the book value of the investment property as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

**15. Fixed Assets**

The Group's fixed assets are tangible assets that are held for the production of goods and/or the rendering of services, leasing to others, or for administrative purposes. Such assets have a useful life of over one accounting year.

Fixed assets consist of buildings, plant and machinery, motor vehicles, office equipment and others.

When it is probable that the economic benefits in relation to fixed assets will flow to the Group and the corresponding cost can be measured reliably, the fixed assets shall be recognized. The cost of purchased fixed assets includes the purchasing price, import duty and other relevant taxes and other expenditures directly attributable to bringing the assets into the conditions ready for use. The cost of self-made fixed assets includes the necessary expenditures for bringing the assets into the conditions ready for use. The cost of fixed assets invested by investors is recognized under contracts or agreements but if the value from contracts or agreements is not fair, the fair value will be applied. The fixed assets from finance leasing are measured at the lower of the fair value and the minimum lease payment on leasing date.

The subsequent measurement of fixed assets comprises maintenance expenses, renewal and renovation expenses etc. Expenses which meet the criteria for fixed assets are accounted into the cost of fixed assets. Otherwise if they do not meet the recognition criteria they are accounted through the current profit or loss. The replacement part is derecognized from the account.

Apart from those fixed assets fully depreciated but still in use, as well as land separately recognized, the Group depreciates fixed assets on a straight-line basis and the depreciation expenses are accounted through the current profit or loss or cost of assets in accordance with the purposes of fixed assets.

Useful life, estimated residual value, depreciation rate of outgoing assets and fixed assets are as the following:

<b>Serial number</b>	<b>Classification</b>	<b>Useful life (year)</b>	<b>The rate of estimated residual value (%)</b>	<b>Depreciation rate (%)</b>
1	Building	40	3	2.425
2	Machinery	8-14	3	12.125-6.929
3	Transportation Equipment	8	3	12.125
4	Administrative equipment and others	8	3	12.125

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 15. Fixed Assets *(cont'd)*

Useful life, estimated residual value, depreciation rate of incoming assets and fixed assets are as the following:

Serial number	Classification	Useful life (year)	The rate of estimated residual value (%)	Depreciation rate (%)
1	Building	20-40	5-10	2.25-4.75
2	Machinery	10	5-10	9-9.5
3	Electric equipment	5-10	5-10	9-19
4	Transportation Equipment	5	5-10	9-19
5	Administrative equipment and others	5	5-10	9-19

The Group assesses the useful life, the depreciation rate and the method of depreciation for fixed assets at the end of each year. If any changes occur, they will be regarded as changes on accounting estimates.

For fixed assets obtained through financial leases, if the ownership can be determined reasonably at the end of the lease, then the same depreciation method as other fixed assets will be adopted during the leased assets' useful life. If the ownership can't be determined reasonably at the end of the lease, the same depreciation method as other fixed assets will be adopted for either useful life of the leased assets or lease term, whichever is shorter.

The Group derecognizes fixed assets from the account that has been disposed or cannot generate economic benefits by application or disposal. The income from selling, transferring, disposal or impairment of fixed assets, after their book value and relevant taxes and expenses is accounted into current profit and loss.

#### 16. Construction in Progress

Construction in progress is recognized at actual cost, which includes all types of expense for the project during the period, capitalized interests expense from borrowings, and other necessary expenditure incurred for bringing the construction in progress to the expected conditions for use.

Constructions in progress are carried down into fixed assets at an estimated cost on the basis of the project budgeting, pricing and actual cost when completing and achieving estimated usage status. The corresponding depreciation on these fixed assets is applied since the month after carrying down the construction in progress into fixed assets. After clearing for completion of the project, the originally estimated cost of fixed assets will be adjusted on the basis of the actual cost; it is not necessary to adjust the amount of depreciation and amortization that have already been accrued.

#### 17. Borrowing Cost

Borrowing cost includes interests from borrowing, amortization of discount or price premium, other attribute expenses and foreign exchange difference from borrowing in foreign currency.

Borrowing costs that directly attribute to purchasing or constructing assets is to be capitalized when expenditures for the assets and borrowing cost occur and the activities of purchasing or constructing made the assets available for use or commencement of sale. When assets approach the available for use or sale status, the capitalization of borrowing cost ceases. Subsequent borrowing costs are accounted through current profit or loss.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time (usually more than 1 year) for acquisition, construction or production to become ready for their intended use or sale.

For specific borrowings obtained for the acquisition of qualifying assets, the amount of borrowing costs to be capitalized is the interest expenses actually incurred during the period of capitalization deducting any interest income earned from depositing the unused borrowings in the banks or any investment income arising from temporary investment of those borrowings. For general borrowings obtained for the acquisition of qualifying assets, the amount of borrowing to be capitalized is determined by applying the weighted average effective interest rate of general borrowings, to weighted average of the excess amount of cumulative expenditures on the assets over the amount of specific borrowings.

During capitalization period, exchange differences of specific foreign currency borrowing will be capitalized; exchange differences for general foreign currency borrowing are accounted for the current period profit and loss.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and the interruption is for a continuous period of more than 3 months. The suspension ceases when the acquisition, construction or production activities are resumed.

## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 18. Intangible Assets

The intangible assets of the Group include the land use right, patent technology and non-patent technology.

Intangible assets are recognized at their actual cost when acquired. The cost of purchased intangible assets includes the actual purchase price and other necessary expenditures for purchase. The cost of intangible assets invested by investors is measured under contracts or agreements but if the value from contracts or agreements is not fair, the fair value will be applied.

The Group amortizes intangible assets with limited life using the straight-line method since the date it is acquired. Land use rights are amortized on the basis of their useful life by straight-line method since is the date they are acquired. Patent technology, non-patent technology and other intangible assets are amortized on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is bokked in current year profit or loss.

The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year and makes adjustments if needed.

There is no amortization for intangible assets with uncertain useful life. Rather an impairment test is carried out at the end of each accounting period. The Group assesses the estimate of useful life of intangible assets with uncertain useful life at the end of each accounting period. If there is evidence to prove the useful life of intangible assets is limited, the Group will estimate their useful life and amortize the intangible assets within the estimated life time.

When there is evidence to indicate impairment loss of intangible assets, the Group performs an impairment test at end of each year where the evidence is identified. For intangible assets with uncertain useful lives, the Group performs impairment tests regardless of whether there is evidence to indicate impairment loss.

### 19. Research and Development expenses

For the research and development expenses generated internally, it is classified as Research Stage and Development Stage in accordance with nature of the expense and the possibility of forming into intangible asset.

The expenditures in research phase are accounted into current profit and loss.

The expenditures in development phase are recognized as intangible assets if they meet the following conditions:

- (1) It is feasible to sell or use the intangible asset technically.
- (2) The intention is to sell or use the intangible asset.
- (3) The intangible assets are economically beneficial when the market is available for products from the intangible asset or the intangible asset itself. For intangible assets used internally, their usefulness should be proved.
- (4) The Group is capable of accomplishing the development of intangible asset by the supporting techniques, finance and other resources and of using or selling the intangible asset.
- (5) The expenditures on the research and development of the intangible asset can be measured reliably.

If the expenditures cannot meet the above criteria, they will be accounted through the profit or loss for the period. The development expenditures incurred in previous accounting periods cannot be recognized as the asset in later accounting periods. The capitalized expenditures in the development phase are presented as development expenditures in the balance sheet and are carried down into intangible assets since the date the asset meets the available for use status.

### 20. Goodwill

Goodwill represents the excess of the cost of equity investment or cost of business combination not under common control over the Group's share of the net identifiable assets of the invested company or acquiree at the date of acquisition or combination.

Goodwill relating to subsidiaries is presented in consolidated financial statements as a separate line item. Goodwill relating to associates or jointly controlled entities is included in the carrying amount of the long-term equity investments.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 21. Long-term Deferred Expenses

The long-term deferred expenses of the Group refer to the actual expenses paid and charged into current period and later periods. The length of period is normally more than one year (excluding one year). These expenses are amortized on straight-line basis within beneficial periods.

If the long-term deferred expenses cannot benefit the later periods, the amortized price will be accounted into current profit and loss.

#### 22. Impairment of Non-Financial Assets

The Group makes an assessment of the fixed assets, construction in progress, intangible assets with limited useful life, investment property based on cost model, and long-term equity investments on each balance sheet date. The impairment could be necessary based on impairment indicators and therefore the Group is required to conduct tests for impairment. In the case the impairment test indicates the book value of assets is greater than the recoverable amounts, and then the difference is recognized as an impairment loss. Assets' recoverable amount is whichever is higher of either difference between fair value of the assets after disposal expenses and the estimated future cash flow of assets. Asset's provision for impairment is calculated based on the single asset, if the recoverable amount of single asset is proved difficult to be recognized then the portfolio of which the single asset belonged to should be used as a calculation base. The portfolio is the minimal combination of assets which can generate cash inflow independently.

Impairment test should be made for good will at least once a year regardless of whether there is any indication of impairment losses. The book value of good will is distributed to assets portfolio or combination of assets portfolio that is expected to benefit from the business combination agreement. Loss needs to be recognized when the result of the test indicates that the recoverable value of asset portfolio or combination of asset portfolios, which contains good will, is lower than its book value. The provision of impairment amount is offset against the book value of distributed good will first, and then offset book value of other assets (assets that don't contain good will) based on the proportion of other assets of the asset portfolio or combination of asset portfolios.

The impairment loss of the above assets shall not be reversed in subsequent accounting periods once confirmed.

#### 23. Employee Benefits

Employee's benefits include salaries, bonus, allowances and subsidies; staff benefits, social security contributions; housing funds; union funds and staff education funds and other expenditure incurred for services rendered by employees.

Employee's benefits are recognized as liabilities during the accounting period when the employee renders services to the Group. Employee's benefits are allocated to related cost of assets and expense based on different beneficiaries. Compensation for termination of relationship with employees is recognized in the profit or loss for the period.

When the Group terminates an employee's employment before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy, the compensation liability for the termination of employment relationship with employee are charged to the profit or loss for the current period if the Group has a formal plan for termination of employment relationship in place or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

The Group offers voluntary redundancy welfare to the employees who accept voluntary redundancy. Voluntary redundancy welfare is the salaries paid to and social securities paid for the employees who voluntarily resign from their current position after management's approval and before the statutory retirement age. When qualified, the Group applies accounting treatment on the above-mentioned welfare based on the one on dismiss welfare. Voluntary redundancy welfare estimated from the day of service ceased to the day of normal retirement is recognized as contingent liability and accounted into current profit and loss.

#### 24. Share-Based Payments

Share-based payment represents transactions in which the Company receives services from employee or other suppliers by granting equity instruments or incurring liabilities that are based on the price of the equity instruments to the employee or other suppliers. Share-based payments included equity-settled share-based payments and cash-settled share-based payments.

## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 24. Share-Based Payments *(cont'd)*

#### (1) Equity-settled share-based payment

As to an equity-settled share-based payment in return for services of employees, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly. If the right cannot be exercised until the vesting period comes to an end or until the prescribed performance conditions are met, then on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves at the fair value of the equities instruments on the date of the grant.

Shares vested to employees are calculated under fair value according to the market price of the Group's shares, and adjustment to the shares vested is made according to the relevant provisions and conditions (except for the exercisable option not within market condition).

For stock options vested to employees, if there is no trading option with similar terms and conditions, the option-pricing model is applied to estimate the fair value of the options granted.

#### (2) Cash-settled Share-based Payments

A cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Group. As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the enterprise.

#### (3) Basis of best estimated for recognition of vested equity instruments

If, on the balance sheet date, the subsequent information indicates that the number of vested equity instruments is different from the previous estimate, an adjustment shall be made and on the vesting date, the estimate shall be adjusted to equal the number of the actually vested equity instruments.

#### (4) Accounting for modifications, cancellations, and settlements of share-based payment plan

If the modification increases the fair value of equity instruments vested, the Group recognizes the increase on the corresponding services obtained according to the increase on fair value of equity instrument; if the modification increases the quantity of equity instrument vested, the Group recognizes the increase on corresponding services obtained as the fair value of equity instrument increases; if the modification on the condition of exercisable option is beneficial to employees, the Groups considers the exercisable option after modification when the option is disposed.

If the modification decreases the fair value of equity instrument vested, the Groups continues recognizing the value of service obtained based on the equity instrument's fair value at the vested date without any consideration of the decrease on equity instrument's fair value; if the modification decreases the quantity of equity instrument, the Groups records the decreased portion in conformity with the cancellation of equity instrument vested; if the modification on exercisable option is unbeneficial to employees, no consideration is made on exercisable option when disposal of.

If the Group cancels the equity instrument vested or settled (excluding exercisable option cancelled due to unqualified) with vesting period, cancellation or settlement is treated as acceleration on exercisable option, amount proposed to be recognized within the remaining vesting period is immediately accounted into current profit and loss, and capital reserves should be recognized; entire amount paid to employees during cancellation or settlement is treated as repurchased of equity, consideration, paid for repurchase, in excess of the fair value at repurchasing date is accounted into expenses for current year; if new equity instruments are vested to employees, and they are verified, at the vesting date of new equity instrument, as alternatives vested to cancelled equity instruments, the Groups' treatment on the new equity instrument is in conformity with the modified treatment on disposal of equity instrument.



### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 25. Contingent liability/Estimated liability

When an external warranty, commercial acceptance discount, pending legal proceedings or arbitration, warranty on quality of goods or other contingent matters meet the following requirements, the Group will recognize them as contingent liabilities. The requirements mentioned above are as follows: The assumed responsibilities are current liability. The fulfillment of obligations will cause the outflow of economic benefit from the Group. The amount of liabilities can be measured reliably.

Estimated liabilities are recognized at the most appropriate estimation of obligations by considering related risks, uncertainties and time value of money etc. If the effect from time value of money is significant, the most appropriate estimation will be discounted into present value. As time goes on, the book value of estimated liabilities is increased by the discount reduction; the increased amount is recognized as interest expense.

The Group assesses the book value of estimated liabilities on each balance sheet date and adjustments will be made if there are changes, in order to indicate the most appropriate estimation of obligations.

#### 26. Revenue Recognition Principle

The revenue of the Group is mainly from selling goods, rendering services and allowing the use by others of company's assets. The criteria of reorganization are as follows:

##### (1) The revenue from selling goods

Sales of goods are recognized when 1) the significant risks and rewards of the ownership of commodities are transferred to customers; 2) the Group has no longer retained continuous management rights generally associated with the ownerships; 3) the Group has no longer effective control over the commodities sold; 4) the amount of revenue can be reliably measured; 5) it is very likely that the economic benefits will be flowed to the Company; and 6) when the related costs that has incurred or will be incurred can be reliably measured.

##### (2) The revenue from rendering service

It will be recognized when the total income and cost of service can be measured reliable, relative economic benefits likely flow into the Group, and the percentage of completion of the service can be measured reliably.

At the balance sheet date, for the results of rendering service can be measured reliably, the relative income will be recognized in accordance of percentage-of-completion method. The percentage-of-completion is determined by finished work/percentage of service rendered of service promised to provide/cost occurred of total cost; For result of service rendered can't be measured reliably but the occurred labor cost is expected to be compensated, the relative income is determined by the occurred labor cost which is expected to be compensated and carry-forward occurred labor cost; For result of service rendered can't be measured reliably and the occurred labor cost is not expected to be compensated, the occurred labor cost is accounted into current period profit and loss and income is not recognized.

##### (3) The revenue from the property alienation

The revenue from the property alienation will be recognized by the receive date and method under the related contract or agreement. When the economic benefits related to transactions may flow into the Group, and the amount of this relevant revenue can be measured reliably.

#### 27. Government subsidies

Government grants are monetary or non-monetary assets obtained from the governments, excluding the contributed capital from the government investor. The special grant of investment from government, which should be recognized as Capital reserves according to related Federal documents, should also be capitalized in nature, and therefore shouldn't be recognized as government grants.

A government subsidy of the Group shall be recognized if the Group can meet the conditions for the government subsidy and also can obtain the government subsidy.

If a government subsidy is a monetary asset, it is measured at actual received amount; if the amount is fixed or reasonable evidence indicates legal compliance is satisfied and amount is likely to be received in the future, it is measured at receivable amount.

If a government subsidy is a non-monetary asset, it is measured at its fair value. If the fair value of a non-monetary asset cannot be acquired in a reliable way, it is measured at its nominal amount (RMB 1).

## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 27. Government subsidies *(cont'd)*

The Group classifies government subsidies as assets related and income related grant, and the base of determination is as the following: Assets related grant is the government subsidy used in the generation of long-term assets through construction or others. Income related grant is the government subsidy other than assets related grant. If there is no defined subsidy object stated in government's documents, the above will be applied as the Group's judgment basis.

The government subsidies pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life.

Those subsidies used for compensating the related future expenses or losses of the Group are recognized as deferred income and accounted into current profit and loss when the relevant expenses are recognized; or those subsidies used for compensating the related expenses or losses incurred to the Group are accounted into current profit and loss directly.

When government subsidies are determined needed to return, the balance of deferred income is written-off and any exceeded portion is accounted into current profit and loss. If the returned subsidies don't constitute as deferred income then account into current profit and loss directly.

### 28. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liability are recognized at the differences (temporary tax differences) between the tax base of an asset or liability and its book value. The Group recognizes the deferred tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which is most likely to acquire and can be deducted from the deductible temporary difference. The temporary difference of initial recognition of goodwill shall not be recognized as deferred tax liabilities. The temporary difference is caused by the initial recognition of assets and liabilities from non-enterprise combination, which is not influence profits and tax payables, it shall not be recognized as deferred tax asset and liabilities. On the balance sheet date, the deferred tax assets and liabilities are measured by the applicable tax rate when the assets predict to be returned or liabilities can be repaid.

The Group recognizes the deferred tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which is most likely to acquire and can be deducted from the deductible temporary difference. For the differed tax assets that have already been recognized, when there are any evidences showing that the Group is probably incapable of acquiring sufficient amount of taxable income tax in a future period to offset against the deductible temporary difference, the book value of the deferred tax assets will be deducted. When it is likely to acquire sufficient amount of taxable income tax, the amount deducted can be reversed.

For deferred tax liabilities arising from deferred tax difference of subsidiaries and associated enterprise unless Group can control the time of reversal and the reversal is most likely not going to occur in the foreseeable future. For deductible deferred tax differences of subsidiaries and associated enterprise, when the temporary difference will be reversed in the foreseeable future and it is going to be used to set off tax payable of deductible temporary difference will be treated as deferred tax assets.

The deferred tax assets and liabilities satisfy following conditions is presented at net amount after offsetting:

- (1) The deferred tax assets and liabilities is relative to the income tax collected by same tax authority from the same taxable entity of the Group;
- (2) The Group's taxable entity has legal right to settle tax assets and liabilities at net amount.

### 29. Lease

The Group classifies lease into financing lease and operating lease on the start date of the lease. Financing lease refers to the lease that essentially transfers all the risks and compensations related with the ownership of the asset; Operation lease refers to the lease other than financing lease.

#### (1) Asset of financing lease

From the start date of the lease, comparing the fair value of the lease asset and the present value of the minimum lease payment, the lower one would be the entry value as asset of financing lease. The unconfirmed financing expenses refers to the balance of the entry value as asset of financing lease and the minimum lease payment; the amortization applied by effective interest method over the lease term. The minimum lease payment deducts the unconfirmed financing expenses account to long-term liabilities and the long-term liabilities due within one year.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 29. Lease *(cont'd)*

##### (1) Asset of financing lease *(cont'd)*

The lease assets accrue depreciation during the working life if the ownership is reasonable confirmed before expiration. Otherwise, the lease assets would accrue depreciation in the shorter term between the lease term and its working life.

##### (2) Asset of financing lease

From the start date of the lease, the entry value of receivable financing lease is the sum of the minimum lease payment and the initial direct expenses, and the unguaranteed residual value would be accounted; the balance of the total value of minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of the present value is recognized as unrealized financing income, and distributed during the lease term. The current financing income is calculated by effective interest rate method.

The unguaranteed residual value would be reviewed at the end of each year. There is no adjustment while the unguaranteed residual value increases. If the evidence indicates that unguaranteed residual value has been decreased, the lease implicit interest rate would be recalculated. The caused decrease of net value of lease investment is accounted to the current profit or loss; the financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment refers to the balance of the minimum lease payment and unguaranteed residual value and unrealized financing income.

The recognized loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate.

It might be accounted to the current profit or loss when the contingent rental actual occurs.

##### (3) Assets of operating lease

The rental expenses of assets of operating lease are recognized as relevant asset cost or current profit or loss due to the straight-line method during the period of the lease. The initial direct expenses would be accounted to the current profit or loss. It might be accounted to the current profit or loss when the contingent rental actual occurs.

##### (4) Assets of operating lease

The rental income of assets of operating lease is recognized as revenue due to the straight-line method during the period of the lease. As to the initial direct expenses of assets of the operating lease, the bigger amount would be capitalization and the whole lease period may accordance with the basic stages that are same as the recognized rental income; the smaller amount would be directly accounted to current profit or loss. It might be accounted to the current profit or loss when the contingent rental actual occurs.

#### 30. Income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying amount of goodwill. All other current tax and deferred tax are recognized in the profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprise in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred tax assets and deferred tax liabilities at the end of period that should be recognized using the balance sheet liabilities approach and their balances originally recognized.

#### 31. Segment report

Business segment is determined in accordance with governance structure; management requests, internal reporting system, and the Group confirm the report segment on the basis of business segment and disclose the segmental information.

Business segment is a component of the Group that satisfies the following conditions simultaneously: the component can make revenue and expenses in normal operation activities; the management level can appraise the operating performance of the component in order to allocation of resource and appraise the performance on regular basis; and the Group can receive the financial position, operating performance and cash flow of the component etc. If two or more than two segments carry similar economic characteristics, and satisfied certain condition which could merge as one operation segment.

## II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

### 32. Held-or-sale assets and discontinued operation

A component is classified as held-for-sale when all of the following conditions are satisfied: 1) the Group has made a resolution on disposal of the component; 2) an irrevocable contract with the transferee has been signed; and 3) the transfer will be completed within one year.

Qualified held-for-sale non-current assets are presented as other non-current assets, and the amount is the lower of carrying amount or fair value less disposal expenses. If the carrying amount is greater than fair value less disposal expenses, the exceed amount is recognized as impairment loss.

Discontinued operation is a component of the Group that either has been disposed of or is classified as held-for-sale, and can be distinguished from other components within the Group in the business operations and in the preparation of financial statements.

### 33. Change in Accounting Policies, Estimate and Errors

There is no change in the use of accounting policies, estimate and errors within the financial year.

### 34. Correction of errors of prior periods

There is no correction of errors of prior periods.

### 35. Significant accounting estimation and materiality judgment

When preparing financial statements, the management of the Group needs to use assumptions and evaluations, which might influence accounting policy application and the amounts of assets, liabilities revenues and expenses. The effective result might have conflicts with these estimates. The management will process continuing evaluation on the uncertain factors and key assumptions that affect estimates. The changes on accounting estimates effects should be recognized in the current period or carry forward.

The following accounting estimates and key assumptions would result in significant adjustment of the book value of assets and liabilities for next fiscal year.

#### (1) Provision for receivables' devaluation

As disclosed in Note II.11, the Group would review the Accounts receivables measured with amortized costs on the balance sheet date to evaluate the existence of impairment, and determine the estimated amount of impairment. The proof for impairment includes data indicated that the future cash flow for individual or combined accounts receivable's significant decrease; data indicated that the debtors for individual or combined accounts receivable negative financial issues. If it's proved that the value of accounts receivable has recovered, and objectively related to the post damage, then the impairment should be reversed.

#### (2) Impairment for inventories

As stated in Note II.12, the Group would estimate net realizable value of Inventories on a regular basis, and the difference of inventory cost higher than net realizable value would be recognized as loss from inventory devaluation. The estimating net realizable value is based on estimated price of similar goods, net of costs, selling expense and related taxes. If the effective price is different from estimated price, the management would adjust the net realizable value. Therefore the estimation according to current experience would be different from the actual value, resulting in adjustment of book value of Inventories in the Balance sheet. Provision for Inventory impairment could be revised because of the above issues. The adjustment for Provision for Inventory impairment could impact the current profit or loss.

#### (3) Accounting estimates for goodwill impairment

The Group tests the goodwill impairment annually. If the assets and assets portfolio include goodwill and their recoverable amount is future cash flow, accounting estimate will be applied as measurement method.

If the management revises the gross margin, which is adopted for the calculation of future cash flow of assets and assets portfolio and the revised gross margin is lower than the current adopted one, the Group should increase the provision of goodwill impairment.

If the management revises the pre-tax discount rate for discounted cash flow and the revised pre-tax discount rate is greater than the current adopted one, the Group should increase the provision of goodwill impairment.

If actual gross margin or pre-tax discount rate is greater than the one estimated by the management, the Group is not allowed to recover the provision of goodwill impairment loss.

## NOTES TO THE FINANCIAL STATEMENT

### II. Significant Accounting Policies and Accounting Estimates *(cont'd)*

#### 35. Significant accounting estimation and materiality judgment *(cont'd)*

##### (4) Accounting estimates for fixed assets impairment

The Group would carry out impairment test for fixed assets such as buildings, machinery and equipment, etc. The higher of collectable value and discounted future cash flow; and fair value net of the disposal costs, the calculation of which needs accounting estimates.

If the management revises the applied gross margin rate for asset group or its future cash flow calculation, and the revised gross margin rate is lower than effective discount rate applied, the Group should increase the accrual the impairment for fixed assets.

If the management revises the pre-tax cash flow discount rate, and the revised pre-tax discount rate is higher than the effective discount rate applied, the Group should increase the accrual the impairment for fixed assets.

If the effective gross margin rate or the pre-tax discount rate higher or lower than estimated, the Group would not recover the impairment for fixed assets accrued.

##### (5) Accounting estimates for deferred income tax assets recognized

The estimates for deferred income tax assets need include taxable income and applicable tax rate for the future years. The deferred income tax assets' existence depends on whether the Group has enough taxable income in the future. The recover spot time for tax rate change and temporary difference might also influence Income tax expenses (income) and the balance of deferred income tax. The change for above estimates might result in significant adjustment in deferred income tax.

##### (6) The useful life for fixed assets and intangible assets

The Group would review the estimated useful life for fixed assets and Intangible assets at year-end for at least once a year. The estimated useful life is determined by the management based on previous experience, and that of the same industry, together with the upgrade of technology. If the previous experience changes significantly, the Group needs to adjust the depreciation expense and amortization expense in the future years.

### III. Taxation

#### 1. Main categories of tax and tax rate

Category	Tax basis	Tax rate
VAT	Revenue from sales of goods	17%
Business Tax	Taxable revenue	5%
Urban Construction & Maintenance Tax	VAT or Business tax payable	1%, 5%, 7%
Education Surcharges	VAT or Business tax payable	3%
Local Education surcharges	VAT or Business tax payable	2%
Estate Tax	Lease income and 70-80% of the estate's original value	1.2% & 12%

Corporate income tax rates for subsidiaries are as following:

Company	Tax Rate
Jingcheng Holding Machinery Electric Holding Co., Ltd.	25%
Shanxi Beiren Printing Machinery Holdings Limited	15%
Beijing Beiren Fuji Printing Machinery Co., Ltd.	25%
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	25%
Beijing Beiren Printing Equipments Co., Ltd.	25%
Beijing Tianhai Industry Co., Ltd.	15%
Tianjin Tianhai High Pressure Containers Co., Ltd.	25%
Langfang Tianhai High Pressure Cylinder Co., Ltd.	25%
Shanghai Tianhai Gas Cylinder Co., Ltd.	25%
Beijing Tianhai Cryogenic Equipment Co., Ltd.	25%
Beijing Panni Gaokong Equipment Co., Ltd.	25%
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	25%
America Fortune Company	Progressive tax rate
Beijing Jingcheng Compressor Co., Ltd.	15%
Jingcheng Holding (Hong Kong) Company Limited	16.50%

America Fortune Company is registered in the USA, it applies progressive tax rate to calculate corporate income tax, which is 15% to 39% based on different taxable income.

### III. Taxation (cont'd)

#### 2. Taxation Benefits and Approval

On 24 December 2010, Beijing Tianhai Industry Co., Ltd. as the subsidiary of the Group was certified as High and New Technology Enterprise and issued the corresponding certificate with No. GR20101000725 jointly by Beijing Science and Technology Commission, Beijing City Bureau of Finance, Beijing Administration of State Taxation, and Beijing administration of Local Taxation. The certificate is with three-year validation. By the approval of the certificate, Beijing Tianhai applies 15% as the rate for corporate income tax. In 2013, Beijing Tianhai applied for a review of High and New Technology Enterprise. On 14 November 2013, the Notice of the List of High and New Technology Enterprise as the First Batch of Applicants Passing Review for 2013 (Beijing Technology [2013] 536) was issued by Beijing Science and Technology Commission, Beijing City Bureau of Finance, Beijing Administration of State Taxation, and Beijing administration of Local Taxation, which allowed Beijing Tianhai applies 15% as the rate for corporate income tax in 2013.

On 28 October 2011, Beijing Jingcheng Compressor Co., Ltd. as the subsidiary of the Group was certified as High and New Technology Enterprise and issued the corresponding certificate with No. GF201111001877 jointly by Beijing Science and Technology Commission, Beijing City Bureau of Finance, Beijing Administration of State Taxation, and Beijing administration of Local Taxation. The certificate is with three-year validation. By the approval of the certificate, Beijing Jingcheng Compressor Co., Ltd. applied 15% as the rate for corporate income tax in 2013.

#### 3. Changes in taxation and taxation preferential policy

There is no change in taxation and taxation preferential policy in contrast to previous period.

## IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Subsidiaries

Company names	Abbreviation	Business type and structure	Registration Location	Operation location	Business nature	Registered capital	Scope of operation
<b>Subsidiaries acquired under common control</b>							
Beijing Tianhai Industry Co., Ltd.	Tianhai Industry	Sino-foreign joint ventures	Chaoyang, Beijing	Chaoyang, Beijing	Manufacture	USD 61,401,800.00	Produces, sells of gas cylinder, accumulator, pressure vessels and equipment etc.
Beijing Jingcheng Compressor Co., Ltd.	Jingcheng Compressor	Limited company	Yanqing, Beijing	Yanqing, Beijing	Manufacture	RMB 139,271,500.00	Designs, produces, sells of compressor
Jingcheng Holding (Hong Kong) Company Limited	Jingcheng Holding (Hong Kong)	Hong Kong and Macao Enterprises	Hong Kong	Hong Kong	Trade and investment	HKD 1,000.00	Imports and exports trade, investment and consultancy services.

(Continued)

Company names	Ending investment balance	Balance of other items that essentially constitute net investment in subsidiaries	Ownership percentage (%)	Voting right percentage (%)	Legal representative	Code of organization	Whether is consolidated financial statements	Non-controlling interests' amount used to offset profit and loss attribute to non-controlling interests	Notes
<b>Subsidiaries acquired under common control</b>									
Tianhai Industry	624,631,295.27		100.00	100.00	Wang Pingsheng	60000369-4	Yes		Total ownership in sum of direct holding and indirect holding through Jingcheng Holding (Hong Kong)
Jingcheng Compressor	164,842,943.18		100.00	100.00	Wang Pingsheng	74043038-0	Yes		
Jingcheng Holding (Hong Kong)	142,044,028.10		100.00	100.00	Ren Yaguang		Yes		

## NOTES TO THE FINANCIAL STATEMENT

### IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS *(cont'd)*

#### 2. The change of the scope of consolidated financial statements

##### (1) Subsidiaries that newly included into the group consolidation this year

Company name	Reason for consolidation	Shareholding (%)	Year-end net assets	Net profit for the year
Beijing Tianhai Industry Co., Ltd.	Business combination under common control	100.00	1,001,650,540.38	-28,406,536.99
Beijing Jingcheng Compressor Co., Ltd.	Business combination under common control	100.00	160,472,711.92	-17,621,279.53
Jingcheng Holding (Hong Kong) Company Limited	Business combination under common control	100.00	140,989,378.27	-146,135.05

##### (2) Subsidiaries that no longer included in the group consolidation this year

Company name	Reason for	Shareholding (%)	Net assets on 31 October 2013	Net profit during Jan-Oct
Shanxi Beiren Printing Machinery Holdings Limited	Transferred out	86.24	61,446,934.80	2,346,973.51
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Transferred out	70.00	16,232,813.57	-5,187,863.69
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	Transferred out	100.00	-1,401,755.83	-2,678,801.08
Beijing Beiren Dipurui Printing Machinery Co., Ltd.	Transferred out	42.78	8,738,790.00	0.00
Beijing Beiren Printing Equipments Co., Ltd.	Transferred out	100.00	443,589,700.00	0.00

##### 1) Subsidiaries reduced due to the loss of control as a result of disposal of equity

Subsidiaries that no longer included in the group consolidation due to the loss of control as a result of disposal of equity include Shanxi Beiren Printing Machinery Holdings Limited, Beijing Beiren Fuji Printing Machinery Co., Ltd., Beijing Beiren Jinyan Printing Machinery Co., Ltd., Beijing Beiren Dipurui Printing Machinery Co., Ltd. and Beijing Beiren Printing Equipments Co., Ltd. The reason is that the Company transferred out all the assets and liabilities through material assets reorganization with the Beiren Group and Jingcheng Holding Machinery Electric Holding Co., Ltd.

#### 3. Business combination during the year

##### (1) Subsidiaries acquired through business combination under common control

No.	Subsidiary name	Registration location	Registered capital	Investment amount	Share-holding (%)
1	Beijing Tianhai Industry Co., Ltd.	Chaoyang District, Beijing City	USD61,401,800.00	624,631,295.27	100.00
2	Beijing Jingcheng Compressor Co., Ltd.	Yanqing Country, Beijing City	RMB139,271,500.00	164,842,943.18	100.00
3	Jingcheng Holding (Hong Kong) Company Limited	Hong Kong	HKD1,000.00	142,044,028.10	100.00

On November 2012, The Company signed the "Agreement of Replacing Material Assets" and the supplemental agreement of this agreement with Jingcheng Holding Machinery Electric Holding Co., Ltd. and the Beiren Group. According to the agreement, the Company replaced all assets and liabilities with assets related to gas storage and transportation owned by Jingcheng Holding Machinery Electric Holding Co., Ltd. The difference would be complemented in cash by Jingcheng Holding Machinery Electric Holding Co., Ltd. The assets intended to be transferred out are the Company's entire assets and liabilities, and the assets intended to be transferred into are 88.50% of shares of Beijing Tianhai Industry Co., Ltd, 100% of shares of Jingcheng Holding (Hong Kong) Company Limited and 100% of shares of Beijing Jingcheng Compressor Co., Ltd. excluding environmental protection business, owned by Jingcheng Holding Machinery Electric Holding Co., Ltd.

The Company signed the "Agreement of Delivering the Replaced Material assets" with Jingcheng Holding Machinery Electric Holding Co., Ltd. and the Beiren Group on 31 October 2013. Jingcheng Holding Machinery Electric Holding Co., Ltd. transferred the agreed assets into the Company and the Company transferred the agreed assets into the Beiren Group.

Since the Company and the Beiren Group are both actually controlled by Jingcheng Holding Machinery Electric Holding Co., Ltd., this business combination is the combination under same control.

**IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS** (cont'd)

**3. Business combination during the year** (cont'd)

**(1) Subsidiaries acquired through business combination under common control** (cont'd)

As long as the Company made the assets delivery with Jingcheng Holding Machinery Electric Holding Co., Ltd. and the Beiren Group on 31 October 2013, the date of combination was 31 October 2013. The Company regarded the share of the book value of the owner's equity of Beijing Tianhai Industry Co., Ltd., Beijing Jingcheng Compressor Co., Ltd. and Jingcheng Holding (Hong Kong) Company Limited as the initial cost of the long-term equity investments and adjusted the capital reserves (share premium) according to the difference between the initial cost of the long-term equity investments and the payment in cash, non-cash assets transferred out as well as the book value of the debts borne by the merging party.

Subsidiaries acquired through business combination under common control:

**1) Beijing Tianhai Industry Co., Ltd.**

Beijing Tianhai Industry Co., Ltd., formerly known as Beijing Tianhai High Pressure Containers Co., Ltd., was established on 18 July 1992 with registration capital of USD16,000,000. Beijing High Pressure Gas Cylinder Company and Korean High Pressure Cylinder Co., Ltd invested USD 8,000,000 respectively. The registration capital was increased to USD 24,924,000 in 2009 after several changes and conversions, including Jingcheng Holding Machinery Electric Holding Co., Ltd. invested USD17,836,700 and Jingcheng Holding (Hong Kong) Company Limited invested USD7,087,300 accounting for 71.56% and 28.44% of the registered capital respectively.

Beijing Tianhai Industry Co., Ltd. increased the registered capital by USD36,477,800.00 invested by Jingcheng Holding Machinery Electric Holding Co., Ltd. to USD61,401,800.00 in 2012. Jingcheng Holding Machinery Electric Holding Co., Ltd invested USD54,314,500.00 and Jingcheng Holding (Hong Kong) Company Limited contributed USD7,087,300.00 accounting for 88.50% and 11.50% respectively.

The main business scope of Beijing Tianhai Industry Co., Ltd. includes producing gas cylinders, accumulators, pressure vessel and equipments, wrapped cylinders, cryogenic gas cylinders, composite cylinders, etc. The main products are seamless steel gas cylinder, wrapped cylinders, cryogenic gas cylinders, etc.

Financial status of Beijing Tianhai Industry Co., Ltd.

(Unit: in RMB '0,000)

Item	1 January 2013- 31 October 2013	1 January 2012- 31 December 2012
Total assets	<b>232,126.71</b>	202,113.46
Total liabilities	<b>151,031.64</b>	119,027.13
Owner's equity	<b>81,095.07</b>	83,086.33
Operating income	<b>175,382.43</b>	219,210.53
Net profit	<b>-1,929.64</b>	5,141.26
Net cash flows from operating activities	<b>-12,681.18</b>	473.56
Net cash flows	<b>-19,935.09</b>	17,826.52



## NOTES TO THE FINANCIAL STATEMENT

### IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS *(cont'd)*

#### 3. Business combination during the year *(cont'd)*

##### (1) Subsidiaries acquired through business combination under common control *(cont'd)*

##### 1) **Beijing Tianhai Industry Co., Ltd.** *(cont'd)*

Subsidiaries of Beijing Tianhai Industry Co., Ltd.:

Company name	Nature	Registration location	Operation location	Business type	Registration capital	Operating scope
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Sino-foreign joint venture	Langfang City, Hebei Province	Langfang City, Hebei Province	Manufacture	RMB301,410,000.00	Designing and manufacturing steel seamless gas cylinder, etc
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign joint venture	Tianjin Port Free Trade Zone	Tianjin Port Free Trade Zone	Manufacture	RMB225,578,400.00	Designing, manufacturing and selling high pressure container, etc
Shanghai Tianhai Gas Cylinder Co., Ltd.	Sino-foreign joint venture	Songjiang District, Shanghai City	Songjiang District, Shanghai City	Manufacture	USD3,017,400.00	Manufacturing and selling wrapped gas cylinder
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited Liability Company	Daxing District, Beijing City	Daxing District, Beijing City	Manufacture	RMB40,000,000.00	Manufacturing and selling cryogenic storage tanks, tank-use container, etc.
Beijing Panni Gaokong Equipment Co., Ltd.	Limited Liability Company	Tongzhou District, Beijing City	Tongzhou District, Beijing City	Manufacture	RMB20,000,000.00	Designing, manufacturing and selling aerial equipment
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	Limited Liability Company	Tongzhou District, Beijing City	Tongzhou District, Beijing City	Merchandizing	RMB380,412,700.00	Selling pressure container
America Fortune Company	Foreign Company	Houston, America	Houston, America	Merchandizing	USD3,367,550.00	Selling industrial gas cylinders and electromechanical products

(Continued)

Company name	Year-end investment amount	Share-holding (%)	Voting Right (%)	Legal representative	Registration code
Langfang Tianhai High Pressure Cylinder Co., Ltd.	176,283,773.29	82.08	82.08	Pingsheng Wang	79956948-3
Tianjin Tianhai High Pressure Containers Co., Ltd.	102,693,100.00	45.52	55.00	Guangling Liu	74665239-8
Shanghai Tianhai Gas Cylinder Co., Ltd.	17,176,284.97	89.32	89.32	Pingsheng Wang	60742223-4
Beijing Tianhai Cryogenic Equipment Co., Ltd.	30,000,000.00	75.00	75.00	Pingsheng Wang	67505219-1
Beijing Panni Gaokong Equipment Co., Ltd.	20,234,235.97	100.00	100.00	Pingsheng Wang	10248506-1
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	210,000,000.00	55.20	55.20	Pingsheng Wang	05733001-9
America Fortune Company	18,361,890.00	51.00	51.00	Chuanzhong Hu	

**IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS** (cont'd)

**3. Business combination during the year** (cont'd)

**(1) Subsidiaries acquired through business combination under common control** (cont'd)

**2) Beijing Jingcheng Compressor Co., Ltd.**

Beijing Jingcheng Compressor Co., Ltd., formerly known as Beijing Environmental Protection Industry Development Co., Ltd., was established on 6 August 2002 with registration capital of RMB61,000,000.00. Jingcheng Holding Machinery Electric Holding Co., Ltd. invested RMB21,000,000.00, the Beiren Group invested RMB20,000,000.00 and Beijing State-owned Assets Management Co., Ltd. contributed RMB20,000,000.00, accounting for 34.42%, 32.79% and 32.79% of the registered capital respectively. The registration capital increased to RMB109,281,500.00 in 2009 after several changes and conversions. Jingcheng Holding Machinery Electric Holding Co., Ltd. invested RMB83,281,500.00 and Beijing Industrial Development Investment Management Co., Ltd. invested RMB26,000,000.00, accounting for 76.21% and 23.79% of the registered capital respectively.

On August 2012, Beijing Industrial Development Investment Management Co., Ltd. transferred its 23.79% of shareholdings of Beijing Jingcheng Compressor Co., Ltd. to Jingcheng Holding Machinery Electric Holding Co., Ltd. Jingcheng Holding Machinery Electric Holding Co., Ltd. increased its investment to Beijing Jingcheng Compressor Co., Ltd. by RMB29,990,000.00, making the registered capital of Beijing Jingcheng Compressor Co., Ltd. increased to RMB139,271,500.00 and its share holding increased to 100%.

Beijing Jingcheng Compressor Co., Ltd. changed its name from Beijing Industrial Development Investment Management Co., Ltd. to its current name in October 2012.

The main business scope of Beijing Jingcheng Compressor Co., Ltd. is designing, producing and selling compressor, general cargo, selling machinery, electrical equipment, etc. The main products are piston and diaphragm compressor.

Financial status of Beijing Jingcheng Compressor Co., Ltd. (Unit: in RMB '0,000)

Item	1 January 2013- 31 October 2013	1 January 2012- 31 December 2012
Total assets	30,540.87	30,770.63
Total liabilities	14,056.58	12,961.23
Owner's equity	16,484.29	17,809.40
Operating income	8,679.48	10,491.59
Net profit	-1,325.10	-290.26
Net cash flows from operating activities	-4,222.00	-1,761.74
Net cash flows	-3,694.71	1,468.14

**3) Jingcheng Holding (Hong Kong) Company Limited**

Jingcheng Holding (Hong Kong) Company Limited was established on 15 December 2005 with the registered capital of HKD1,000.00 solely invested by Jingcheng Holding Machinery Electric Holding Co., Ltd.

The main business scope of Jingcheng Holding (Hong Kong) Company Limited is the import and export trade, investment holding, consulting service, etc. The main assets are the investments to Beijing Tianhai Industry Co., Ltd. and its subsidiary Tianjin Tianhai High Pressure Containers Co., Ltd.

Financial status of Jingcheng Holding (Hong Kong) Company Limited (Unit: in RMB '0000)

Item	1 January 2013- 31 October 2013	1 January 2012- 31 December 2012
Total assets	14,325.88	14,674.29
Total liabilities	121.48	124.38
Owner's equity	14,204.40	14,549.91
Operating income	0.00	0.00
Net profit	-14.65	1,314.50
Net cash flows from operating activities	-14.71	-15.06
Net cash flows	-15.21	-15.17

**(2) Subsidiaries acquired through business combination under common control**

There are no subsidiaries acquired through business combination under common control.

## NOTES TO THE FINANCIAL STATEMENT

### IV. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS *(cont'd)*

#### 4. Exchange rate used for financial statements of entities operated aboard

The currency that Jingcheng Holding (Hong Kong) Company Limited and America Fortune Company used in the consolidated financial statement is US dollar, the exchange rate as the following:

Item	End of this year/ Current year	Beginning of this year/ Last year
Items in balance sheet	6.0969	6.2855
Items in profit/loss statement	6.1912	6.2932
Items in statement of owners' equity (except "undistributed profit")	Actual spot rate	

### V. Notes of Main Items of Consolidated Financial Statements

Following disclosed financial Statement data, except for special indications, "Beginning Balance" refers to 1 January 2013, "Ending Balance" refers to 31 December 2013, "Current Year" refers to the year from 1 January 2013 to 31 December 2013, "Last Year" refers to the year from 1 January 2012 to 31 December 2012, and the monetary unit is CHY.

#### 1. Cash and cash equivalents

Item	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand			77,407.20			63,445.13
Inc.CHY	65,735.36		65,735.36	51,286.17		51,286.17
USD				9.00	6.2855	56.57
HKD	14,845.33	0.7862	11,671.84	14,845.30	0.8108	12,037.30
JPY				891.00	0.0730	65.09
Cash in bank			305,819,618.29			490,469,990.06
Inc.CHY	290,831,708.64		290,831,708.64	473,526,770.91		473,526,770.91
USD	2,457,874.47	6.0969	14,985,414.86	2,670,085.42	6.2855	16,782,821.91
HKD	3,165.49	0.7862	2,488.81	142,466.57	0.8108	115,519.02
JPY				613,627.67	0.0730	44,791.00
EUR	0.71	8.4189	5.98	10.49	8.3176	87.22
Other			31,846,190.63			37,507,730.12
CHY	31,846,190.63		31,846,190.63	37,507,730.12		37,507,730.12
<b>Total</b>			<b>337,743,216.12</b>			<b>528,041,165.31</b>

The other monetary fund of the group including bank acceptance notes guarantee RMB26,000,000.00 (beginning balance RMB32,250,000.00), the guarantee deposit RMB5,846,190.63 (beginning balance RMB5,257,730.12).

#### 2. Notes receivable

##### (1) Category

Items	Ending Balance	Beginning Balance
Bank acceptance notes	28,387,575.12	27,652,656.96

(2) There are no notes which are used for collateral.

(3) There is no indication to suggest that the notes receivable are carried forward to accounts receivable because the notes drawers are incapable of notes fulfillment.

##### (4) Large Notes has endorsed to the other party but not yet due

Items	Issuing Company	Issuing date	Maturity date	Amount
Bank acceptance notes	Zhengzhou Yutong Passenger Automobile Co., Ltd.	2013-10-30	2014-4-23	8,453,899.67
Bank acceptance notes	The eastern part of Shenzhen City Public Transportation Co., Ltd.	2013-3-29	2014-1-7	5,000,000.00
Bank acceptance notes	Weifang Shenzhou Heavy Industry Machinery Co., Ltd.	2013-9-10	2014-3-10	5,000,000.00
Bank acceptance notes	Pu'er Tea Chong Xing Automobile Trading Co. Ltd.	2013-10-23	2014-4-23	5,000,000.00
Bank acceptance notes	Anhui Ankai automobile Limited by Share Ltd	2013-7-17	2014-1-6	4,050,000.00
<b>Total</b>				<b>27,503,899.67</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 3. Accounts receivable

Items	Ending Balance	Beginning Balance
Accounts receivable	437,942,518.43	645,472,118.96
Less: Bad debts	29,951,170.01	119,277,130.14
<b>Total</b>	<b>407,991,348.42</b>	<b>526,194,988.82</b>

#### (1) Ageing of accounts receivable

Items	Ending Balance	Beginning Balance
Within 1 year	373,601,273.09	470,966,701.15
1-2 years	29,531,750.89	44,086,274.45
2-3 years	3,356,537.71	11,142,013.22
Over 3 years	1,501,786.73	
<b>Total</b>	<b>407,991,348.42</b>	<b>526,194,988.82</b>

#### (2) Classification for accounts receivable

Items	Ending Balance				Beginning Balance			
	Book value Amount	Percent %	Bad debts Amount	Percent %	Book value Amount	Percent %	Bad debts Amount	Percent %
Accounts receivable that are individually significant and are provided for bad debts on individual basis								
Accounts receivable that are provided for bad debts on portfolio basis								
Aged group	436,413,873.64	99.65	29,951,170.01	6.86	633,686,510.27	98.17	117,108,888.74	18.48
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis	1,528,644.79	0.35			11,785,608.69	1.83	2,168,241.40	18.40
<b>Total</b>	<b>437,942,518.43</b>	<b>100.00</b>	<b>29,951,170.01</b>		<b>645,472,118.96</b>	<b>100.00</b>	<b>119,277,130.14</b>	

#### 1) Ageing of accounts receivable within the group

Item	Ending Balance			Beginning Balance		
	Book value Amount	Percent (%)	Bad debts provision	Book value Amount	Percent (%)	Bad debts provision
Within 1 year	373,601,273.09	85.60		479,392,941.13	75.65	
1-2 years	42,188,215.56	9.67	12,656,464.67	43,394,090.12	6.85	13,018,227.04
2-3 years	8,324,199.13	1.91	4,994,519.48	17,022,043.29	2.69	10,213,225.97
Over 3 years	12,300,185.86	2.82	12,300,185.86	93,877,435.73	14.81	93,877,435.73
<b>Total</b>	<b>436,413,873.64</b>	<b>100.00</b>	<b>29,951,170.01</b>	<b>633,686,510.27</b>	<b>100.00</b>	<b>117,108,888.74</b>

#### 2) Accounts receivable that are individually insignificant but are individually provided for bad debts

Company Name	Amount	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	1,528,644.79			No risk to recover

(3) The provision of bad debts for account receivables of outgoing assets is RMB95,542,570.42 for this year.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 3. Accounts receivable (cont'd)

(4) Accounts receivables written off during this period are RMB3,081,647.24.

Name	Nature of accounts receivable	Amount written off	Reasons for written off	Whether arising from related party transactions
Shanghai Sanhe Printing Co., Ltd.	Receivables for selling goods	19,445.80	Uncollectible	No.
Pudong Laifute Packing Material Factory	Receivables for selling goods	11,398.42	Uncollectible	No.
Shunyi Xinghua Metal Doors and Windows Factory	Receivables for selling goods	50,000.00	Uncollectible	No.
Tongxian Sanxing Electrical Distribution Department	Receivables for selling goods	25,000.00	Uncollectible	No.
Zhangjiakou Boiler Factory	Receivables for selling goods	60,000.00	Uncollectible	No.
Shijiazhuang aircraft manufacturing company	Receivables for selling goods	32,000.00	Uncollectible	No.
Qingdao Automobile Factory (Refit Factory)	Receivables for selling goods	781,000.00	Uncollectible	No.
Taishan Moon Group	Receivables for selling goods	1,100,000.00	Uncollectible	No.
Linyi Xincheng Jinluo Meat Products Group Co., Ltd.	Receivables for selling goods	100,000.00	Uncollectible	No.
Jinjiang Brothers Printing Co. Ltd.	Receivables for selling goods	40,000.00	Uncollectible	No.
Yunnan Phoenix Paper Products Co., Ltd.	Receivables for selling goods	20,000.00	Uncollectible	No.
Heshan Zhongxing Packing Co., Ltd.	Receivables for selling goods	44,947.02	Uncollectible	No.
Shanxi Berg International Trade Co. Ltd.	Receivables for selling goods	200,000.00	Uncollectible	No.
Amcor Flexibles (Beijing) Co., Ltd	Receivables for selling goods	291,500.00	Uncollectible	No.
Dongguan Qimiao Packaging Co. Ltd.	Receivables for selling goods	22,356.00	Uncollectible	No.
Yunnan Huaning Xingning Color Printing Co., Ltd.	Receivables for selling goods	40,000.00	Uncollectible	No.
Shandong Bihai Packing Material Co., Ltd.	Receivables for selling goods	168,000.00	Uncollectible	No.
Hubei Guangyuan Packing Co., Ltd.	Receivables for selling goods	2,000.00	Uncollectible	No.
<b>Asset transferred out</b>		<b>3,007,647.24</b>		
Shenyang Coking and Gas Co. Ltd.	Receivables for selling goods	65,000.00	Uncollectible	No.
China Mineral Co. Ltd.	Receivables for selling goods	9,000.00	Uncollectible	No.
<b>Asset transferred in</b>		<b>74,000.00</b>		
<b>Total</b>		<b>3,081,647.24</b>		

(5) The accounts receivable balance details exclude shareholders who hold 5% or more of the Group's shares.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 3. Accounts receivable (cont'd)

(6) The top five customers of accounts receivable:

Company Name	Relationship	Amount	Age	Proportion in Accounts Receivable (%)
Sichuan Ruifeng International Trade Co., Ltd.	Customer	28,133,281.00	Within 1 year, 1-2 year	6.42
Zhengzhou Yutong Passenger Automobile Co., Ltd.	Customer	20,583,980.65	Within 1 year	4.70
Chengdu Senrui Materials Trade Co., Ltd.	Customer	14,176,745.04	Within 1 year	3.24
Chengdu huaqihoupu Electromechanical Technology Co., Ltd.	Customer	13,655,687.58	Within 1 year	3.12
Shanxi Dayun Automobile Manufacturing Co., Ltd.	Customer	12,741,229.05	Within 1 year	2.91
<b>Total</b>		<b>89,290,923.32</b>		<b>20.39</b>

(7) The balance of accounts receivable from related parties please refer to VI.3

(8) The balance of accounts receivable in foreign currencies:

Foreign currency	Foreign currency	Ending Balance Exchange rate	RMB	Foreign currency	Beginning Balance Exchange Rate	RMB
USD	6,538,869.76	6.0969	39,866,835.05	10,275,584.97	6.2855	64,587,189.33
EUR	396,563.29	8.4189	3,338,626.68	167,796.87	8.3176	1,395,667.25
<b>Total</b>			<b>43,205,461.73</b>			<b>65,982,856.58</b>

(9) The beginning balance includes the amount of RMB 294,010,327.55 for the book value of outgoing assets and the provision for bad debts is RMB 101,745,082.12.

#### 4. Prepayments

(1) Ageing of prepayments

Item	Ending Balance		Beginning Balance	
	Amount	Percentage %	Amount	Percentage %
Within 1 year	36,792,833.78	89.72	46,737,468.55	85.03
1-2 years	2,142,885.19	5.22	4,858,614.79	8.84
2-3 years	735,362.26	1.79	1,974,097.39	3.59
Over 3 years	1,342,222.98	3.27	1,394,048.39	2.54
<b>Total</b>	<b>41,013,304.21</b>	<b>100.00</b>	<b>54,964,229.12</b>	<b>100.00</b>

(2) The main companies of prepayments

Name	Relationship with the Group	Amount	%	Ageing	Reasons for pending
Beijing Guohai HD Steel Trade Co., Ltd.	Company's suppliers	8,193,760.53	19.98	within a year	Goods not delivered
Beijing Dongfang Hualing Steel Trading Co., Ltd.	Company's suppliers	4,535,131.10	11.06	within a year	Goods not delivered
Gas Compressor Factory of Beijing Yitong General Machinery Co., Ltd.	Company's suppliers	1,897,039.58	4.63	within a year	Goods not delivered
Wouter Jeter trade (Beijing) Co., Ltd	Company's suppliers	1,542,000.00	3.76	within a year	Goods not delivered
BestobellValves	Company's suppliers	1,217,064.55	2.97	within a year	Goods not delivered
<b>Total</b>		<b>17,384,995.76</b>	<b>42.40</b>		

(3) The prepayments balance details exclude shareholders who hold 5% or more of the Group's shares.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 4. Prepayments (cont'd)

(4) The balance of prepayments in foreign currencies:

Foreign currency	Foreign currency	Ending Balance Exchange rate	RMB	Foreign currency	Beginning Balance Exchange Rate	RMB
USD	702,071.09	6.0969	4,280,457.24	244,439.34	6.2855	1,536,423.48

(5) The beginning balance includes the outgoing assets with the book value of RMB15,824,817.72.

#### 5. Dividends receivable

Items	Beginning Balance	Increase	Decrease	Ending Balance
Within 1 year				
Over 1 year	113,600.00		113,600.00	
Including:				
Beijing Beiyong Casting Co., LTD	113,600.00		113,600.00	
<b>Total</b>	<b>113,600.00</b>		<b>113,600.00</b>	

#### 6. Other receivables

Items	Ending Balance	Beginning Balance
Other receivables	8,479,895.59	66,162,905.53
Less: Bad debt	2,793,461.01	15,367,767.94
<b>Total</b>	<b>5,686,434.58</b>	<b>50,795,137.59</b>

##### (1) Ageing of other receivables

Items	Ending Balance	Beginning Balance
Within 1 year	4,533,411.82	40,313,573.69
1-2 years	1,037,917.59	2,586,133.36
2-3 years	75,105.17	1,061,804.51
Over 3 years	40,000.00	6,833,626.03
<b>Total</b>	<b>5,686,434.58</b>	<b>50,795,137.59</b>

##### (2) Classification for other receivables

Item	Ending Balance				Beginning Balance			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent%	Amount	Percent %	Amount	Percent %	Amount	Percent %
Other receivables that are individually significant and are provided for bad debts on individual basis								
Other receivables that are provided for bad debts on portfolio basis	8,439,895.59	99.53	2,793,461.01	33.10	35,083,652.05	53.03	2,915,416.18	8.31
Other receivables that are individually insignificant but are provided for bad debts on individual basis	40,000.00	0.47			31,079,253.48	46.97	12,452,351.76	40.07
<b>Total</b>	<b>8,479,895.59</b>	<b>100.00</b>	<b>2,793,461.01</b>		<b>66,162,905.53</b>	<b>100.00</b>	<b>15,367,767.94</b>	

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

6. Other receivables (cont'd)

(2) Classification for other receivables (cont'd)

1) Other receivables that are provided for bad debts on portfolio basis

Item	Ending Balance			Beginning Balance		
	Book value Amount	Percent%	Bad debts	Book value Amount	Percent%	Bad debts
Within 1 year	4,533,411.82	53.71		31,699,440.44	90.35	
1-2 years	1,482,739.42	17.57	444,821.83	556,558.06	1.59	166,967.43
2-3 years	187,762.92	2.23	112,657.75	198,012.02	0.56	118,807.22
Over 3 years	2,235,981.43	26.49	2,235,981.43	2,629,641.53	7.50	2,629,641.53
<b>Total</b>	<b>8,439,895.59</b>	<b>100.00</b>	<b>2,793,461.01</b>	<b>35,083,652.05</b>	<b>100.00</b>	<b>2,915,416.18</b>

2) Other receivables that are individually insignificant but are provided for bad debts on individual basis at the end of period

Company Name	Amount	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	40,000.00			No risk to recover

(3) The provision for bad debt of account receivables of outgoing assets is RMB12,452,351.76 for this year.

(4) The details of other receivables balance exclude shareholders who hold 5% or more of the Group's shares.

(5) The top companies in other receivables:

Company Name	Relationship	Amount	Age	Proportion in accounts receivable (%)	Nature
Langfang Xinao Gas Co., Ltd.	Third party	1,000,000.00	4-5 years	11.80	Deposit
Qinghai Saline Lake Magnesium Industry Co. Ltd.	Third party	960,000.00	1-2 years	11.32	Bid bond
Tianhai low temperature sales department	Company department	487,705.26	Within 1 year	5.75	Petty cash
Baotu Steel Sales Co., Ltd.	Third party	400,648.84	Over 5 years	4.72	Receivables for raw materials
Tianhai domestic sales	Company department	370,973.19	Within 1 year	4.37	Petty cash
<b>Total</b>		<b>3,219,327.29</b>		<b>37.96</b>	

(6) The balance of other receivable from related parties:

Company Name	Relationship	Amount	Proportion in Accounts Receivable (%)
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Joint venture	40,000.00	0.47

(7) The beginning balance includes the outgoing assets with the book value of RMB 31, 039,253.48, and the provision for bad debt is RMB12,452,351.76.



## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 7. Inventories

##### (1) Categories of inventories

Item	Ending Balance			Beginning Balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	365,598,288.08	2,249,607.01	363,348,681.07	295,411,511.45	7,140,564.03	288,270,947.42
Work in progress	171,786,901.35	171,786,901.35	171,786,901.35	392,245,762.17	51,368,232.81	340,877,529.36
Finished goods	209,844,904.78	10,781,215.36	199,063,689.42	373,587,835.62	24,901,792.34	348,686,043.28
Low-value consumables				3,235,188.12		3,235,188.12
Self made semi-finished goods				8,899,896.26		8,899,896.26
Work in process – outsourced				5,510,175.83		5,510,175.83
<b>Total</b>	<b>747,230,094.21</b>	<b>13,030,822.37</b>	<b>734,199,271.84</b>	<b>1,078,890,369.45</b>	<b>83,410,589.18</b>	<b>995,479,780.27</b>

##### (2) Impairment provision for inventories

Item	Beginning Balance	Increase	Decrease in this year		Ending Balance
			Reversal	Reversal	
Raw materials	7,140,564.03			4,890,957.02	2,249,607.01
Work in progress	51,368,232.81	2,277,987.91		53,646,220.72	
storage goods	24,901,792.34	18,420,634.76		32,541,211.74	10,781,215.36
<b>Total</b>	<b>83,410,589.18</b>	<b>20,698,622.67</b>		<b>91,078,389.48</b>	<b>13,030,822.37</b>

(3) The impairment provision method for inventory is referred to Note II.12.

(4) No inventory has been mortgaged or frozen at the end of year.

(5) The beginning balance includes the outgoing assets with the book value of RMB 479,584,547.71, and the impairment of provision for inventories is RMB 75,924,630.38.

#### 8. Other current assets

Item	Ending Balance	Beginning Balance
Asset held-for-sale	15,718,684.47	
<b>Total</b>	<b>15,718,684.47</b>	

The asset held-for-sale is undergraduate's apartment, for the details please refer to XII other significant.

#### 9. Long-term equity investments

##### (1) Categories of long-term equity investments

Item	Ending Balance	Beginning Balance
Accounted in cost method		1,243,400.00
Accounted in equity method	63,231,444.54	83,115,821.40
Joint ventures	614,447.95	488,445.64
Associates	62,616,996.59	82,627,375.76
<b>Total</b>	<b>63,231,444.54</b>	<b>84,359,221.40</b>
Less: provision for impairment on long-term equity investments		50,000.00
<b>Net book value</b>	<b>63,231,444.54</b>	<b>84,309,221.40</b>

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

9. Long-term equity investments (cont'd)

(2) Analysis of long-term equity investments

Item	Ending Balance	Beginning Balance
<b>Publicly-traded</b>		
China (excluding Hong Kong)		
Hong Kong		
Other area		
Sub-total		
<b>Non-publicly-traded</b>	<b>63,231,444.54</b>	84,309,221.40
<b>Total</b>	<b>63,231,444.54</b>	84,309,221.40

(3) The long-term equity investments is measured by cost and equity method

Name of invested companies	Share holding %	Voting right %	Original amounts	Beginning Balance	Increase or Decrease	Adjustment	Cash dividends for the year	Other equity change	Ending Balance	Provision for impairment	Impairment loss for the year
<b>In cost method</b>											
Yinshen Associate Co., Ltd.			50,000.00	50,000.00	-50,000.00	N/A	N/A				
The Beiren Dipu Rui Printing Machinery Co., Ltd.	42.78	42.78	1,193,400.00	1,193,400.00	-1,193,400.00	N/A	N/A	N/A			
Beijing Beiyong Moulding Co., Ltd.	17.01	17.01	4,788,047.52								
<b>Sub-total</b>			6,031,447.52	1,243,400.00	-1,243,400.00						
<b>In equity method</b>											
Beijing Monigraf Automations Co. Ltd.	49	49	3,675,000.00	9,011,147.47	-9,011,970.30	822.83					
Beijing Beiyong Moulding Co., Ltd.	20	20	1,136,000.00	5,730,888.18	-4,788,047.52	-942,840.66					
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49	49	22,540,000.00								
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	50	50	3,059,000.00	488,445.64		126,002.31			614,447.95		
Beijing Fusheng Machine Co., Ltd.	30	30	16,960,563.13	67,885,340.11		5,740,383.76	11,008,727.28		62,616,996.59		
<b>Sub-total</b>			47,370,563.13	83,115,821.40	-13,800,017.82	4,924,398.24	11,008,727.28		63,231,444.54		
<b>Total</b>			53,402,010.65	84,359,221.40	-15,043,417.82	4,924,398.24	11,008,727.28		63,231,444.54		

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 9. Long-term equity investments (cont'd)

(4) The decrease in investments in this year is caused by the outgoing of long-term equity investments by the Company.

#### (5) Investment in associated companies/joint venture

Name of invested company	Nature	Registration	Address	Legal representative	Organization Code	Business Type	Registered Capital	Share holding %	Voting right %
<b>Joint venture</b>									
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Sino-foreign equity joint venture	Chaoyang Zone, Beijing	Chaoyang Zone, Beijing	Wang Pingsheng	79900704-2	Selling	USD 800,000.00	50.00	50.00
<b>Associated Company</b>									
Beijing Fusheng Machine Co., Ltd.	Sino-foreign joint venture	Changping Zone, Beijing	Changping Zone, Beijing	Wu Yanzhang	60003264-7	Production	USD 5,500,000.00	30.00	30.00

Items	Closing total assets	Closing total liabilities	Closing total net assets	Operating income of the year	Net profit of the year
<b>Joint venture</b>					
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	4,856,041.23	3,627,145.33	1,284,748.61		252,004.62
<b>Associated Company</b>					
Beijing Fusheng Machine Co., Ltd.	372,902,090.02	164,178,768.03	208,723,321.98	447,916,168.30	21,614,768.30

#### (6) Provision for impairment on long-term equity investments

Company	Beginning Balance	Increase	Decrease	Ending Balance	Reason
Ying Shen Associated Company Limited	50,000.00		50,000.00		

#### 10. Investment properties

##### (1) Accounted in cost method

Item	Beginning Balance	Increase	Decrease	Ending Balance
<b>Original cost</b>				
Buildings	7,986,177.80	9,519,696.39	7,986,177.80	<b>9,519,696.39</b>
<b>Accumulated depreciation</b>				
Buildings	1,429,698.48	156,864.30	1,586,562.78	
<b>Net book value</b>				
Buildings	6,556,479.32			<b>9,519,696.39</b>
<b>Impairment provision</b>				
Buildings				
<b>Book value</b>				
Buildings	6,556,479.32			<b>9,519,696.39</b>

The amortization expense for investment properties recognized during current year is RMB156, 864.30. (Last year: RMB 182, 616.45)

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

10. Investment properties (cont'd)

(2) Investment properties analyzed by region and year

Item	Ending Balance	Beginning Balance
Inside China	<b>9,519,696.39</b>	6,556,479.32
Long-term (over 50 years)		
Mid-term (10-50 years)		6,556,479.32
Short-term (within 10 years)		
Outside China	<b>9,519,696.39</b>	6,556,479.32
Long-term (over 50 years)		
Mid-term (10-50 years)		6,556,479.32
Short-term (within 10 years)		
<b>Total</b>	<b>9,519,696.39</b>	<b>6,556,479.32</b>

(3) At the end of the year, the investment properties with amount of RMB9, 519,696.39 which are subordinate to the subsidiary company Beijing Jingcheng Compressor Co., Ltd. have not finished the certificates.

(4) The decrease is the book value of outgoing assets of the Company in this year.

11. Fixed assets

(1) Fixed assets category

Item	Beginning Balance	Increase	Decrease	Outgoing	Ending Balance
<b>Original Cost</b>	2,287,636,551.00	50,413,197.91	48,684,079.95	1,069,551,277.52	<b>1,219,814,391.44</b>
Building	959,669,881.94	789,252.02	25,666,122.70	548,136,557.01	<b>386,656,454.25</b>
Electrical Equipment	22,465,710.79	2,868,299.16	744,720.72		<b>24,589,289.23</b>
Machinery	1,195,511,511.90	41,133,996.03	21,035,424.00	456,262,974.06	<b>759,347,109.87</b>
Transportation facilities	49,875,287.09	4,214,062.70	765,654.78	15,771,621.26	<b>37,552,073.75</b>
Office equipment and others	60,114,159.28	1,407,588.00	472,157.75	49,380,125.19	<b>11,669,464.34</b>
<b>Accumulated Depreciation</b>	993,446,265.98	110,077,013.38	28,829,839.44	570,504,180.58	<b>504,189,259.34</b>
Building	258,033,472.54	28,325,045.75	9,489,484.85	164,390,334.85	<b>112,478,698.59</b>
Electrical Equipment	10,961,572.27	2,164,660.53	554,530.55		<b>12,571,702.25</b>
Machinery	641,530,816.44	73,297,263.19	17,638,490.86	349,521,623.77	<b>347,667,965.00</b>
Transportation facilities	30,255,030.92	4,499,278.69	705,240.88	11,077,869.77	<b>22,971,198.96</b>
Office equipment and others	52,665,373.81	1,790,765.22	442,092.30	45,514,352.19	<b>8,499,694.54</b>
<b>Net book value</b>	1,294,190,285.02				<b>715,625,132.10</b>
Building	701,636,409.40				<b>274,177,755.66</b>
Electrical Equipment	11,504,138.52				<b>12,017,586.98</b>
Machinery	553,980,695.46				<b>411,679,144.87</b>
Transportation facilities	19,620,256.17				<b>14,580,874.79</b>
Office equipment and others	7,448,785.47				<b>3,169,769.80</b>
<b>Impairment provision</b>	21,162,755.07				<b>664,142.40</b>
Building					
Electrical Equipment					
Machinery	20,523,759.20				<b>664,142.40</b>
Transportation facilities	115,000.00				
Office equipment and others	523,995.87				
<b>Net book value</b>	1,273,027,529.95				<b>714,960,989.70</b>
Building	701,636,409.40				<b>274,177,755.66</b>
Electrical Equipment	11,504,138.52				<b>12,017,586.98</b>
Machinery	533,456,936.26				<b>411,015,002.47</b>
Transportation facilities	19,505,256.17				<b>14,580,874.79</b>
Office equipment and others	6,924,789.60				<b>3,169,769.80</b>

1) An amount of RMB 110,077,013.38 was accrued in the year. (Last year: RMB 102,952,317.00)

2) For the increase of the fixed assets of the period, the amount of RMB 42,769,823.20 was transferred from construction in progress. The decrease of the fixed asset include RMB 478,950,259.93 that is transferred out.

3) Profit for disposal of fixed assets in current year is RMB 106,794.55.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 11. Fixed assets (cont'd)

##### (2) Buildings analyzed by region and year

Item	Ending Balance	Beginning Balance
Inside China		
Long-term (over 50 years)	<b>274,177,755.66</b>	701,636,409.40
Mid-term (10-50 years)	<b>274,177,755.66</b>	701,636,409.40
Short-term (within 10 years)		
Outside China		
Long-term (over 50 years)		
Mid-term (10-50 years)		
Short-term (within 10 years)		
<b>Total</b>	<b>274,177,755.66</b>	701,636,409.40

(3) There are no idle fixed assets at the end of the period.

(4) There is no financing lease of fixed assets of the Group.

(5) There is no fixed assets leased out through an operating lease.

(6) Fixed assets held for sale at the end of the year please refer to V5.8.

(7) The company's subsidiary company Beijing Jingcheng Compressor Co., Ltd. base assembly workshop, 4 buildings have to obtained the property licenses, the original value is RMB 13,907,641.87, accumulated depreciation is RMB 2,628,074.72, net value is RMB 11,279,567.15.

#### 12. Construction in progress

##### (1) Category

Name	Ending Balance			Beginning Balance		
	Book balance	Provision	Book value	Book balance	Provision	Book value
LNG industry base construction	<b>241,709,925.38</b>		<b>241,709,925.38</b>			
Construction project Low temperature at the new workshop of new equipment	<b>9,065,201.59</b>		<b>9,065,201.59</b>	2,258,710.00		2,258,710.00
Production capacity expansion project Manufacturing shop	<b>17,381,937.71</b>		<b>17,381,937.71</b>	25,166,176.70		25,166,176.70
Others	<b>10,613,194.21</b>		<b>10,613,194.21</b>	5,991,448.81		5,991,448.81
				5,712,327.53		5,712,327.53
				15,038,672.62		15,038,672.62
<b>Total</b>	<b>278,770,258.89</b>		<b>278,770,258.89</b>	54,167,335.66		54,167,335.66

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 12. Construction in progress (cont'd)

##### (2) Changes of major construction in progress

Name	Beginning Balance	Increase	Decrease Transferred to fixed asset	Other decrease	Ending Balance
LNG industry base construction		241,709,925.38			<b>241,709,925.38</b>
Low temperature at the new workshop of new equipment	25,166,176.70	7,935,884.23	24,036,859.34		<b>9,065,201.59</b>
Production capacity expansion project	5,991,448.81	11,390,488.90			<b>17,381,937.71</b>
Manufacturing shop	5,712,327.53	3,807,368.86		9,519,696.39	
<b>Total</b>	<b>36,869,953.04</b>	<b>264,843,667.37</b>	<b>24,036,859.34</b>	<b>9,519,696.39</b>	<b>268,157,064.68</b>

Name	Budget	Project investment/ budget	Rate of progress (%)	Accumulated capitalized interest	Capitalized interest for current year	Capitalized rate (%)	Fund source
LNG industry base construction	793,790,000.00	43.17	50				Self-fund
Low temperature at the new workshop of new equipment	35,465,000.00	93.33	90				Self-fund
Production capacity expansion project	29,990,000.00	57.96	60				Self-fund
Manufacturing shop	9,000,000.00	105.77	100				Self-fund

#### 13. Intangible assets

Item	Beginning Balance	Increase	Decrease	Ending Balance
<b>Original Cost</b>	216,374,818.48	101,019,607.40	127,561,738.77	<b>189,832,687.11</b>
Land use right	203,504,091.99	100,996,007.40	127,431,238.77	<b>177,068,860.62</b>
Proprietary technology	11,707,050.00			<b>11,707,050.00</b>
Software	1,163,676.49	23,600.00	130,500.00	<b>1,056,776.49</b>
<b>Accumulated depreciation</b>	37,920,598.68	6,278,596.61	28,176,670.30	<b>16,022,524.99</b>
Land use right	32,923,176.79	5,205,142.45	28,152,745.30	<b>9,975,573.94</b>
Proprietary technology	4,136,142.24	1,000,000.00		<b>5,136,142.24</b>
Software	861,279.65	73,454.16	23,925.00	<b>910,808.81</b>
<b>Net book value</b>	178,454,219.80			<b>173,810,162.12</b>
Land use right	170,580,915.20			<b>167,093,286.68</b>
Proprietary technology	7,570,907.76			<b>6,570,907.76</b>
Software	302,396.84			<b>145,967.60</b>
<b>Impairment provision</b>				
Land use right				
Proprietary technology				
Software				
<b>Book value</b>	178,454,219.80			<b>173,810,162.12</b>
Land use right	170,580,915.20			<b>167,093,286.68</b>
Proprietary technology	7,570,907.76			<b>6,570,907.76</b>
Software	302,396.84			<b>145,967.60</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 13. Intangible assets (cont'd)

Land use right analyzed by region and year

Item	Ending Balance	Beginning Balance
Inside China		
Long-term (over 50 years)	<b>167,093,286.68</b>	170,580,915.20
Mid-term (10-50 years)	<b>167,093,286.68</b>	170,580,915.20
Short-term (within 10 years)		
Outside China		
Long-term (over 50 years)		
Mid-term (10-50 years)		
Short-term (within 10 years)		
<b>Total</b>	<b>167,093,286.68</b>	170,580,915.20

(1) The amortization expense for this year is RMB 6,278,596.61. (Last year: RMB 5,464,944.20)

(2) The land use right which is collateral to the bank as a guarantee for bank loan, is with the book value RMB19,288,813.50.

(3) The decrease of intangible assets for current year is RMB 99,385,0682.47.

#### 14. Goodwill

Name	Beginning Balance	Increase	Decrease	Ending Balance	Impairment loss
America Fortune Company	6,562,344.06			<b>6,562,344.06</b>	
<b>Total</b>	<b>6,562,344.06</b>			<b>6,562,344.06</b>	

#### 15. Long-te

Item	Beginning Balance	Increase	Amortized	Other decrease	Ending Balance	Reason
Decoration fees	531,605.29	2,560,579.24	833,149.32		<b>2,259,035.21</b>	
Material shed transformation	473,666.00		98,004.00		<b>375,662.00</b>	
The land development fee	9,367,320.00			9,367,320.00		Asset transferred out
<b>Total</b>	<b>10,372,591.29</b>	<b>2,560,579.24</b>	<b>931,153.32</b>	<b>9,367,320.00</b>	<b>2,634,697.21</b>	

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 16. Deferred tax asset and deferred tax liabilities

##### (1) Recognized Deferred tax asset

Item	Ending Balance	Beginning Balance
<b>Deferred tax asset</b>		
Provision for assets	7,469,917.94	4,514,801.70
Unrealized profit	1,661,530.46	1,725,883.28
<b>Total</b>	<b>9,131,448.40</b>	<b>6,240,684.98</b>

##### (2) The details are not recognized deferred tax assets

Items	Ending Balance	Beginning Balance
Asset impairment	664,142.40	211,334,819.33
Deductible loss	172,194,541.54	506,726,349.06
<b>Total</b>	<b>172,858,683.94</b>	<b>718,061,168.39</b>

##### (3) Deductible loss unrecognized as deferred tax assets will be carried forward to the following years:

Item	Ending Balance
2014	24,299,976.87
2015	23,971,873.51
2016	3,377,533.04
2017	80,058,200.29
2018	40,486,957.83
<b>Total</b>	<b>172,194,541.54</b>

##### (4) Details of deductible differences

Items	Ending Balance	Beginning Balance
Details of deductible differences:		
Provision for bad debts	32,744,631.02	20,447,464.20
Provision for impairment of inventories	13,030,822.37	7,485,958.80
Unrealized profit	8,862,162.89	9,291,181.71
<b>Total</b>	<b>54,637,616.28</b>	<b>37,224,604.71</b>



## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 17. Provision for impairment of assets

##### Current year

Item	Beginning Balance	Increase	Decrease		Ending Balance
			Reversal	Other transferring-out	
Provision for bad debts	134,644,898.08	9,151,137.36		111,051,404.42	32,744,631.02
Provision for impairment of inventories	83,410,589.18	20,698,622.67		91,078,389.48	13,030,822.37
Provision for Impairment of long-term equity investments	50,000.00			50,000.00	
Provision for Impairment of investment in real estate					
Provision for Impairment of fixed assets	21,162,755.07			20,498,612.67	664,142.40
Provision for Impairment of construction materials					
Provision for Impairment of construction in progress					
Provision for Impairment of intangible assets					
<b>Total</b>	<b>239,268,242.33</b>	<b>29,849,760.03</b>		<b>222,678,406.57</b>	<b>46,439,595.79</b>

##### Last year

Item	Beginning Balance	Increase	Decrease		Ending Balance
			Reversal	Other transferring-out	
Provision for bad debts	129,415,604.36	10,589,198.76		5,359,905.04	134,644,898.08
Provision for impairment of inventories	78,484,656.85	42,655,061.58		37,729,129.25	83,410,589.18
Provision for Impairment of long-term equity investments	50,000.00				50,000.00
Provision for Impairment of investment in real estate					
Provision for Impairment of fixed assets	20,498,612.67	664,142.40			21,162,755.07
Provision for Impairment of construction materials					
Provision for Impairment of construction in progress					
Provision for Impairment of intangible assets					
<b>Total</b>	<b>228,448,873.88</b>	<b>53,908,402.74</b>		<b>43,089,034.29</b>	<b>239,268,242.33</b>

The decrease in current year includes the provision for impairment loss of outgoing assets with the amount of RMB 217,577,885.44.

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

18. Short-term loans

(1) Category

Category	Currency	Ending Balance			Beginning Balance		
		Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Pledged loans	CNY	70,000,000.00		70,000,000.00	40,000,000.00		40,000,000.00
Guaranteed loans	CNY	260,000,000.00		260,000,000.00	223,329,820.99		223,329,820.99
Unsecured loans	CNY	152,613,152.34		152,613,152.34	376,914,050.00		376,914,050.00
<b>Total</b>		<b>482,613,152.34</b>		<b>482,613,152.34</b>	<b>640,243,870.99</b>		<b>640,243,870.99</b>

- (1) The short-term loan RMB 70,000,000.00 of the ending balance is pledged by the group's building and land use right RMB 110,035,652.29.
- (2) The guaranteed loans RMB 260,000,000.00 is guaranteed by the factual controller Jingcheng Holding.
- (3) The weighted average interest rate of the short-term loans is 6.0516% (last year 6.0313%).

19. Notes payable

Items	Ending Balance	Beginning Balance
Bank acceptance note	80,000,000.00	104,200,000.00

- (1) The amount of RMB 80,000,000.00 will be matured in next financial year.
- (2) The group's bank acceptance note RMB 70,000,000.00 is guaranteed by Jingcheng Holding.

20. Accounts payable

(1) Details of accounts payable

Items	Ending Balance	Beginning Balance
Materials purchased	279,062,239.16	597,383,756.35
Construction	116,409,892.09	40,849,251.93
<b>Total</b>	<b>395,472,131.25</b>	<b>638,233,008.28</b>

Beginning accounts payable includes outgoing assets balance of RMB 323,922,570.97.

(2) Ageing analysis of accounts payable

Items	Ending Balance	Beginning Balance
Within 1 year	358,623,557.04	523,075,829.16
1-2 years	30,112,524.44	90,030,187.22
2-3 years	3,394,243.67	7,799,951.03
Over 3 years	3,341,806.10	17,327,040.87
<b>Total</b>	<b>395,472,131.25</b>	<b>638,233,008.28</b>

The accounts payable for more than one year mainly include settlement payments and deposits. Delay in payments is caused by the Group's shortage in capital. Since suppliers consider the Group as long-term and stable client with good market image, rolling over accounts payable by the Group is acceptable to suppliers.

- (3) Ending balance of accounts payable excludes the amount due to shareholder units with no less than 5% voting right.
- (4) See the ending balance of accounts payable to related parties in Note VI (3).

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 20. Accounts payable (cont'd)

(5) Accounts payable with foreign currency balance

Currency	Original currency	Ending Balance Exchange rate	RMB	Original currency	Beginning Balance Exchange rate	RMB
USD	815,490.74	6.0969	4,971,965.51	1,320,786.04	6.2855	8,301,800.65

#### 21. Advances from customers

(1) Ageing Analysis

Items	Ending Balance	Beginning Balance
<b>Total</b>	<b>135,006,560.18</b>	179,715,862.44
Include: over one year	<b>24,624,704.42</b>	25,910,514.30

(2) Contracts with large amount of advances from customers, which are aged over one year, are still pending.

(3) Ending balance of advances from customers exclude the amount due to shareholder units with no less than 5% voting right.

(4) Ending balance of advances from customers include the construction payment of college student apartment with an amount of RMB 52,889,750.00 paid by Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd. which is one of related parties.

(5) Beginning advances from customers include outgoing assets with an amount of RMB 64,992,309.32.

(6) Advances from customers with foreign currency balance:

Currency	Original currency	Ending Balance Exchange rate	RMB	Original currency	Beginning Balance Exchange rate	RMB
USD	1,618,114.43	6.0969	9,865,481.89	1,058,119.04	6.2855	6,650,807.24
EUR	245.82	8.4189	2,069.53			
<b>Total</b>			<b>9,867,551.42</b>			6,650,807.24

#### 22. Employee benefits

Items	Beginning Balance	Increase	Decrease	Ending Balance
Wages or salaries, bonuses, allowances and subsidies	15,211,848.45	326,064,134.47	333,181,006.40	<b>8,094,976.52</b>
Staff welfare	238,080.24	17,622,119.35	17,622,119.35	<b>238,080.24</b>
Social securities	19,283,070.29	98,194,506.91	111,764,364.64	<b>5,713,212.56</b>
Include:				
Medical insurance	3,440,903.06	27,232,784.80	29,559,169.70	<b>1,114,518.16</b>
Basic endowment insurance	14,002,367.22	55,129,909.72	67,837,402.55	<b>1,294,874.39</b>
Unemployment insurance	1,104,095.17	2,996,939.78	4,020,922.25	<b>80,112.70</b>
Work-related injury insurance	280,132.18	2,506,361.73	2,715,148.20	<b>71,345.71</b>
Birth insurance	180,501.17	1,687,333.12	1,834,434.51	<b>33,399.78</b>
Annuity	275,071.49	8,641,177.76	5,797,287.43	<b>3,118,961.82</b>
Housing funds	1,780,196.41	18,571,971.81	20,015,918.18	<b>336,250.04</b>
Union & Education funds	4,616,037.27	8,272,598.30	9,760,972.05	<b>3,127,663.52</b>
Non-monetary benefits		7,602,549.16	7,602,549.16	
Termination benefits	28,508,521.58	889,347.19	29,397,868.77	
Housing allowance	3,488,420.00		552,720.00	<b>2,935,700.00</b>
Others	215,853.00	2,112,085.62	2,327,938.62	
<b>Total</b>	<b>73,342,027.24</b>	<b>479,329,312.81</b>	<b>532,225,457.17</b>	<b>20,445,882.88</b>

(1) The ending balance of employee benefits for the Group include: Accrued but unpaid salaries, bonuses, subsidies in the total amount of RMB 8,094,976.52, so far it has been paid completely.

(2) Decrease of current year employee benefits include outgoing employee benefits with the amount of RMB 35,511,309.09.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 23. Taxes payable

Items	Ending Balance	Beginning Balance
Value-Added Tax	-952,538.72	-15,945,310.29
Business Tax	-251,900.00	248,815.88
Corporate Income Tax	1,127,263.73	4,525,813.39
Individual Income Tax	1,624,560.59	907,923.92
City Maintenance and Construction Tax	112,193.68	349,960.89
Real Estate Tax		327,416.46
Land Use Tax	189,136.84	67,638.00
Education Surcharge	135,401.64	264,574.85
Stamp Duty	260,547.99	142,297.04
River Management Fee	9,643.42	507,243.58
Flood Control Fee	6,641.99	13,213.77
<b>Total</b>	<b>2,260,951.16</b>	<b>-8,590,412.51</b>

Ending balance of taxes payable include HK income tax payable of RMB 0.00.

#### 24. Interests payable

Items	Ending Balance	Beginning Balance
Short-term loans	305,666.69	1,150,165.34

#### 25. Dividends payable

Company Name	Ending Balance	Beginning Balance
Beiren Group Corporation	727,500.00	727,500.00
Jingcheng Holding Company Limited	824,400.00	824,400.00
<b>Total</b>	<b>1,551,900.00</b>	<b>1,551,900.00</b>

#### 26. Other payables

##### (1) Ageing analysis

Items	Ending Balance	Beginning Balance
<b>Total</b>	<b>416,598,343.16</b>	<b>496,567,182.31</b>
Include: over one year	3,965,608.33	139,718,394.43

Beginning other payables include the balance of outgoing assets with the amount of RMB 57,728,663.10.

##### (2) Details of other payables

Items	Ending Balance	Beginning Balance
Loans from Jingcheng Holdings	386,807,077.46	426,889,687.08
Advance payments	23,874,540.54	53,776,517.87
Social securities	1,043,725.16	2,559,324.75
Rentals	853,000.00	513,000.00
Land remise fund		12,828,652.61
Agency cost	4,020,000.00	
<b>Total</b>	<b>416,598,343.16</b>	<b>496,567,182.31</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 26. Other payables (cont'd)

(3) Amount due to shareholders with no less than 5% voting right.

Company	Ending Balance	Beginning Balance
Jingcheng Holdings	<b>386,807,077.46</b>	426,889,687.08

(4) See other payables to related parties in Note VI (3).

#### 27. Other non-current liabilities

Items	Ending Balance	Beginning Balance
Discount for high-grade flexible printing machine technical development		115,673.98
Shaanxi packaging and printing machinery engineering technology research center		84,526.58
Other accrued expenses		1,050,000.00
<b>Total</b>		<b>1,250,200.56</b>

#### 28. Special payables

Items	Beginning Balance	Increase	Decrease	Ending Balance	Note
Medium-sized printer core unit technology business and semi products	4,927,019.97		4,927,019.97		
Model 1050 of multi-colour sheeted products	5,417,630.42		5,417,630.42		
Digital sheet of multi-colour offset print products	5,472,304.21		5,472,304.21		
Digital sheet fed multi-colour offset press to open the industrialization project	10,900,000.00		10,900,000.00		
Wide satellite type high speed flexible plate printing machine industry projects	3,143,377.30		3,143,377.30		
The packaging industry of high-tech R&D projects	1,150,000.00		1,150,000.00		
Expert workstation	272,082.57		272,082.57		
Prizing liquefied natural gas (LNG) filling station products	5,000,000.00			<b>5,000,000.00</b>	Note 1
Self pressure type vehicle welded insulated cylinder products for liquefied natural gas	2,000,000.00			<b>2,000,000.00</b>	Note 2
HPDI-T6 type motor vehicles using liquefied natural gas cryogenic tank products	4,000,000.00			<b>4,000,000.00</b>	Note 3
Tianhai vehicle Lu liner fully wrapped composite cylinders project	3,900,000.00			<b>3,900,000.00</b>	Note 4
The project of natural gas storage and transportation equipment production base		100,000,000.00		<b>100,000,000.00</b>	Note 5
The composite piston force 16 tons series compressor development project	4,000,000.00			<b>4,000,000.00</b>	Note 6
Diaphragm type compressor for nuclear power project	3,000,000.00			<b>3,000,000.00</b>	Note 7
GD8 super large diaphragm compressor product development project	5,000,000.00			<b>5,000,000.00</b>	Note 8
Nuclear power project special funds	2,380,000.00	2,188,000.00		<b>4,568,000.00</b>	Note 9
<b>Total</b>	<b>60,562,414.47</b>	<b>102,188,000.00</b>	<b>31,282,414.47</b>	<b>131,468,000.00</b>	

## V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

### 28. Special payables *(cont'd)*

- Note 1: At 25 December 2012 Beijing Tianhai Industry Co., Ltd. and Jingcheng Holdings signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 5,000,000 to Tianhai Industry Co., Ltd. for "Prizing liquefied natural gas (LNG) filling station products" project. Tianhai Industry Co., Ltd. will make a lump-sum repayment to Jingcheng Holdings within the first ten working days effective from 1 December 2014.
- Note 2: At 22 December 2011, Beijing Tianhai Industry Co., Ltd. and Jingcheng Holdings signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 2,000,000 to Tianhai Industry Co., Ltd. for "Self pressure type vehicle welded insulated cylinder products for liquefied natural gas" project. Tianhai Industry Co., Ltd. will make a lump-sum repayment to Jingcheng Holdings within the first ten working days started at 1 December 2014.
- Note 3: At 22 December 2011, Beijing Tianhai Industry Co., Ltd. and Jingcheng Holdings signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 4,000,000 to Tianhai Industry Co., Ltd. for "HPDI-T6 type motor vehicles using liquefied natural gas cryogenic tank products" project. Tianhai Industry Co., Ltd. will make 1,200,000 and 2,800,000 repayment to Jingcheng Holdings within the first ten working days effective from 1 December 2014 and 1 December 2015, respectively.
- Note 4: In 2009, Beijing Tianhai Industry Co., Ltd. and Jingcheng Holdings signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 10,000,000 to Tianhai Industry Co., Ltd. for "Tianhai vehicle Lu liner fully wrapped composite cylinders project". The ending balance of the fund payable is RMB 3,900,000.
- Note 5: At 4 June 2013, Beijing People's Government National Assets Supervision and Administration Commission issued Notice of Granting 2013 Budgeted Capitals for National Capitals Operation (Beijing Capital [2013] 96); Jingcheng Holdings was noticed to receive RMB 100,000,000 for natural gas storage and transportation equipment production base project. Beijing Tianhai Industry Co., Ltd. has received the above capital from Jingcheng Holdings.
- Note 6: At 30 November 2010, Beijing Jingcheng Compressor Co., Ltd. and Jingcheng Holdings signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 4,000,000 to Beijing Jingcheng Compressor Co., Ltd. for "The composite piston force 16 tons series compressor development project" project. Tianhai Industry Co., Ltd. will make a repayment to Jingcheng Holdings within the first ten working days started at 30 November 2013. The fund payable is still outstanding at the end of this year.
- Note 7: At 24 June 2009, Beijing Jingcheng Compressor Co., Ltd. and Jingcheng Holding Machinery Electric Holding Co., Ltd. signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 3,000,000 to Beijing Jingcheng Compressor Co., Ltd. for "Diaphragm type compressor for nuclear power project". Beijing Jingcheng Compressor Co., Ltd. will make 900,000 and 2,100,000 repayment to Jingcheng Holdings within the first ten working days started at 30 November 2011 and 30 November 2012, respectively. The fund payable is still outstanding at the end of this year.
- Note 8: At 30 November 2010, Beijing Jingcheng Compressor Co., Ltd. and Jingcheng Holding Machinery Electric Holding Co., Ltd. signed a contract known as "Contract of Supporting Funds on Jingcheng Holdings Strategic and Technologic Research and Development Projects", Jingcheng Holdings grant a supporting fund of RMB 5,000,000 to Beijing Jingcheng Compressor Co., Ltd. for "GD8 super large diaphragm compressor product development project". Beijing Jingcheng Compressor Co., Ltd. will make 1,600,000 and 3,400,000 repayment to Jingcheng Holdings within the first ten working days started at 30 November 2014 and 30 November 2015, respectively.
- Note 9: According to the assessment report for budget in relation to the project for "large-scale advanced PWR and high temperature gas cooled reactor nuclear station" as a major projects of national science and technology to the research and development for helium compressor auxiliary system of high temperature gas cooled reactor nuclear station which is provided by the Ministry of Finance investment review center, Jingcheng Compressor Co., Ltd. has received the funds in 2012 and 2013 for research and development of helium compressor auxiliary system of high temperature gas cooled reactor nuclear station with the total amount of RMB 4,568,000.00.

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 29. Estimated liabilities

Items	Beginning Balance	Increase	Decrease	Ending Balance
Employee settlement expense	542,407.38		542,407.38	
Land taxes	1,799,069.00		1,799,069.00	
<b>Total</b>	<b>2,341,476.38</b>		<b>2,341,476.38</b>	

The beginning balance of land taxes is caused by the land remise fund that Beijing Jingcheng Compressor Co., Ltd. dues to Beijing City Land Resources Bureau Yanqing Branch. The land remise fund is repaid in this year.

#### 30. Other non-current liabilities

Items	Ending Balance	Beginning Balance
Discount for high-grade flexible printing machine technical development		323,887.15
Shanxi packaging printing machinery engineering technology research center		192,187.95
<b>Total</b>		<b>516,075.10</b>

#### 31. Share capitals

Changes of legally issued paid-up share capital are listed below: (all shares of the Company are ordinary shares with a nominal value of 1 RMB per share.)

##### Current year

Shareholder's Name/Regimentation	Beginning Balance		Changes in current year				Ending Balance		
	Amount	Ratio (%)	Issue new stock	Gifts share	Accumulation funds to equity	Others	Sub-total	Amount	Ratio (%)
<b>Conditioning Stock</b>									
State-owned Holdings									
<b>Sub-total</b>									
<b>Un-conditioning Stock</b>									
Common Stock (RMB)	322,000.00	76.30						<b>322,000.00</b>	76.30
Stock listed over-sea	100,000.00	23.70						<b>100,000.00</b>	23.70
<b>Sub-total</b>	<b>422,000.00</b>	<b>100.00</b>						<b>422,000.00</b>	<b>100.00</b>
<b>Total</b>	<b>422,000.00</b>	<b>100.00</b>						<b>422,000.00</b>	<b>100.00</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 31. Share capitals (cont'd)

##### Last year

Shareholder's Name/Regimentation	Beginning Balance		Changes in current year				Ending Balance		
	Amount	Ratio (%)	Issue new stock	Accumulation Gifts share	funds to equity	Others	Sub-total	Amount	Ratio (%)
<b>Conditioning Stock</b>									
State-owned Holdings									
<b>Sub-total</b>									
<b>Un-conditioning Stock</b>									
Common Stock (RMB)	322,000.00	76.30					0.00	<b>322,000.00</b>	<b>76.30</b>
Stock listed over-sea	100,000.00	23.70					0.00	<b>100,000.00</b>	<b>23.70</b>
<b>Sub-total</b>	<b>422,000.00</b>	<b>100.00</b>					<b>0.00</b>	<b>422,000.00</b>	<b>100.00</b>
<b>Total</b>	<b>422,000.00</b>	<b>100.00</b>					<b>0.00</b>	<b>422,000.00</b>	<b>100.00</b>

#### 32. Capital reserves

##### Current year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Share premium	1,177,167,402.76		619,329,060.02	<b>557,838,342.74</b>
Other capital reserves	5,575,476.27		4,715,192.31	<b>860,283.96</b>
<b>Total</b>	<b>1,182,742,879.03</b>		<b>624,044,252.33</b>	<b>558,698,626.70</b>

##### Last year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Share premium	1,177,167,402.76			<b>1,177,167,402.76</b>
Other capital reserves	5,575,476.27			<b>5,575,476.27</b>
<b>Total</b>	<b>1,182,742,879.03</b>			<b>1,182,742,879.03</b>

The Group's beginning capital reserves increases by RMB 659,865,101.16 because of the consolidation under common control occurred in this year. The transfer in of equity shares of Tianhai Industry, Jingcheng Compressor, and Jingcheng Holding (Hong Kong) and the transfer out of the Group's assets and liabilities result in a decrease of RMB 624,044,252.33 on capital reserves.

#### 33. Surplus reserves

##### Current year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus reserves	43,172,707.88		1,334,373.15	<b>41,838,334.73</b>
Discretionary surplus reserves		2,906,035.91		<b>2,906,035.91</b>
General reserve fund		460,638.52		<b>460,638.52</b>
Enterprise expansion fund		460,638.52		<b>460,638.52</b>
<b>Total</b>	<b>43,172,707.88</b>	<b>3,827,312.95</b>	<b>1,334,373.15</b>	<b>45,665,647.68</b>

##### Last year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus reserves	43,172,707.88			<b>43,172,707.88</b>



## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 34. Retained earnings

##### Current year

Items	Amounts	Appropriation %
Ending retained earnings of last year	-211,165,505.29	
Add: adjustments for beginning retained earnings		
Including: Changes in accounting policies		
Corrections of Prior Period Errors		
Change of consolidation scope under common control		
Other adjustments		
<b>Beginning retained earnings of current year</b>	<b>-211,165,505.29</b>	
Add: Net profit attributable to parent for the current period	-108,239,018.44	
Others	96,703,007.33	
Less: Provision on statutory surplus reserves		
Provision on discretionary surplus reserves		
Dividends payable of common shares		
Dividends of capital shares from the transferring of common shares		
<b>Ending retained earnings of current year</b>	<b>-222,701,516.40</b>	

##### Last year

Items	Amounts	Appropriation %
Ending retained earnings of last year	-231,668,177.08	
Add: adjustments for beginning retained earnings		
Including: Changes in accounting policies		
Corrections of Prior Period Errors		
Change of consolidation scope under common control	144,959,555.36	
Other adjustments		
<b>Beginning retained earnings of current year</b>	<b>-86,708,621.72</b>	
Add: Net profit attributable to parent for the current period	-124,456,883.57	
Others		
Less: Provision on statutory surplus reserves		
Provision on discretionary surplus reserves		
Dividends payable of common shares		
Dividends of capital shares from the transferring of common shares		
<b>Ending retained earnings of current year</b>	<b>-211,165,505.29</b>	

#### 35. Non-controlling interest

Name of Subsidiary	Proportion (%)	Ending Balance	Beginning Balance
Beijing Beiren Fuji Printing Machinery Co., Ltd.	30.00		6,426,183.14
Shanxi Beiren Printing Machinery Holdings Limited	13.76		8,132,154.65
Langfang Tianhai High Pressure Cylinder Co., Ltd.	17.92	20,590,142.93	24,008,849.67
Shanghai Tianhai Gas Cylinder Co., Ltd.	12.16	4,021,780.68	3,743,773.75
America Fortune Company	49.00	13,074,297.04	12,851,914.57
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.00	106,853,734.62	108,570,503.49
Beijing Tianhai Cryogenic Equipment Co., Ltd.	25.00	15,525,024.92	11,364,733.04
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	44.80	200,000,000.00	
<b>Total</b>		<b>360,064,980.19</b>	<b>175,098,112.30</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 36. Net current assets

Items	Ending Balance	Beginning Balance
Current assets	1,576,800,463.61	2,183,241,558.07
Less: current liabilities	1,548,338,808.69	2,127,663,804.65
Net current assets	<u>36,485,247.10</u>	<u>55,577,753.42</u>

#### 37. Total assets less current liabilities

Items	Ending Balance	Beginning Balance
Total assets	2,829,360,876.07	3,802,931,964.53
Less: current liabilities	1,534,254,587.66	2,127,663,804.65
Total assets less current liabilities	<u>1,295,106,288.41</u>	<u>1,675,268,159.88</u>

#### 38. Borrowings and loans

The Group's borrowings and loans are as the following:

Items	Ending Balance	Beginning Balance
Short-term loans from banks	482,613,152.34	640,243,870.99
Long-term loans		
Bonds payable		
Long-term payable		
Financing leases		
Loans from Jingcheng Holdings	386,800,000.00	426,881,642.71
<b>Total</b>	<u>869,413,152.34</u>	<u>1,067,125,513.7</u>

##### (1) Analysis of borrowings and loans

Items	Ending Balance	Beginning Balance
Bank loans		
– Expire in 5 years	482,613,152.34	640,243,870.99
– Expire after 5 years		
Sub-total	482,613,152.34	640,243,870.99
Other loans and payables	386,800,000.00	426,881,642.71
<b>Total</b>	<u>869,413,152.34</u>	<u>1,067,125,513.7</u>

##### (2) Maturity date analysis

Items	Ending Balance	Beginning Balance
Repay under terms or within 1 year	869,413,152.34	1,067,125,513.7
1-2 years		
2-5 years		
Over 5 years		
<b>Total</b>	<u>869,413,152.34</u>	<u>1,067,125,513.7</u>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 39. Operating income and operating costs

##### (1) Details of Operating income and operating costs

Items	Ending Balance	Beginning Balance
Main operating income	<b>2,675,338,480.92</b>	2,956,333,978.95
Other operating income	<b>152,855,868.95</b>	88,941,548.09
<b>Total</b>	<b><u>2,828,194,349.87</u></b>	<u>3,045,275,527.04</u>
Main operating cost	<b>2,268,292,546.81</b>	2,470,319,968.34
Other operating cost	<b>133,972,383.92</b>	72,836,303.90
<b>Total</b>	<b><u>2,402,264,930.73</u></b>	<u>2,543,156,272.24</u>

##### (2) Main gross profit

Items	Ending Balance	Beginning Balance
Main operating income	<b>2,675,338,480.92</b>	2,956,333,978.95
Main operating cost	<b>2,268,292,546.81</b>	2,470,319,968.34
Gross profit	<b><u>407,045,934.11</u></b>	<u>486,014,010.61</u>

##### (3) Main operating income and cost-classified by products

Items	Current year		Last year	
	Operating income	Operating cost	Operating income	Operating cost
Sales of offset printing machines	<b>291,291,960.01</b>	<b>254,394,035.47</b>	366,076,828.89	320,735,573.87
Sales of Gravure printing machines	<b>266,689,924.56</b>	<b>204,052,119.97</b>	304,755,989.02	239,479,898.22
Sales of table machines	<b>8,085,553.80</b>	<b>10,046,636.78</b>	43,721,353.45	36,645,731.79
Sales of spare parts	<b>7,633,519.60</b>	<b>5,560,735.48</b>	16,230,623.59	11,747,466.86
Compressor business	<b>107,278,938.17</b>	<b>91,957,195.98</b>	104,173,001.66	77,104,539.70
Seamless steel gas cylinders	<b>783,911,544.08</b>	<b>706,257,845.82</b>	1,142,272,475.66	1,029,502,390.03
Winding bottle	<b>477,164,867.73</b>	<b>381,821,054.56</b>	519,862,728.81	360,785,617.56
Low temperature bottle	<b>361,637,537.34</b>	<b>307,817,152.15</b>	210,074,516.15	181,912,817.01
Low temperature storage and transportation equipment	<b>158,164,067.44</b>	<b>114,011,356.21</b>	103,725,730.51	76,197,460.83
Others	<b>213,480,568.19</b>	<b>192,374,414.39</b>	145,440,731.21	136,208,472.47
<b>Total</b>	<b><u>2,675,338,480.92</u></b>	<b><u>2,268,292,546.81</u></b>	<u>2,956,333,978.95</u>	<u>2,470,319,968.34</u>

##### (4) Other operating income and cost

Items	Current year		Last year	
	Operating income	Operating cost	Operating income	Operating cost
Sales of material	<b>129,665,770.14</b>	<b>122,852,212.24</b>	74,179,950.21	66,796,326.95
Sales of water and electricity	<b>1,095,197.81</b>	<b>1,233,360.05</b>	2,592,635.12	2,402,517.29
Lease	<b>13,436,579.41</b>	<b>2,759,965.87</b>	11,777,548.55	2,933,456.00
Others	<b>8,658,321.59</b>	<b>7,126,845.76</b>	391,414.21	704,003.66
<b>Total</b>	<b><u>152,855,868.95</u></b>	<b><u>133,972,383.92</u></b>	<u>88,941,548.09</u>	<u>72,836,303.90</u>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 39. Operating income and operating costs *(cont'd)*

(5) The total operating income from the Company's top five clients is RMB 329,844,109.01, accounted for 11.66% (last year: 12.18%) of the total operating income of corresponding accounting period. Detailed information is listed below:

Company name	Operating Income	Percentage of total income %
Client 1	68,153,303.34	2.41
Client 2	67,578,232.57	2.39
Client 3	66,147,982.84	2.34
Client 4	64,423,094.48	2.28
Client 5	63,541,495.78	2.24
<b>Total</b>	<b>329,844,109.01</b>	<b>11.66</b>

#### 40. Business taxes and surcharges

Items	Current year	Last year	Tax rate (%)
Business tax	1,087,868.73	1,107,637.21	Taxable income *5%/3%
Urban maintenance and construction tax	4,229,127.54	4,739,385.05	Turnover tax *1%,5%,/7%
Educational surcharge	3,398,290.92	3,415,264.05	Turnover tax *5%
Real estate tax	67,083.89	67,083.89	Original value of real estate *70%*1.2%
<b>Total</b>	<b>8,782,371.08</b>	<b>9,329,370.20</b>	

#### 41. Selling and distribution expenses

Items	Current year	Last year
Salary	43,470,759.19	36,310,475.97
Exhibition fee	6,247,588.73	6,035,556.21
Travelling fee	15,184,341.14	11,601,675.27
Entertainment expenses	6,941,368.73	10,600,496.76
Freight expenses	53,901,845.61	56,301,535.32
Office expenses	4,881,542.07	5,853,999.60
After-sales services fee	5,497,398.68	3,457,582.76
Repairing cost	9,461,896.78	14,121,367.21
Storage charges	920,151.58	1,209,651.11
Samples and product loss	44,023.30	122,131.54
Inspection fee	218,855.26	813,626.00
Conference fee	29,166.00	102,986.00
Others	11,984,539.90	13,525,337.68
<b>Total</b>	<b>158,783,476.97</b>	<b>160,056,421.43</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 42. Administrative expenses

Items	Current year	Last year
Salary	129,635,028.69	137,310,813.35
Depreciation	12,639,518.43	15,149,990.49
Office and administrative fee	11,696,563.39	18,343,636.33
Amortization of intangible assets	5,741,769.67	4,750,345.34
Marketing expenses	2,317,362.92	4,156,380.56
Entertainment expenses	4,279,654.49	8,222,024.88
Travelling expenses	2,552,525.79	2,908,836.42
Conference expenses	1,399,513.72	1,634,055.28
Energy charge	1,232,335.24	2,809,478.13
Repairing cost	4,997,214.92	4,998,938.16
Tax expense	16,263,911.45	14,606,227.47
Agency fee	11,495,725.07	8,716,067.80
Research and development expense	36,414,575.25	46,119,332.13
Trademark usage fee	2,210,653.91	3,519,440.35
Allowance for retiring employees	3,051,140.03	6,304,050.31
Reorganization expenses	1,237,173.08	26,195,013.49
Termination benefits	149,934.00	21,981,331.05
Vehicles fee	786,635.82	720,340.59
Others	34,909,375.65	36,593,962.50
<b>Total</b>	<b>283,010,611.52</b>	<b>365,040,264.63</b>

#### 43. Financial expenses

##### (1) Details of financial expenses

Items	Current year	Last year
Interests expense	53,139,856.13	44,461,832.44
Less: Interests income	3,012,684.40	1,817,802.51
Add: exchange loss	6,805,004.06	1,091,464.95
Add: other expenditure	1,702,037.22	1,353,918.55
<b>Total</b>	<b>58,634,213.01</b>	<b>45,089,413.43</b>

##### (2) Details of interests expense

Items	Current year	Last year
Interest of bank loans	40,688,619.63	32,278,469.53
Other loan interests due in 5 years	12,451,236.50	12,183,362.91
Other loan interests due after 5 years		
Bond interests calculated at effective rate		
Financing lease related expenses		
Sub-total	53,139,856.13	44,461,832.44
Less: capitalized interests		
<b>Total</b>	<b>53,139,856.13</b>	<b>44,461,832.44</b>

##### (3) Details of interests income

Items	Current year	Last year
Interest income from bank deposits	3,012,684.40	1,817,802.51
Interest income from accounts receivables		
Interest income accrued at effective interest rates		
Interest income from financing lease		
Interest income from impaired financial assets		
<b>Total</b>	<b>3,012,684.40</b>	<b>1,817,802.51</b>

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 44. Loss on impairment of assets

Items	Current year	Last year
Bad debt loss	9,151,137.36	10,820,773.57
Impairment loss on inventories	20,698,622.67	42,423,486.77
Impairment loss on fixed assets		664,142.40
<b>Total</b>	<b>29,849,760.03</b>	<b>53,908,402.74</b>

#### 45. Investment income

##### (1) Sources of investment income

Items	Current year	Last year
Investment income from long-term equity investments measured at equity method	5,566,006.23	13,282,873.54
Investment income from disposal of long-term equity investments	-641,637.99	900,806.96
Investment income from holding financial assets held-for-sale		277,641.23
<b>Total</b>	<b>4,924,368.24</b>	<b>14,461,321.73</b>

Note: There is no significant limit for the remittance back on investment income.

##### (2) Investment income from long-term equity investments measured at equity method

Items	Current year	Last year	Reason of changes
<b>Total</b>	<b>5,566,006.23</b>	13,282,873.54	
Including:			
Beijing Beiyong Casting Company Limited	-301,202.67	-957,553.25	Equity method modified to cost method
Beijing Moni Automations Co., Ltd.	822.83	39,224.04	
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	126,002.31	-134,080.65	
Beijing Fusheng Machine Co., Ltd.	5,740,383.76	14,335,283.40	Decrease of profit

#### 46. Non-operating income

##### (1) Details of non-operating income

Items	Current year	Last year
Gain on disposal of non-current assets	792,153.14	80,502.03
Include: gain on disposal of fixed assets	792,153.14	80,502.03
Government subsidies	3,096,407.80	9,904,440.56
Gain from debt restructure	34,759.16	
Others	1,982,699.72	1,769,100.58
<b>Total</b>	<b>5,906,019.82</b>	<b>11,754,043.17</b>

The amount accounted into non-operating gains and loss is RMB 5,906,019.82 (last year: RMB 11,754,043.17).

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 46. Non-operating income (cont'd)

##### (2) Details of government subsidies

Items	Current year	Last year	Sources and basis
Department of science and technology innovation project funding	600,000.00		The [2012] 204 architecture of Enterprise Technology Innovation Award
Department of Finance in 2012 packaging industry high-tech R&D funds	560,000.00		Shanxi Caiban Enterprises No. [2012] 125 on the packaging industry of high-tech R&D funds
Weinan high tech Zone Talent Work Leading Group Office personnel incentive payments	866,800.00		Weinan high tech Zone Talent Work Leading Group Office personnel incentive payments
The development of high-grade flexible printing machine technical transformation project discount	96,395.00	115,673.98	The development and reform of investment [2006] 1278 document (deferred income transferred in)
Shanxi packaging printing machinery engineering technology research center	70,438.80	84,526.58	Verify the word [2009] No. Twenty-fifth "Shanxi province" 13115 "scientific and technological innovation projects acceptance certificate" (deferred income transferred in)
Weinan high tech Zone Finance Bureau business accounts fund 2012 large taxpayer award funds	50,000.00		Weinan high tech Zone Finance Bureau business accounts fund 2012 large taxpayer award funds
Trading incentive funds	55,000.00		Weinan City Hall special funds
The disabled subsidies	10,000.00		Chaoyang District Federation of the disabled in the documents of payment
Science and Technology Innovation Award high-tech enterprises in Weinan		2,115,500.00	Weinan high tech Industrial Development Zone Economic Development Bureau file, Wei Gao by [2011] 46
Weinan City Department of finance to support the development of small and medium-sized enterprises and the management of subsidy funds		50,000.00	Weinan high tech Industrial Development Zone Economic Development Bureau file, Wei Gao by [2012] 11
The 2010 provincial enterprise technology innovation capability construction of special funds		2,299,600.00	Weinan Municipal Bureau of finance, Wei caiban pre (2012) the development of small and medium-sized enterprises and the management of Document No. 120-support
The development of high-grade flexible printing machine technical transformation project discount		400,000.00	Science and Technology Department of Shaanxi Province, Shanxi architecture [2011] 185, notice issued "2011 overall innovation project of Shaanxi province science and technology plan"
Weinan City Finance Bureau on the allocation of the 2012 annual Shaanxi province to the general trade export increment and new registered foreign trade enterprises subsidies	60,000.00		Wei Cai [2013] 219, notify the Finance Bureau of Weinan on allocation of the 2012 annual Shanxi province to the general trade export increment and new registered foreign trade enterprise subsidy
Weinan City Finance Bureau issued in 2013 on the financial incentives fund for industrial steady growth	300,000.00		Wei Cai [2013] 264, notify the Weinan City Finance Bureau issued in 2013 on the financial incentives fund industrial steady growth
CDPF post subsidy	14,000.00	15,000.00	Beijing City employers arrange disabled employment job subsidies Proposal

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

46. Non-operating income (cont'd)

(2) Details of government subsidies (cont'd)

Items	Current year	Last year	Sources and basis
Badaling Economic Development Zone Management Committee supporting fund	135,774.00	352,000.00	
Special financial capital of high-tech achievement transformation project		227,400.00	Notice on the allocation of the 2010, the 2011 Annual Beijing high-tech achievements into the special fiscal fund projects
Beijing commission by letter industrial growth Award		200,000.00	2011 Beijing industrial growth enterprise incentive policy implementation details
Fully wrapped composite cylinder in cars with aluminum liner production projects discount		2,700,000.00	The Commission by letter No. [2011] 128, "notice issued by the year 2011 the first batch of Industrial Development Fund Project"
Beijing Industrial Growth Enterprise Award		250,000.00	Notice of Beijing Municipal Commission of economy and information technology Beijing City Finance Bureau of Beijing Municipal Bureau of statistics on the issuance of "2011 Beijing industrial growth enterprise incentive policy implementation details" (Beijing the Commission by letter No. [2011] 106)
Special fund for energy-saving emission reduction		260,000.00	Jinbin letter by the [2011] 25 number, the Binhai New Area of circular economy and informatization committee "about declaring 2011 Binhai New District special funds for energy conservation funding"
Special subsidies for the development of small and medium-sized enterprises		800,000.00	Jin Finance Building No. [2012] 5, notify the Tianjin Finance Bureau "on the development of capital projects in small and medium-sized enterprises in 2012 to declare the work of the local characteristics industry"
Special funds for sustainable development of energy development special subsidy	148,000.00		The development of Chaoyang District energy saving guide funds management measures
Langfang economic and Technological Development Zone Management Committee praised bonus	100,000.00		Decision of the Langfang economic and Technological Development Zone Management Committee about the year 2012 in recognition of outstanding contributions to the enterprise and enterprise management elite
Clean production incentives Bureau of finance of the Development Zone	30,000.00		Clean production incentives Bureau of finance of the Development Zone
Others		34,740.00	
<b>Total</b>	<b>3,096,407.80</b>	<b>9,904,440.56</b>	



## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 47. Non-operating expenses

Items	Current year	Last year
Loss from disposal of non-current assets	<b>1,979,207.13</b>	1,819,131.01
Include: loss from disposal of fixed assets	<b>1,979,207.13</b>	1,819,131.01
Others	<b>674,508.93</b>	2,619,329.22
<b>Total</b>	<b>2,653,716.06</b>	4,438,460.23

The amount accounted into non-operating gains and loss is RMB 2,653,716.06 (last year: 4,438,460.23)

#### 48. Income tax expense

##### (1) Income tax expense

Items	Current year	Last year
Income tax for current year – China corporate income tax	<b>7,438,579.99</b>	11,587,188.33
1. China	<b>6,798,692.17</b>	10,301,540.81
2. Hong Kong		
3. Other territories	<b>639,887.82</b>	1,285,647.52
4. Overstated (understated) in previous years		
5. Deferred tax	<b>-2,890,763.42</b>	2,626,415.10
<b>Total</b>	<b>4,547,816.57</b>	14,213,603.43

#### 49. Audit fee

Audit fee for this year is RMB 1,050,000.00 (last year: RMB 1,050,000.00).

#### 50. Depreciation and amortization

Depreciation/amortization for this year is RMB 117,443,627.61 (last year: 108,880,861.69)

#### 51. Operating rentals expenditure

Operating rentals expenditure for this year is RMB 11,088,144.18 (last year: 8,435,620.96).

#### 52. Rentals income

The rental income from land and buildings (excluding land rent, property rates and other expenditure) is RMB 14,512,579.41 for this year (Last year: RMB 12,824,548.55).

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements *(cont'd)*

#### 53. Other comprehensive income

Items	Current year	Last year
1. Gain (loss) from available-for-sale financial assets	o/s	o/s
Less: available-for-sale financial assets' impacts on income tax	o/s	o/s
Previous recognized other comprehensive income (net) transfers to current profit and loss		
Subtotal		
2. Share on investees' other comprehensive income measured at equity method		
Less: impact on income tax generated from share on investees' other comprehensive income measured at equity method		
Net gain and loss for current year transferred by amount previously recognized as other comprehensive income		
Subtotal		
3. Gain and loss from cash flow hedging		
Less: impacts on income tax from cash flow hedging		
Net gain and loss for current year transferred by amount previously recognized as other comprehensive income		
Adjustment on initially recognized amount of hedging transferred		
Subtotal		
4. Difference of the foreign translation on financial statements	-484,482.81	-30,061.05
Less: net gain and loss for the current year from disposal of foreign operation		
Subtotal	-484,482.81	-30,061.05
5. Others		
Less: impacts on income tax from other items accounted into other comprehensive income		
Net gain and loss for current year from the transferring in by others previously recognized as other comprehensive income		
Subtotal		
<b>Total</b>	<b>-484,482.81</b>	<b>-30,061.05</b>

#### 54. Earnings per share

##### (1) Basic earnings per share

Basic EPS is calculated through consolidated net profit attributable to the common shareholders of the parent divided by the weighted average outstanding common shares.

Items	Current year	Last year
Consolidated net profit attributable to the common shareholders of the parent	-108,239,018.44	-124,456,883.57
Consolidated net profit attributable to the common shareholders of the parent (net of non-operating gains and loss)	-76,646,872.99	-173,196,189.59
The weighted average outstanding common shares	422,000,000.00	422,000,000.00
Basic earnings per share (RMB/share)	-0.26	-0.29
Basic earnings per share (RMB/share) (net of non-operating gains and loss)	-0.18	-0.41

The calculation of the weighted average number of basic EPS:

Items	Current year	Last year
The beginning balance of outstanding common shares	422,000,000.00	422,000,000.00
Adjustment of capital reserves transfer to the capital		
The ending balance of outstanding common shares	422,000,000.00	422,000,000.00

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 54. Earnings per share (cont'd)

##### (2) Diluted earnings per share

The diluted EPS is calculated as followed: diluted potential basic shares adjusted consolidated net profit attributable to the basic shareholders of the parent company divided by the adjusted weighted average outstanding basic shares.

The adjustment factor of consolidated net profit attributable to the basic shareholders of the parent company is the diluted potential basic share interest, recognized as expense; and gains and losses of diluted potential basic share, generated during transition process; as well as other income tax influence.

The adjustment factor of weighted average outstanding basic shares is the increased weighted average number of assumed diluted potential basic share, generated during transition process of basic shares.

Item	Current year	Last year
Adjusted consolidated net profit attributable to the basic shareholders of the parent	-108,239,018.44	-124,456,883.57
Adjusted consolidated net profit attributable to the basic shareholders of the parent (net of non-operating gains and loss)	-76,646,872.99	-173,196,189.59
The adjusted weighted average outstanding basic shares	422,000,000.00	422,000,000.00
Diluted earnings per share (RMB/share)	-0.26	-0.29
Diluted earnings per share (RMB/share) (net of non-operating gains and loss)	-0.18	-0.41

#### 55. Cash flow information

##### (1) Other cash receipts and disbursement related to operating/investing/financing activities

##### 1) Other cash receipts related to operating activities

Item	Current year
Interests income	3,012,684.40
Government subsidies	3,096,407.80
Receivables and payables	4,805,011.46
Others	4,883,253.35
<b>Total</b>	<b>15,797,357.06</b>

##### 2) Other cash disbursement related to operating activities

Item	Current year
Expenses	142,770,643.93
Security deposits	7,642,688.52
Receivables and payables	6,058,060.58
Others	1,825,690.84
<b>Total</b>	<b>158,297,083.87</b>

##### 3) Other cash receipts related to investing activities

Item	Current year
Receipts of the difference in assets exchange with Jingcheng Holding	5,522,900.00
Cash received from subsidiaries	6,193,400.00
<b>Total</b>	<b>11,716,300.00</b>

V. Notes of Main Items of Consolidated Financial Statements (cont'd)

55. Cash flow information (cont'd)

(1) Other cash receipts and disbursement related to operating/investing/financing activities (cont'd)  
4) Other cash payment related to investing activities

Item	Current year
Outgoing Assets	<b>292,580,707.25</b>

5) Other cash receipts related to financial activities

Item	Current year
Loans from Jingcheng Holding, etc.	<b>548,000,000.00</b>

6) Other cash payment related to financial activities

Item	Current year
Repayment of loans from Jingcheng Holding	<b>489,410,000.00</b>

(2) Supplementary information for combination

Item	Current year	Last year
<b>1. Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	-109,552,195.28	-123,741,316.39
Add: Provision on the impairment of assets	29,849,760.03	53,908,402.74
Depreciation of fixed asset	110,233,877.68	103,134,933.45
Amortization of intangible asset	6,278,596.61	5,464,944.20
Amortization of long-term prepaid expenses	931,153.32	280,984.04
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	-106,794.55	1,541,322.50
Loss on disposal of fixed assets (Gain listed as "-")	1,293,848.54	197,306.48
Gain or loss from changes in fair value (Gain listed as "-")		
Financial expenses (Gain listed as "-")	59,813,965.84	45,159,166.63
Loss on investments (Gain listed as "-")	-4,924,368.24	-14,461,321.73
Decrease in deferred tax assets (Increase listed as "-")	-2,890,763.42	2,626,415.10
Increase in deferred tax liabilities (Decrease listed as "-")		
Decrease in inventories (Increase listed as "-")	-132,009,783.83	-35,820,844.59
Decrease in operating receivables (Increase listed as "-")	-115,707,592.25	-139,977,867.82
Increase in operating payables (Decrease listed as "-")	-69,812,192.93	41,515,229.45
Others		
Net cash flow generated from operating activities	-226,602,488.48	-60,172,645.94
<b>2. Significant non-cash investing and financing activities:</b>		
Conversion of debts into capital		
Convertible bonds repayable within 1 year		
Fixed assets acquired under finance lease arrangement		
<b>3. Changes in cash and cash equivalents:</b>		
Closing balance of cash	305,897,025.49	490,533,435.19
Less: opening balance of cash	490,533,435.19	281,425,998.32
Add: closing balance of cash equivalents		
Less: opening balance of cash equivalents		
Net increase in cash and cash equivalents	<b>-184,636,409.70</b>	209,107,436.87

## NOTES TO THE FINANCIAL STATEMENT

### V. Notes of Main Items of Consolidated Financial Statements (cont'd)

#### 55. Cash flow information (cont'd)

##### (3) Information of acquisition or disposal of subsidiaries and other operating units during the year

Items	Current year
Information of subsidiaries and other operating units acquired	
1. Price for acquisition of subsidiaries and other operating units	
2. Cash and cash equivalents paid for acquisition of subsidiaries and other operating units	
Less: Cash and cash equivalents held by the subsidiaries and other operating units acquired	
3. Net cash and cash equivalents paid on acquisition of subsidiaries and other operating units	
4. Net assets of subsidiaries acquired	
Current assets	
Non-current assets	
Current liabilities	
Non-current liabilities	
Information of subsidiaries and other operating units disposed	
1. Price for disposal of subsidiaries and other operating units	
2. Cash and cash equivalents received for disposal of subsidiaries and other operating units	5,522,900.00
Less: Cash and cash equivalents held by the subsidiaries and other operating units disposed	24,728,192.28
3. Net cash and cash equivalents received on disposal of subsidiaries and other operating units	-19,205,292.28
4. Net assets of subsidiaries disposed	99,790,885.45
Current assets	219,555,507.40
Non-current assets	145,675,024.19
Current liabilities	264,509,481.54
Non-current liabilities	930,164.60

##### (4) Cash and cash equivalents

Items	Current year	Last year
<b>Cash</b>	<b>305,897,025.49</b>	490,533,435.19
Including: Cash in hand	77,407.20	63,445.13
Bank deposits available for use on demand	305,819,618.29	490,469,990.06
<b>Cash equivalents</b>		
<b>Cash and cash equivalents at end of year</b>	<b>305,897,025.49</b>	490,533,435.19

#### 56. Changes in shareholders' equity

- (1) In 2011, adjustment to the ending balance of capital reserves, retained earnings, and non-controlling interests are RMB 659,865,101.16, RMB 144,959,555.36, and RMB 156,052,244.26, respectively.
- (2) In 2012, adjustment to the ending balance of capital reserves, retained earnings, and non-controlling interests are RMB 659,901,078.31, RMB 188,860,698.51, and RMB 160,539,774.52, respectively.

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

### 1. Related parties relationship

#### (1) Parent companies and ultimate controlling parties

##### 1) Parent companies and ultimate controlling parties

Name	Ownership	Place of register	Business Scope	Legal representative	Code of the Organization
<b>Ultimate controlling party</b>					
Beijing National Capital Mechanical And Electrical Holding Company Limited	Unique State-owned	Chaoyang District, Beijing	Operation and management of authorized State capital	Ren Yaguang	63368621-7

##### 2) Registered capital (RMB 0,000) of the parent company and changes

Name	Beginning Balance	Increase	Decrease	Ending Balance
Beijing National Capital Mechanical And Electrical Holding Company Limited	169,558.71			<b>169,558.71</b>

##### 3) Shareholding (RMB 0,000) of parent company and changes

Name	Amount of Share holding		Percentage of Share holding (%)	
	Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
Beijing National Capital Mechanical And Electrical Holding Company Limited	<b>20,162.00</b>	20,162.00	<b>47.78</b>	47.78

#### (2) Subsidiaries

##### 1) Subsidiaries list

Name	Nature	Registration Location	Operating Scope	Legal person	Organization number
Beijing Tianhai Industry Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Chaoyang, Beijing	Manufacture	Pingsheng Wang	60000369-4
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Langfang, Heibei	Manufacture	Pingsheng Wang	79956948-3
Shanghai Tianhai Gas Cylinder Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Songjiang District, Shanghai	Manufacture	Pingsheng Wang	60742223-4
Beijing Panni Gaokong Equipment Co., Ltd.	Limited Liability company	Tongzhou District, Beijing	Manufacture	Pingsheng Wang	10248506-1
America Fortune Company	Foreign enterprise	Houston, Texas, USA	Sale	Chuanzhong Hu	
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Tianjin port free trade zone	Manufacture	Guangling Liu	74665239-8
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited Liability company	Daxing District, Beijing	Manufacture	Pingsheng Wang	67505219-1
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	Limited Liability company	Tongzhou District, Beijing	Sale	Pingsheng Wang	05733001-9

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

1. **Related parties relationship** *(cont'd)*  
 (2) **Subsidiaries** *(cont'd)*  
 1) **Subsidiaries list** *(cont'd)*

Name	Nature	Registration Location	Operating Scope	Legal person	Organization number
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Langfang, Heibei	Manufacture	Pingsheng Wang	79956948-3
Beijing Jingcheng Compressor Co., Ltd.	Limited Liability company	Yanqing, Beijing	Manufacture	Pingsheng Wang	74043038-0
Jingcheng Holding (Hong Kong) Company Limited	Limited Liability company		Hong Kong	Trade and investment	Yaguang Ren

2) **Registered capital of subsidiaries and changes**

Name	Beginning Balance	Increase	Decrease	Ending Balance
Beijing Tianhai Industry Co., Ltd.	USD61,401,800.00			USD61,401,800.00
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB 301,410,000.00			RMB 301,410,000.00
Shanghai Tianhai Gas Cylinder Co., Ltd.	USD 3,017,400.00			USD 3,017,400.00
Beijing Panni Gaokong Equipment Co., Ltd.	RMB 20,000,000.00			RMB 20,000,000.00
America Fortune Company	USD 3,367,550.00			USD 3,367,550.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	RMB 225,578,400.00			RMB 225,578,400.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	RMB 40,000,000.00			RMB 40,000,000.00
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	RMB 10,000,000.00	RMB 370,412,700.00		RMB 380,412,700.00
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB 301,410,000.00			RMB 301,410,000.00
Shanghai Tianhai Gas Cylinder Co., Ltd.	USD 3,017,400.00			USD 3,017,400.00
Jingcheng Holding (Hong Kong) Company Limited	HKD1,000.00			HKD 1,000.00

3) **Shareholding**

Name	Amount of Share holding		Percentage of Share holding (%)	
	Ending Balance	Beginning Balance	Ending Balance %	Beginning Balance %
Beijing Tianhai Industry Co., Ltd.	624,631,295.27		100.00	
Langfang Tianhai High Pressure Cylinder Co., Ltd.	247,410,000.00		82.08	
Shanghai Tianhai Gas Cylinder Co., Ltd.	18,660,778.98		87.84	
Beijing Panni Gaokong Equipment Co., Ltd.	20,000,000.00		100.00	
America Fortune Company	18,360,270.00		51.00	
Tianjin Tianhai High Pressure Containers Co., Ltd.	124,068,100.00		55.00	
Beijing Tianhai Cryogenic Equipment Co., Ltd.	30,000,000.00		75.00	
Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.	380,412,703.00		100.00	
Langfang Tianhai High Pressure Cylinder Co., Ltd.	247,410,000.00		82.08	
Beijing Jingcheng Compressor Co., Ltd.	164,841,943.18		100.00	
Jingcheng Holding (Hong Kong) Company Limited	142,044,028.10		100.00	

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 1. Related parties relationship *(cont'd)*

#### (3) Associated companies

See Note V9 (5).

#### (4) Other related parties

Relationship	Name	Transaction	Organization number
Under the same parent company	Beiren Corporation Group	Goods sales rental of spaces	10110132-9
	Haimen Beiren Printing Machinery Co., Ltd.	Goods sales	138335313
	Beijing Jingcheng Industry Logistics Co.,Ltd	Goods sales	101628956
	Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Rental of spaces	58587627-7
	Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	Rental of spaces	58588396-0
	Beijing First Machine Tool Factory	Rental of spaces	10120926-8
	Beijing Beikai Electric Holdings Co., Ltd.	Related party transaction	70023939-7
	Beijing Xihai Industrial and Trading Company	Rental of spaces	10140281-8
	Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	Related party transaction	58443842-7
	Beijing Mechanical & Electrical Academy High Technology Holdings Co., Ltd.	Sales of goods	74040250-7
Other related party	Beijing Beiyong Casting Co. Ltd.	Goods purchase, rental of spaces	802866623



## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 2. Related parties transactions

##### (1) Consolidated

##### 1) Purchase of goods or accepting service

Name	Nature of transactions	Pricing method and decision making process	Current Year		Last Year	
			Amount	Percent (%)	Amount	Percent (%)
<b>Other related party</b>						
Beijing Beiyong Casting Co. Ltd.	Purchasing raw materials	Agreed price	12,065,071.91	0.62	10,304,924.41	0.41
<b>Associated companies</b>						
Beijing Monigraf Automations Co. Ltd	Purchasing raw materials	Agreed price	8,153,701.53	0.42	9,735,726.25	0.39
<b>Under the same parent company</b>						
Beijing Jingcheng Industrial Logistics Co. Ltd.	Purchasing raw materials	Agreed price	27,488,539.32	1.42	86,627,091.14	3.46
Beiren Corporation Group	Trademark usage fee	Agreed price	2,210,653.91	0.11	3,519,440.35	0.14
Beiren Corporation Group	Billboard	Agreed price	2,430.00	0.00	37,634.85	0.00
Beiren Corporation Group	Materials	Agreed price	16,146,088.06	0.83	6,274,899.30	0.25
<b>Total</b>	-	-	<b>66,066,484.73</b>	<b>-</b>	<b>116,499,716.30</b>	

##### 2) Sales of goods

Name	Nature of transactions	Pricing method and decision making process	Current Year		Last Year	
			Amount	Percent (%)	Amount	Percent (%)
<b>Associated companies</b>						
Beijing Monigraf Automations Co. Ltd.	Water and electricity	Agreed Price	15,650.20	0.01	14,092.91	0.02
<b>Under the same parent company</b>						
Beijing Jingcheng Industry Logistics Co., Ltd	Water and electricity	Agreed Price			39,032.48	0.04
Beijing Jingcheng Industry Logistics Co., Ltd	Materials	Agreed Price			545,469.57	0.61
Beijing Jingcheng Changye Construction Machinery Co. Ltd	Water and electricity	Agreed Price	356,032.62	0.23	516,926.35	0.58
Beijing Jingcheng Changye Construction Machinery Co. Ltd	Materials	Agreed Price	179.49	0.00	256,410.26	0.29
Beiren Corporation Group	Water and electricity	Agreed Price	254,134.66	1.17	224,507.73	0.25
Beiren Corporation Group	Materials	Agreed Price	17,697,856.19	11.58	6,474,785.47	7.58
Mechanical & Electrical Academy	Equipments	Agreed Price			8,836,435.90	9.94
<b>Total</b>			<b>18,323,853.16</b>		<b>16,907,660.67</b>	

**VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES** (cont'd)

2. **Related parties transactions** (cont'd)

(1) **Consolidated** (cont'd)

3) **Lease**

Lessor	Lessee	Assets rental information	Start date	Expire date	Rental income	Basis of income	Effect of rental income
The company	Beijing Beiyong Casting Co. Ltd.	Land, Building	2013-01-01	2013-12-31	3,672,553.90	Agreed price	3,672,553.90
The company	Beiren Corporation Group	Building	2013-01-01	2013-12-31	1,707,884.83	Agreed price	1,707,884.83
The company	Beijing Monigraf Automations Co., Ltd.	Building	2013-01-01	2013-12-31	50,331.00	Agreed price	50,331.00
The company	Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Building	2013-03-01	2014-02-28	4,971,403.20	Agreed price	4,971,403.20
The company	Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	Building	2013-10-01	2016-09-30	891,988.37	Agreed price	891,988.37
The company	Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Vehicle	2013-07-01	2013-12-31	28,205.12	Agreed price	28,205.12
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Beiren Group Corporation	Vehicle	2013-02-01	2014-01-31	25,641.03	Agreed price	25,641.03
Beijing First Machine Tool Factory	Beijing Panni Gaokong Equipment Co., Ltd.	Building	2013-01-01	2013-12-31	120,000.00	Agreed price	-120,000.00
Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	Beijing Tianhai Industry Co., Ltd.	Building	2012-04-01	2016-12-31	680,000.00	Agreed price	-680,000.00
Beijing Xihai Industrial and Trading Company	Beijing Jingcheng Compressor Co., Ltd.	Building	2012-01-01	2015-12-31	1,100,000.00	Agreed price	-1,100,000.00

4) **Entrust loans with related parties**

Name of related party	Amount	Starting date	Expiration date	Note
Beijing National Capital Mechanical And Electrical Holding Company Limited	55,000,000.00	2013-01-30	2014-01-30	Transferred Out
	45,000,000.00	2013-09-13	2014-09-12	Transferred Out
	35,500,000.00	2013-01-29	2014-01-29	Transferred Out
	44,500,000.00	2013-01-31	2014-01-31	Transferred Out
	30,000,000.00	2013-04-12	2014-04-11	Transferred Out
	40,000,000.00	2012-11-29	2013-11-29	Transferred Out
	50,000,000.00	2012-12-28	2013-12-27	Transferred Out
	188,681,300.00	2013-10-31	2014-10-31	Transferred Out

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 2. Related parties transactions *(cont'd)*

##### (1) Consolidated *(cont'd)*

##### 5) Pledge details

Guarantor	Guarantee	Amount	Starting date	Expiration date	Whether executed
Beijing National Capital Mechanical And Electrical Holding Company Limited	Beijing Tianhai Industry Co., Ltd.	50,000,000.00	2013-02-26	2014-02-25	No
		40,000,000.00	2013-08-19	2014-08-18	
		20,000,000.00	2013-08-30	2014-08-29	
		20,000,000.00	2013-08-30	2014-08-29	
		30,000,000.00	2013-12-23	2014-12-23	
		50,000,000.00	2013-07-24	2014-07-24	
		50,000,000.00	2013-09-05	2014-09-04	
		14,000,000.00	2013-12-06	2014-03-06	
		21,000,000.00	2013-12-30	2014-03-29	
		20,000,000.00	2013-09-29	2014-01-06	
		USD 233,930.52	2013-12-10	2014-02-08	
		<b>Total</b>		<b>316,326,250.99</b>	

##### 6) Lends with related parties

Lender	Borrower	Amount	Starting date	Expiration date	Interest rate	Note		
Beijing National Capital Mechanical And Electrical Holding Company Limited	Beijing Tianhai Industry Co., Ltd.	68,800,000.00	2012-12-26	2013-12-25	5.00%			
		120,000,000.00	2012-12-06	2013-12-05	0.00%			
		120,000,000.00	2013-12-06	2014-12-05	6.00%			
		30,000,000.00	2012-07-27	2013-07-26	6.00%			
		30,000,000.00	2013-07-27	2014-07-26	6.00%			
		38,000,000.00	2012-08-02	2013-08-01	6.00%			
		38,000,000.00	2013-08-02	2014-08-01	6.00%			
		10,000,000.00	2012-09-16	2013-09-15	6.00%			
		Beijing National Capital Mechanical And Electrical Holding Company Limited	Beijing Tianhai Industry Co., Ltd.	10,000,000.00	2013-09-16	2014-09-15	6.00%	
				10,000,000.00	2013-09-13	2014-09-12	6.00%	
10,000,000.00	2013-10-22			2014-10-22	6.00%			
100,000,000.00	2013-10-30			2014-10-29	6.00%			
Beijing Jingcheng Compressor Co., Ltd.	10,000,000.00		2012-03-20	2013-03-20	5.90%			
	10,000,000.00		2012-03-14	2013-03-14	5.90%			
	10,000,000.00		2012-03-15	2013-03-15	5.90%			
	10,000,000.00		2013-03-14	2014-03-14	6.00%			
	10,000,000.00		2013-03-14	2014-03-14	6.00%			
	10,000,000.00		2013-05-20	2014-05-20	6.00%			
10,000,000.00	2013-5-20	2014-05-20	6.00%					

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 2. Related parties transactions *(cont'd)*

#### (1) Consolidated *(cont'd)*

##### 7) Interest expense with related party

Name	Current year	Last year
Beijing National Capital Mechanical And Electrical Holding Company Limited	<b>12,451,236.50</b>	12,183,362.91

##### 8) Transference of assets with related party

Name	Transaction	Current year		Last year	
		Amount	%	Amount	%
Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	Transference of assets			6,100,000.00	28.40
Beijing Mechanical & Electrical Academy High Technology Holdings Co., Ltd	Transference of assets			5,145,932.24	23.94
Beijing Xihai Industrial and Trading Company	Transference of assets			8,587,823.30	39.98
<b>Total</b>				<b>19,833,755.54</b>	<b>92.32</b>

#### (2) Parent Company

##### 1) Purchase of goods or accepting service

Name	Nature of transactions	Pricing method and decision making process	Current Year	Last Year	Amount	Percent (%)
			Amount	Percent (%)		
<b>Other related party</b>						
Beijing Beiyong Casting Co. Ltd.	Purchasing raw materials	Agreed price	<b>10,592,543.79</b>	<b>13.06</b>	10,304,924.41	8.08
<b>Associated companies</b>						
Beijing Monigraf Automations Co. Ltd	Purchasing raw materials	Agreed price	<b>8,153,701.53</b>	<b>10.06</b>	9,735,726.25	7.63
<b>Under the same parent company</b>						
Beijing Jingcheng Industry Logistics Co.,Ltd	Purchasing raw materials	Agreed price	<b>9,189,327.06</b>	<b>11.33</b>	25,628,822.88	20.53
Beiren Corporation Group	Trademark usage fee	Agreed price	<b>2,210,653.91</b>	<b>100.00</b>	3,519,440.35	100.00
Beiren Corporation Group	Billboard	Agreed price	<b>2,430.00</b>	<b>0.00</b>	37,634.85	0.00
Beiren Corporation Group	Materials	Agreed price	<b>14,001,555.17</b>	<b>17.27</b>	1,068,376.07	0.84
<b>Total</b>	-	-	<b>44,150,211.46</b>		<b>50,294,924.81</b>	

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 2. Related parties transactions *(cont'd)*

##### (2) Parent Company *(cont'd)*

##### 2) Sales of goods

Name	Nature of transactions	Pricing method and decision making process	Current Year		Last Year	
			Amount	Percent (%)	Amount	Percent (%)
<b>Associated companies</b>						
Beijing Monigraf Automations Co. Ltd	Water and electricity	Agreed price	15,650.20	1.43	14,092.91	0.40
<b>Under the same parent company</b>						
Beijing Jingcheng Industry Logistics Co., Ltd	Water and electricity	Agreed price			39,032.48	1.12
Beijing Jingcheng Industry Logistics Co., Ltd	Material	Agreed price			545,469.57	0.43
Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Water and electricity	Agreed price	356,032.62	32.51	516,926.35	14.83
Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Material	Agreed price	179.49	0.00	256,410.26	0.20
Beiren Corporation Group	Water and electricity	Agreed price	254,134.66	23.20	224,507.73	6.44
Beiren Corporation Group	Material	Agreed price	9,846,153.85	3.47		
<b>Total</b>			<b>10,472,150.82</b>		<b>1,596,439.30</b>	

##### 3) Lease

Lessor	Lessee	Assets rental information	Start date	Expire date	Rental income	Basis of income	Effect of rental income
The company	Beijing Beiyong Casting Co. Ltd.	Land, Building	2013-01-01	2013-12-31	3,672,553.90	Agreed price	3,672,553.90
The company	Beiren Corporation Group	Building	2013-01-01	2013-12-31	1,707,884.83	Agreed price	1,707,884.83
The company	Beijing Monigraf Automations Co. Ltd	Building	2013-01-01	2013-12-31	50,331.00	Agreed price	50,331.00
The company	Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Building	2013-03-01	2014-02-28	4,971,403.20	Agreed price	4,971,403.20
The company	Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	Building	2013-10-01	2016-09-30	891,988.37	Agreed price	891,988.37
The company	Beijing Jingcheng Changye Engineering Machinery Co., Ltd.	Vehicle	2013-07-01	2013-12-31	28,205.12	Agreed price	28,205.12

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 2. Related parties transactions *(cont'd)*

#### (2) Parent Company *(cont'd)*

#### 4) Entrust loans with related parties

Name of related party	Amount	Starting date	Expiration date	Note
Beijing National Capital Mechanical And Electrical Holding Company Limited	55,000,000.00	2013-01-30	2014-01-30	Transferred out
	45,000,000.00	2013-09-13	2014-09-12	Transferred out
	35,500,000.00	2013-01-29	2014-01-29	Transferred out
	44,500,000.00	2013-01-31	2014-01-31	Transferred out
	30,000,000.00	2013-04-12	2014-04-11	Transferred out
	40,000,000.00	2012-11-29	2013-11-29	Transferred out
	50,000,000.00	2012-12-28	2013-12-27	Transferred out
	188,681,300.00	2013-10-31	2014-10-31	Transferred out

#### 5) The significant assets reorganization

On November 2012, the Company has signed the agreement of significant assets reorganization and the supplementary agreement with Jingcheng Holdings and Beiren Group, the agreement states that the Company transfer all assets and liabilities to Jingcheng Holdings by receiving the assets which are related to gas storage and transportation equipment business from Jingcheng Holdings, the difference is complemented by cash which is paid by Jingcheng Holdings. It assumes that outgoing assets are all assets and liabilities of the Company, incoming assets are 88.50% shareholdings of Beijing Tianhai Industry Co., Ltd., and 100% of shareholdings of Jingcheng Holding (Hong Kong) Co., Ltd., and 100% of shareholdings of Beijing Jingcheng Compressor Co., Ltd. which is separated from environmental protection project, those are all hold by Jingcheng Holding.

According to the assets assessment report which is provided by Beijing Dazheng State-Owned Assets Appraisal Co., Ltd., until 31 March 2012, the assessed information for incoming assets and outgoing assets are showing below:

Related assets		Book value of net assets	Valuation of net assets	% of valuation
Outgoing assets	All assets and liabilities of Beiren Holdings	81,047.15	118,486.96	46.20%
Incoming assets	71.56% of shareholdings of Tianhai Industry Co., Ltd.	27,019.31	47,195.97	74.67%
	100% of shareholdings of Jingcheng Hong Kong	13,542.20	22,246.45	64.28%
	100% of shareholdings of Jincheng Compressor	14,614.82	22,493.25	53.91%
	Total		91,935.67	
	The difference between incoming assets and outgoing assets		26,551.29	

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 2. Related parties transactions *(cont'd)*

##### (2) Parent Company *(cont'd)*

##### 5) **The significant assets reorganization** *(cont'd)*

On 26 September 2013, the Company has received the approval of significant assets reorganization of Beiren Printing Machinery Holdings Company Limited from CSRC China Securities Regulatory Commission (Zhengjianxuke [2013] No.1240), the event of significant assets reorganization of the Company has been approved.

On 31 October 2013, the Company has signed the agreement of significant assets reorganization and delivery with Beiren Group and Jingcheng Holding, and the delivery date is 31 October 2013, since the date of delivery, the Company's responsibility of delivering outgoing assets is treated as completion (whether the process of transfer name of the assets right has completed or not at the delivery date), Beiren Group is the real controller of the outgoing assets. Jingcheng Holding has completed the responsibility for delivering of incoming assets; the Company is the real controller of the incoming assets.

During the delivery of the assets, Jingcheng Holding has increased the investments both in Beijing Tianhai Industry Co., Ltd. and Jingcheng Compressor Co., Ltd. with the amount of RMB 0.23 billion and RMB 29.99 million respectively which need to be deducted, the Group has received the difference payment between incoming assets and outgoing assets with the amount of RMB 5,522,900.00 which is paid by Jingcheng Holding.

Until the date of approval of financial statement, the process of transfer name of the incoming assets for the Company has been completed, the transaction parties are actively in the process of changing the part of properties right of the outgoing assets and the registration procedures of the industry and commerce alteration for partial invested entities.

#### (3) Consolidated and parent company

##### 1) **Key administration staff salary**

Item	Current Year	Last Year
Key administration staff salary	<b>9,306,218.97</b>	3,572,952.72
Item	Current Year	Last Year
Fees	<b>2,356,372.56</b>	388,355.00
Salaries and other benefits	<b>6,666,192.57</b>	3,057,383.80
Retirement benefits scheme contributions	<b>283,653.84</b>	127,213.92
<b>Total emoluments</b>	<b>9,306,218.97</b>	3,572,952.72

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 2. Related parties transactions *(cont'd)*

#### (3) Consolidated and parent company *(cont'd)*

##### 1) Key administration staff salary *(cont'd)*

The emoluments of key administration staff are analyzed as follows:

Name and Post	Current Year			Total emoluments
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
<b>Executive directors</b>				
Wang Ping-Sheng	557,500.00	216,391.53	14,645.52	788,537.05
Hu Chuan-Zhong	563,100.00	260,261.53	14,645.52	838,007.05
Jiang Chi	187,679.56	213,584.62	14,645.52	415,909.70
Wu Yan-Zhang	91,365.00	226,594.53	14,645.52	332,605.05
Li Jun-Jie	353,870.00	166,653.39	14,645.52	535,168.91
<b>Non-executive directors</b>				
Jiang Zi-Li	292,358.00	209,381.73	14,645.52	516,385.25
Jiang Zi-Li		293,531.57	14,645.52	308,177.09
<b>Independent non-executive directors</b>				
Wang Hui	40,000.00			40,000.00
Xie Bing-Guang	40,000.00			40,000.00
Wang De-Yu	40,000.00			40,000.00
Zhang Shuang-Ru	40,000.00			40,000.00
<b>Supervisors</b>				
Liu Zhe		453,763.24	14,645.52	468,408.76
Han Bing-Kui		592,196.44	14,645.52	606,841.96
Ruan Ai-Hua		157,137.61	14,645.52	171,783.13
<b>Other key management</b>				
Jiao Rui-Fang (Board Of Directors Secretary)		430,682.09	14,645.52	445,327.61
Jie Yue-Mei(Associate Manager)		594,613.63	14,645.52	609,259.15
<b>The former key management</b>				
Zhang Pei-Wu (the former chairman of the board)	75,250.00	354,590.09	12,138.48	441,978.57
Chen Bang-she (the former director, the former general manager)	75,250.00	352,077.09	12,138.48	439,465.57
Teng Ming-zhi (the former director)		423,734.09	12,138.48	435,872.57
Wang Lian-sheng (the former director)		343,064.09	12,138.48	355,202.57
Guo Xuan (the former director)				
Wang Huiling (the former director)		88,136.22	11,364.48	99,500.70
Wang Hui-lin (the former vice general manager)		341,964.09	12,138.48	354,102.57
Chen Chang-ge (the former vice general manager)		320,734.09	12,138.48	332,872.57
Xue Ke-Xin (the former vice general manager)		314,974.09	12,138.48	327,112.57
Cheng Tian-ming (the former vice general manager)		312,126.81	11,573.76	323,700.57
<b>Total</b>	<b>2,356,372.56</b>	<b>6,666,192.57</b>	<b>283,653.84</b>	<b>9,306,218.97</b>



## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 2. Related parties transactions *(cont'd)*

#### (3) Consolidated and parent company *(cont'd)*

#### 1) Key administration staff salary *(cont'd)*

Name and Post	Fees	Last Year		Total emoluments
		Salaries and other benefits	Retirement benefits scheme contributions	
<b>Executive directors:</b>				
Zhang Pei-Wu	92,840.00	281,929.96	13,116.24	387,886.20
Chen Bang-She (Appointed on 15 March 2012)	68,355.00	238,134.15	10,091.52	316,580.67
Jiang Chi (Appointed on 15 March 2012)	67,160.00	272,420.96	13,116.24	352,697.20
Zhao Guo-Rong (Resigned on 12 January 2012)				
<b>Non-executive directors</b>				
Wu Dong-Bo				
Li Sheng-Gao				
Wei Li				
<b>Independent non-executive directors:</b>				
Wang Hui	40,000.00			40,000.00
Xie Bing-Guang	40,000.00			40,000.00
Wang De-Yu	40,000.00			40,000.00
Zhang Shuang-Ru (Appointed on 11 May 2012)				
Xu Wencai (Resigned on 11 May 2012)	40,000.00			40,000.00
<b>Supervisors:</b>				
Wang Lian-Sheng		390,645.96	13,116.24	403,762.20
Guo Xuan		22,550.54	2,016.48	24,567.02
Wang Hui-Ling		184,070.84	12,603.12	196,673.96
<b>Other key management</b>				
Jiao Rui-Fang (Board Of Directors Secretary)		390,775.96	13,116.24	403,892.20
Kong Da-Gang (Associate Manager)		382,655.96	13,116.24	395,772.20
Cheng Chang-Ge (Associate Manager)		367,809.96	13,116.24	380,926.20
Xue Ke-Xin (Associate Manager) (Appointed on 15 March 2012)		265,900.96	13,116.24	279,017.20
Cheng Tian-Ming (Associate Manager) (Appointed on 15 March 2012)		260,488.55	10,689.12	271,177.67
<b>Total</b>	<b>388,355.00</b>	<b>3,057,383.80</b>	<b>127,213.92</b>	<b>3,572,952.72</b>

No remuneration was paid by the Group to the key management of the Company as a discretionary bonus or as inducements to join or upon joining the Group or as a compensation for loss of office for current year and last year. No key management give up any remunerations for the current year and last year.

#### 2) Employees' emoluments

Of the Eight individuals with the highest emoluments in the Group, all were members of key management of the Company whose emoluments are included in the disclosures in note VI(2)3 above.

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 3. Balance of related-party transactions

(1) Consolidated

#### 1) Accounts receivable of related party

Item	Ending Balance	Beginning Balance
<b>Other related party</b>		
Beijing Beiyong Casting Co. Ltd.		1,101,766.17
<b>Associated companies</b>		
From: Beijing Tianhai Industry Co., Ltd.	<b>1,528,644.79</b>	1,528,644.79
<b>Under the same parent company</b>		
Beijing Beikai Electric Holdings Co., Ltd.		1,094,548.90
<b>Total</b>	<b>1,528,644.79</b>	<b>3,724,959.86</b>
Less: bad debts provisions		
<b>Total</b>	<b>1,528,644.79</b>	<b>3,724,959.86</b>

#### 2) Others receivable of related parties

Item	Ending Balance	Beginning Balance
<b>Associated companies</b>		
Beijing Monigraf Automations Co. Ltd		141,834.59
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	<b>40,000.00</b>	40,000.00
<b>Under the same parent company</b>		
Beijing Xihai Industrial and Trading Company		3,577,627.31
<b>Total</b>	<b>40,000.00</b>	<b>3,759,461.90</b>
Less: bad debts provisions		
<b>Total</b>	<b>40,000.00</b>	<b>3,759,461.90</b>

#### 3) Accounts payables of related parties

Item	Ending Balance	Beginning Balance
Beijing Monigraf Automations Co. Ltd		4,308,214.25
Beijing Beiyong Casting Co. Ltd.		2,330,860.25
Beijing Jingcheng Industrial Logistics Co. Ltd.	<b>12,562,196.93</b>	33,716,027.88
Beiren Corporation Group		910,174.84
<b>Total</b>	<b>12,562,196.93</b>	<b>41,265,277.22</b>

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 3. Balance of related-party transactions *(cont'd)*

##### (1) Consolidated

##### 4) Others payables of related parties

Item	Ending Balance	Beginning Balance
<b>Ultimate controller</b>		
Beijing National Capital Mechanical And Electrical Holding Company Limited	<b>386,807,077.46</b>	426,889,687.08
<b>Company under common control</b>		
Beijing Jingcheng Changye Engineering Machinery Co., Ltd.		718,198.00
Beiren Corporation Group	<b>9,537,212.51</b>	1,319,653.14
Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.		513,000.00
Beijing First Machine Tool Factory	<b>393,359.09</b>	314,000.00
<b>Total</b>	<b>396,737,649.06</b>	429,754,538.22

##### 5) Receivables in Advance with related parties

Related party	Ending Balance	Beginning Balance
<b>Company under common control</b>		
Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.	<b>52,889,750.00</b>	
Haimen Beiren Printing Machinery Co., Ltd.		29,711.82
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	<b>4,500,000.00</b>	4,500,000.00
<b>Total</b>	<b>57,389,750.00</b>	4,529,711.82

##### 6) Entrusted loans with related parties

Related party	Ending Balance	Beginning Balance
Ultimate controller Jingcheng Holding Machinery Electric Holding Co., Ltd.		300,000,000.00

##### 7) Special payables

Item	Ending Balance	Beginning Balance
<b>Ultimate controller</b>		
Beijing National Capital Mechanical And Electrical Holding Company Limited	<b>126,900,000.00</b>	42,716,954.60

## VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

### 3. Balance of related-party transactions *(cont'd)*

#### (2) Parent Companies

##### 1) Accounts receivable of related parties

Item	Ending Balance	Beginning Balance
<b>Other related party</b>		
Beijing Beiyong Casting Co. Ltd.		1,101,766.17
<b>Subsidiaries</b>		
Beijing Beiren Jingyan Printing Machinery Factory		8,471,823.34
<b>Total</b>		9,573,589.51
Less: bad debts provisions		
<b>Total</b>		9,573,589.51

##### 2) Others receivable of related parties

Item	Ending Balance	Beginning Balance
<b>Associated companies</b>		
Beijing Monigraf Automations Co. Ltd		141,834.59
<b>Subsidiaries</b>		
Beijing Beiren Jingyan Printing Machinery Factory		981,517.75
Beijing Tianhai Industry Co., Ltd.	5,522,900.00	
<b>Total</b>	5,522,900.00	1,123,352.34
Less bad debts provisions		
<b>Total</b>	5,522,900.00	1,123,352.34

##### 3) Prepayments of related parties

Item	Ending Balance	Beginning Balance
<b>Subsidiaries</b>		
Beijing Beiren Jingyan Printing Machinery Factory Machinery Factory		3,578,452.48
<b>Total</b>		3,578,452.48

##### 4) Other short-term assets (entrusted loans) of related parties

Item	Ending Balance	Beginning Balance
<b>Subsidiaries</b>		
Shanxi Beiren Printing Machinery Holdings Limited		90,000,000.00

## NOTES TO THE FINANCIAL STATEMENT

### VI. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES *(cont'd)*

#### 3. Balance of related-party transactions *(cont'd)*

##### (2) Parent Companies *(cont'd)*

##### 5) Account payables of related parties

Item	Ending Balance	Beginning Balance
<b>Associated companies</b>		
Beijing Monigraf Automations Co. Ltd		4,308,214.25
<b>Other related party</b>		
Beijing Beiyong Casting Co. Ltd.		2,330,860.25
<b>Under common control</b>		
Beijing Jingcheng Industry Logistics Co., Ltd		25,341,472.83
Beiren Corporation Group		910,174.84
<b>Total</b>		<b>32,890,722.17</b>
<b>6) Others payables of related parties</b>		
Item	Ending Balance	Beginning Balance
<b>Other related party</b>		
Beijing Beiyong Casting Co. Ltd.		9,330,922.61
<b>Under common control</b>		
Beijing Jingcheng Changye Engineering Machinery Co., Ltd.		718,198.00
Beiren Corporation Group	<b>9,537,212.51</b>	1,319,653.14
<b>Subsidiaries</b>		
Shanxi Beiren Printing Machinery Holdings Limited		21,917,321.02
<b>Total</b>	<b>9,537,212.51</b>	<b>33,286,094.77</b>
<b>7) Receivables in advance with related parties</b>		
Item	Ending Balance	Beginning Balance
<b>Company under common control</b>		
Haimen Beiren Printing Machinery Co., Ltd.		29,711.82
<b>Total</b>		<b>29,711.82</b>
<b>8) Entrusted loans with related parties</b>		
Item	Ending Balance	Beginning Balance
<b>Ultimate controller</b>		
Beijing National Capital Mechanical And Electrical Holding Company Limited		300,000,000.00
<b>9) Special payables</b>		
Item	Ending Balance	Beginning Balance
<b>Ultimate controller</b>		
Beijing National Capital Mechanical And Electrical Holding Company Limited	<b>26,900,000.00</b>	42,716,954.60

## VII. SHARE-BASED PAYMENT

As of 31 December 2013 the Group has no share-based payment.

## VIII. CONTINGENCIES

As of 31 December 2013, there is no other significant contingent event for the Group in the current accounting period.

## IX. MATTERS OF MAJOR COMMITMENTS

### 1. Consolidated

#### (1) Significant commitment

1) **Capital expenditure commitment for the Group at year end is showing below:**

Project name	Contract investment amount	Paid amount	Unpaid amount	Estimated investing duration	Contractor
LNG Project 1	10,056.74	5,760.00	4,296.74	2013-9-15 to 2015-1-27	MCC Tiangong Group Co., Ltd.
LNG Project 2	10,453.96	4,963.00	5,490.96	2013-9-15 to 2015-3-15	Tianjin Installation Engineering Co., Ltd.
<b>Total</b>	<b>20,510.70</b>	<b>10,723.00</b>	<b>9,787.70</b>		

#### 2) **Signed or executed lease agreement and its influence on financial statement**

At 31 December 2013, as a lesser, the company's irrevocable operating leases of rental projects are summarized at the lowest rent receivables which the project of forest plant is included.

Period	Current year
Within a year	<b>9,179,442.50</b>
1-2 years	<b>6,427,417.50</b>
2-3 years	<b>4,636,860.00</b>
Over 3 years	<b>24,289,180.00</b>
<b>Total</b>	<b>44,532,900.00</b>

As of 31 December 2013, the company has no other significant issues happened besides for these.

## X. EVENTS AFTER THE BALANCE SHEET DATE

### Amount of Payment after Balance Sheet Date

Item	Amount
Over one year large amount Accounts Payable	5,085,489.66
Over one year large amount Advances from Customers	5,503,072.19
Over one year large amount Other Payable	53,509.60
Outstanding expired Short-term Loans	
Late-term Loans	

Except for the above-mentioned event, there are no other significant events after the balance date.

## NOTES TO THE FINANCIAL STATEMENT

### XI. Segment information

#### The segment information for 2013

TYPE	Printing Machinery	Low temperature storage and transportation equipment	Compressor	Others	Write-off	Total
Operating income	608,198,035.33	2,112,092,894.53	107,903,420.01			2,828,194,349.87
Including: External transaction revenue	608,198,035.33	2,112,092,894.53	107,903,420.01			2,828,194,349.87
Revenue between segments						
Operating cost	493,362,432.37	1,816,198,325.56	92,704,172.80			2,402,264,930.73
Period charge	168,828,722.40	298,908,208.89	32,595,272.40	146,135.05		500,478,338.74
Total profit for Segment (total loss)	-63,378,243.71	-23,438,533.71	-18,041,466.24	-146,135.05		-105,004,378.71
Total assets	874,745,780.10	2,526,077,132.81	294,810,393.34	142,195,147.91	-1,008,467,578.09	2,829,360,876.07
Including: Significant impairment loss on individual assets						
Total liabilities	13,774,136.35	1,524,426,592.43	134,337,681.42	1,205,769.64	-8,021,592.18	1,665,722,587.66
Supplementary information						
Capitalized expense						
Recognized loss of impairment	6,907,208.56	15,481,813.37	7,460,738.10			29,849,760.03
Including: Amortization of goodwill						
Depreciation and amortization expense	26,813,699.48	87,690,263.03	2,939,665.10			117,443,627.61
Non-cash expenses other than loss of impairment, depreciation and amortization						

#### The segment information for 2012

TYPE	Printing Machinery	Low temperature storage and transportation equipment	Compressor	Others	Write-off	Total
Operating income	748,254,409.40	2,192,105,264.95	104,915,852.69			3,045,275,527.04
Including: External transaction revenue	748,254,409.40	2,192,105,264.95	104,915,852.69			3,045,275,527.04
Revenue between segments						
Operating cost	616,796,577.32	1,848,472,089.48	77,887,605.44			2,543,156,272.24
Period charge	257,168,519.52	277,635,368.90	35,276,866.37	105,344.70		570,186,099.49
Total profit for Segment (total loss)	-169,435,010.48	62,594,640.08	-2,581,997.86	13,144,970.22	-13,250,314.92	-109,527,712.96
Total assets	1,475,038,749.96	2,021,134,602.74	307,706,274.84	146,742,886.37	-147,690,549.38	3,802,931,964.53
Including: Significant impairment loss on individual assets						
Total liabilities	872,492,107.37	1,190,271,335.47	129,612,283.39	1,243,816.60	-535,772.23	2,191,083,770.60
Supplementary information						
Capitalized expense						
Recognized loss of impairment	43,618,774.98	1,982,204.22	8,307,423.54			53,908,402.74
Including: Amortization of goodwill						
Depreciation and amortization expense	33,717,016.63	71,781,340.33	3,382,504.73			108,880,861.69
Non-cash expenses other than loss of impairment, depreciation and amortization						

## XII. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The main financial instruments adopted by the Group include money market instruments, accounts receivables, accounts payments, financial assets and liabilities. (See notes 7) The nature of these financial instruments and the related financial risk management policies are disclosed as following:

### 1. Financial risk management target and policy

The risk management targets of the company are to achieve the balance between risks and earnings, to reduce negative influences of risks as much as possible on operation performance, and to the obtain profits for shareholders and other investors. Based on the targets, the strategies of risk management are to assure and analyze all kinds of risks of the company, to build appropriate risk-bearing bottom line and practice risk management, to promptly and reliably supervise risks, and to control and limit risks.

#### (1) Market risk management

##### 1) Foreign exchange risk management

Foreign exchange risk describes the risk of variation in the rate of exchange used. The group exposed to USD, as the subsidiaries adopt USD in the purchases and sales, but other operating activities adopt RMB. At the end of 31 December 2012, except for the following USD cash balance, ED and HKD in assets and liabilities, the Group adopts RMB cash balance in assets and liabilities. The Group is exposed to the foreign currency cash balances in assets and liabilities.

Items	Ending Balance		Beginning Balance	
	Foreign currency	RMB	Foreign currency	RMB
<b>Cash</b>		<b>14,999,581.49</b>		16,955,378.11
USD	<b>2,457,874.47</b>	<b>14,985,414.86</b>	2,670,094.42	16,782,878.48
EUR	<b>0.71</b>	<b>5.99</b>	10.49	87.22
JPY		<b>614,518.67</b>		44,856.09
HKD	<b>18,010.82</b>	<b>14,160.64</b>	157,311.87	127,556.32
<b>Accounts receivables</b>		<b>43,205,461.73</b>		65,982,856.58
USD	<b>6,538,869.76</b>	<b>39,866,835.05</b>	10,275,584.97	64,587,189.33
EUR	<b>396,563.29</b>	<b>3,338,626.68</b>	167,796.87	1,395,667.25
<b>Prepayments</b>		<b>4,280,457.24</b>		1,536,423.48
USD	<b>702,071.09</b>	<b>4,280,457.24</b>	244,439.34	1,536,423.48
<b>Accounts Payable</b>		<b>4,971,965.51</b>		8,301,800.65
USD	<b>815,490.74</b>	<b>4,971,965.51</b>	1,320,786.04	8,301,800.65
<b>Advances from Customers</b>		<b>9,867,551.42</b>		6,650,807.24
USD	<b>1,618,114.43</b>	<b>9,865,481.89</b>	1,058,119.04	6,650,807.24
EUR	<b>245.82</b>	<b>2,069.53</b>		
<b>Total</b>		<b>77,325,017.39</b>		<b>99,427,266.06</b>

##### 2) Interest rate risk management

Fixed interest rate is adopted by the Group.

##### 3) Price risk management

Printers are sold at market price. The company is influenced by the variation of market price.



## NOTES TO THE FINANCIAL STATEMENT

### XII. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(cont'd)*

#### 1. Financial risk management target and policy *(cont'd)*

##### (2) Credit risk management

By the year end, the credit risk exposed to the Group is another party in a transaction will not be able to meet its financial obligations.

In order to reduce the credit risk, the group established a team, who is then responsible for determining the credit level, examine and approve the credit level, and performance implementing procedures to assure the recover the financial claim. Besides, the group examines the single accounts receivables at the each balance day, to ensure the level of bad debts provisions. Therefore, the corporate governance states that the level of credit risk that exposed to the group is reduced.

The cash and cash equivalent are deposit in the high credit level banks; therefore the credit risk level of current assets is low.

There is no significant credit risk as the risk spreads on number of parties and clients. At the year-end, 11.66% (12.18%, last year) and 20.39% (13.80%, last year) of accounts receivables are generated by the largest client and the top five clients of the group.

##### (3) Cash flow risk management

The corporation governance states that the sufficient amount of cash and cash equivalent can reduce the effect of cash flow movements. The administration is responsible of monitoring the borrowings and following the agreements.

The borrowings from banks are main source of cash. By the end of this year, the borrowing limit is amounting to RMB 280,000,000.00, while at the beginning of the year is RMB 331,770,200.00.

### XIII. OTHER SIGNIFICANT ISSUES

#### 1. Exchange of non-monetary assets

By the date of December 31, 2013, there is no non-monetary assets exchange transaction.

#### 2. Debt restructuring

By the date of December 31, 2013, there is no significant debt restructuring transaction.

#### 3. Lease

##### Operating lease (leaser)

Items	Ending Balance	Beginning Balance
Land		15,937,798.64
Buildings	<b>9,519,696.39</b>	107,922,562.27
<b>Total</b>	<b>9,519,696.39</b>	123,860,360.91

#### 4. Sale of significant assets

The Company's subsidiary Tianhai Industry Co., Ltd transferred the college apartment which is located in No.25 building Huaweixili, Chaoyang District, Beijing city to Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd. (hereinafter referred to as Asset Management Co., Ltd.) with a price, the transferred building area is 4,520.49 square meters, the area of land usage right is 1,402.78 square meters, the transfer price is RMB 105,779,500.00 which is assessed by Beijing Dazheng State-Owned Assets Appraisal Co., Ltd. to provide the assessment report through the approval of Beijing State Capital Office. The Company has signed the sale and purchase contract of inventory of home in Beijing with Asset Management Co., Ltd. Until 12 March 2014, certificate of housing ownership for college apartment and certificate of land usage right has been change under the name of Assets Management Co., Ltd., complete the asset transfer formalities.

#### 5. Significant change and content of pension plan

According to the documents for notice of issues about the implementation of Enterprise Annuity Implementation Method by Beijing State-Owned Assets Management Committee (Jinglaoshe Yangfa[2006]No.39), Beijing Tianhai Industry Co., Ltd. as one of the subsidiaries who implement the method of paying both by company and employees, the annuity expenses shall be recorded in cost or expense of each year, and the annuity expenses shall be accrued by each month, and make the payment to China Life Pension Insurance Co., Ltd. to manage and operate.

**XIII. OTHER SIGNIFICANT ISSUES** (cont'd)

**6. Significant changes of accounting estimates**

The company's 13rd meeting of its 7th board of director meeting which was held on Dec 16, 2013 has approved the proposal of changing the company's accounting estimates. The company changes the provision of bad debts accrual percentage related to its accounts receivables, among which the accrual percentage related to accounts receivables within 1 year changes from 0% to 1%, accrual percentage related to accounts receivables from 1 to 2 years changes from 30% to 10%, accrual percentage related to accounts receivables from 2 to 3 years changes from 60% to 20%, accrual percentage related to accounts receivables from 3 to 4 years changes from 100% to 50%, accrual percentage related to accounts receivables from 4 to 5 years changes from 100% to 80%, accrual percentage related to accounts receivables over 5 years remains 100%. In addition, the company changes the estimated fixed assets depreciation life and related residual value, among which the estimated residual value changes from 3% of its book value to 5%-10%, the estimated depreciation life for buildings changes 40 years, the estimated depreciation life for machinery and equipment changes from 8-14 years to 10 years the estimated depreciation life for electronic equipment changes to 5-10 years, the estimated depreciation life for transportation, office, and other equipments changes from 8 years to 5 years. The new accounting estimates would be executed on Jan 1, 2014.

**7. The operation of new regulation**

The Ministry of Finance published 5 copies of "No.39 Enterprise Accounting Standards – the Measurement of Fair value"(Caihui [2014] No.6) in both January and February of 2014. It mentioned that all enterprise which implement enterprise accounting standards need to implement this standard since 1 July 2014, and also motive the enterprise listed overseas to use the standard in advance.

The Company have significant assets reorganization for this year, the Company's financial statement figures includes incoming assets and outgoing assets in both 2012 and January to October of 2013, on 31 December 2013, the outgoing assets are not displayed on balance sheet date. According to the new accounting standards, the standards for employee benefits and presentation of financial statement consolidated financial statement need to be settled under retroactive adjustment method.

The Company has studied the changes between old and new standards and also in combination with the Company's situation, the financial statement of 31 December 2013 is not prepared under the new standards, the new standards will be adopted since 1 July 2014.

Through the initial estimation, if implement the new standards in advance, the unrealized insider trading profits and losses will be incurred from the incoming assets which are purchased by the parent from subsidiaries, it shall be written off by the proportion of distribution between "net profit attributable to the parent company" and "non-controlling interest" which the proportion is based on the distribution of subsidiary for parent, in this case, the undistributed profit increased by the amount of RMB 1,538,400.00.

**XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS**

**1. Cash and cash equivalents**

Item	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand Inc.CHY						8,198.90
Cash in bank Inc.CHY			9,537,212.51	8,198.90		8,198.90
USD	9,537,211.24		9,537,211.24	150,120,775.27		150,183,983.91
HKD	1.61	0.78623	1.27	185.79	6.2855	1,167.78
EUR				76,410.51	0.8108	61,953.64
				10.49	8.3176	87.22
<b>Total</b>			<b>9,537,212.51</b>	<b>—</b>	<b>—</b>	<b>150,192,182.81</b>

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS *(cont'd)*

#### 2. Notes receivable (1) Category

Items	Ending Balance	Beginning Balance
Bank acceptance notes		17,884,090.19

#### 3. Accounts receivable (1) Classification for accounts receivable by risk

Items	Ending Balance				Beginning Balance			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent%	Amount	Percent%	Amount	Percent%	Amount	Percent%
Accounts receivable that are individually significant and are provided for bad debts on individual basis								
Accounts receivable that are provided for bad debts on portfolio basis								
Aged group					192,125,766.12	95.25	86,658,857.32	45.11
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis					9,573,589.51	4.75		
<b>Total</b>					<b>201,699,355.63</b>	<b>100.00</b>	<b>86,658,857.32</b>	

#### 1) Ageing of accounts receivable within the group

Ageing	Ending Balance			Beginning Balance		
	Book Value		Bad Debts	Book Value		Bad Debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	81,182,900.75	42.26		42.26		
1-2 years	28,738,327.19	14.96	8,621,498.15	14.96	8,621,498.15	
2-3 years	10,417,947.53	5.42	6,250,768.52	5.42	6,250,768.52	
Over 3 years	71,786,590.65	37.36	71,786,590.65	37.36	71,786,590.65	
<b>Total</b>	<b>192,125,766.12</b>	<b>100.00</b>	<b>86,658,857.32</b>	<b>100.00</b>	<b>86,658,857.32</b>	

(1) There are no bad debts reversed or recovered during this period.

## XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS *(cont'd)*

### 3. Accounts receivable *(cont'd)*

#### (1) Classification for accounts receivable by risk *(cont'd)*

##### 1) Ageing of accounts receivable within the group *(cont'd)*

(2) Accounts receivable written off during this period are 2,078,844.22 RMB.

Name	Nature of accounts receivable	Amount written off	Reasons for written off	Whether arising from related party transactions?
Shanghai Sanhe Printing Co., Ltd. Pudong Laifute Packing Material Factory	Loan	19,445.80	Uncollectible	No.
Shunyi Xinghua Metal Doors and Windows Factory	Loan	11,398.42	Uncollectible	No.
Tongxian Sanxing Electrical Distribution Department	Loan	50,000.00	Uncollectible	No.
Zhangjiakou Boiler Factory	Loan	25,000.00	Uncollectible	No.
Shijiazhuang Aircraft Manufacturing Company	Loan	60,000.00	Uncollectible	No.
Qingdao Automobile Factory (Refit Factory)	Loan	32,000.00	Uncollectible	No.
Taishan Moon Group	Loan	781,000.00	Uncollectible	No.
		1,100,000.00	Uncollectible	No.
<b>Total</b>		<b>2,078,844.22</b>		

### 4. Prepayments

#### (1) Ageing of prepayments

Item	Ending Balance		Beginning Balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year			7,226,015.79	97.18
1-2 years			210,000.00	2.82
2-3 years				
Over 3 years				
<b>Total</b>			<b>7,436,015.79</b>	<b>100.00</b>

### 5. Dividends receivable

Items	Beginning Balance	Increase	Decrease	Ending Balance	Reasons for not yet recovered	
					Whether impaired?	
Within 1 year						
Over 1 year	113,600.00		113,600.00			
Including: Beijing Beiyong Casting Co., LTD	113,600.00		113,600.00			
<b>Total</b>	<b>113,600.00</b>		<b>113,600.00</b>			

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (cont'd)

#### 6. Other receivables

##### (1) Classification for other receivables by risk

Items	Ending Balance				Beginning Balance			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent%	Amount	Percent %	Amount	Percent %	Amount	Percent %
Other receivables that are individually significant and are provided for bad debts on individual basis	5,522,900.00	100.00						
Other receivables that are provided for bad debts on portfolio basis								
Other receivables that are individually insignificant but are provided for bad debts on individual basis					15,794,026.07	100.00	9,961,773.16	63.07
<b>Total</b>	<b>5,522,900.00</b>	<b>100.00</b>			<b>15,794,026.07</b>	<b>100.00</b>	<b>9,961,773.16</b>	<b>-</b>

##### (2) Other receivables that are individually significant but are provided for bad debts on individual basis at the end of period.

Company Name	Amount	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Tianhai Industry Co., Ltd.	5,522,900.00			Included in consolidated statements parties
<b>Total</b>	<b>5,522,900.00</b>			

##### (3) The balance of other receivable from related parties by the end of the year:

Company Name	Relationship	Amount	Proportion in Accounts Receivable (%)
Beijing Tianhai Industry Co., Ltd.	Subsidiary	5,522,900.00	100.00

#### 7. Inventories

##### (1) Categories of inventories

Items	Book balance	Ending Balance		Beginning Balance		
		Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials				20,354,508.70	1,652,544.84	18,701,963.86
Work in progress				186,414,314.90	43,131,965.03	143,282,349.87
Finished goods				111,432,618.22	15,249,785.39	96,182,832.83
Self made semi-finished goods				8,899,896.26		8,899,896.26
<b>Total</b>				<b>327,101,338.08</b>	<b>60,034,295.26</b>	<b>267,067,042.82</b>

**XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS** *(cont'd)*

**7. Inventories** *(cont'd)*

**(2) Impairment provision for inventories**

Items	Beginning Balance	Increase	Decrease in this year		Ending Balance
			Reversal	Transferred out	
Raw materials	1,652,544.84			1,652,544.84	
Work in progress	43,131,965.03	2,839,730.78		45,971,695.81	
Storage goods	15,249,785.39	7,262,342.24		22,512,127.63	
<b>Total</b>	<b>60,034,295.26</b>	<b>10,102,073.02</b>		<b>70,136,368.28</b>	

**8. Other current assets**

Items	Ending Balance	Beginning Balance
Trust loans		90,000,000.00

**9. Long-term equity investments**

**(1) Categories of long-term equity investments**

Items	Ending Balance	Beginning Balance
Accounted in cost method	<b>859,882,970.54</b>	151,056,099.26
Accounted in equity method		14,742,035.65
Joint ventures		
Associates		14,742,035.65
<b>Total</b>	<b>859,882,970.54</b>	<b>165,798,134.91</b>
Less: provision for impairment on long-term equity investments		
<b>Net book value</b>	<b>859,882,970.54</b>	<b>165,798,134.91</b>

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (cont'd)

#### 9. Long-term equity investments (cont'd) (2) Accounted in cost and equity method

Name of invested companies	Share holding%	Voting right%	Original amounts	Beginning Balance	Increase or Decrease	Adjustment in equity method	Cash dividends for the year declared	Other equity changes	Ending Balance	Provision for impairment	Impairment loss for the year
<b>In cost method</b>											
Beijing Beiren Fuji Printing Machinery Co., Ltd.	70.00	70.00	29,632,699.26	29,632,699.26	-29,632,699.26	N/A	N/A	N/A			
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	100.00	100.00	21,000,000.00	21,050,000.00	-21,050,000.00	N/A	N/A	N/A			
Shanxi Beiren Printing Machinery Holdings Limited	86.24	86.24	99,180,000.00	99,180,000.00	-99,180,000.00	N/A	N/A	N/A			
Beijing Beiren Dipurui Printing Machinery Co., Ltd.	42.78	42.78	1,193,400.00	1,193,400.00	-1,193,400.00	N/A	N/A	N/A			
Beijing Beiren Printing Equipments Co., Ltd.	100.00	100.00	1,000,000.00			N/A	N/A	N/A			
Beijing Beijing Casting Co., Ltd.	17.01	17.01	4,788,047.52			N/A	N/A	N/A			
Beijing Tianhai Industry Co., Ltd.	88.50	88.50	552,798,696.31		552,798,696.31				552,798,696.31		
Jingcheng Holding (Hong Kong) Company Limited	100.00	100.00	142,044,028.10		142,044,028.10				142,044,028.10		
Beijing Jingcheng Compressor Co., Ltd.	100.00	100.00	164,842,943.18		164,842,943.18				164,842,943.18		
<b>Sub-total</b>			1,016,479,814.37	151,056,099.26	708,629,568.33				859,685,667.59		
<b>In equity method</b>											
Beijing Monigraf Automations Co., Ltd.	49.00	49.00	3,675,000.00	9,011,147.47	-9,011,970.30	822.83					
Beijing Beijing Casting Co., Ltd.	20.00	20.00	1,136,000.00	5,730,888.18	-4,788,047.52	-942,840.66					
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49.00	49.00	22,540,000.00								
<b>Sub-total</b>			27,351,000.00	14,742,035.65	-13,800,017.82	-942,017.83					
<b>Total</b>			1,043,830,814.37	165,798,134.91	694,829,550.51	-942,017.83			859,685,667.59		

#### 10. Investment properties

Items	Beginning Balance	Increase	Decrease	Ending Balance
<b>Original cost</b>				
Buildings	7,986,177.80		7,986,177.80	
<b>Accumulated depreciation</b>				
Buildings	1,429,698.48	156,864.30	1,586,562.78	
<b>Net book value</b>				
Buildings	6,556,479.32			
<b>Impairment provision</b>				
Buildings				
<b>Book value</b>				
Buildings	6,556,479.32			

**XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS** (cont'd)

**11. Fixed assets**  
**(1) Fixed assets category**

Items	Beginning Balance	Increase	Decrease	Ending Balance
<b>Original Cost</b>	854,841,007.32	3,275,787.17	858,116,794.49	
Building	455,128,504.34	455,128,504.34		
Machinery	348,715,375.27	1,467,020.25	350,182,395.52	
Transportation facilities	6,907,841.50	1,451,502.00	8,359,343.50	
Office equipment	44,089,286.21	357,264.92	44,446,551.13	
<b>Accumulated Depreciation</b>	451,730,542.36	18,263,776.52	469,994,318.88	
Building	136,467,617.18	9,649,349.60	146,116,966.78	
Machinery	268,183,720.37	7,804,806.43	275,988,526.80	
Transportation facilities	5,812,755.67	327,732.28	6,140,487.95	
Office equipment	41,266,449.14	481,888.21	41,748,337.35	
<b>Net book value</b>	403,110,464.96			
Building	318,660,887.16			
Machinery	80,531,654.90			
Transportation facilities	1,095,085.83			
Office equipment	2,822,837.07			
<b>Impairment provision</b>	19,863,133.92			
Building				
Machinery	19,859,616.80			
Transportation facilities				
Office equipment	3,517.12			
<b>Net book value</b>	383,247,331.04			
Building	318,660,887.16			
Machinery	60,672,038.10			
Transportation facilities	1,095,085.83			
Office equipment	2,819,319.95			

Note:

- 1) A depreciation amount of RMB 18,263,776.52 was booked in profits or losses in the year.
- 2) For the increase of the fixed assets of the period, the amount transferred from construction in progress is 1,762,746.70.
- 3) Profit from disposal of fixed assets in current year is RMB 2,395,973.59.

**12. Construction in progress**

Name	Ending Balance			Beginning Balance		
	Book balance	Provision	Book value	Book balance	Provision	Book value
Equipments in installation				3,370,890.54		3,370,890.54
Others				2,430,115.33		2,430,115.33
<b>Total</b>				<b>5,801,005.87</b>		<b>5,801,005.87</b>

**13. Intangible assets**

Item	Beginning Balance	Increase	Decrease	Ending Balance
<b>Original Cost</b>				
Land use right	104,789,105.77		104,789,105.77	
<b>Accumulated depreciation</b>				
Land use right	22,179,947.90	1,691,390.00	23,871,337.90	
<b>Net book value</b>				
Land use right	82,609,157.87			
<b>Impairment provision</b>				
Land use right				
<b>Book value</b>				
Land use right	82,609,157.87			



## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (cont'd)

#### 14. Long-term Prepayments

Items	Beginning Balance	Increase	Decrease	Other Decrease	Ending Balance
Land development fee	9,367,320.00				9,367,320.00

#### 15. The details of provision of impairment for assets

Items	Beginning Balance	Increase	Decrease Reverse	Other Decrease	Ending Balance
Bad debts reserves	96,620,630.48	-1,932,633.25		94,687,997.23	
Inventories impairment reserves	60,034,295.26	10,102,073.02		70,136,368.28	
Long-term equity investments reduction reserves					
Invested real estate impairment reserves					
Fixed assets depreciation reserves	19,863,133.92			19,863,133.92	
Project material impairment reserves					
Construction-in-process impairment reverses					
Intangible assets impairment reserves					
<b>Total</b>	<b>176,518,059.66</b>	<b>8,169,439.77</b>		<b>184,687,499.43</b>	

#### 16. Short-term Loans

Loan	Currency	Ending Balance			Beginning Balance		
		Amount	Exchange rate	RMB Amount	Amount	Exchange rate	RMB Amount
Credit borrowing	RMB				300,000,000.00		300,000,000.00

#### 17. Accounts Payable

Items	Ending Balance	Beginning Balance
<b>Total</b>		188,703,531.09
Including: Within 1 year		51,442,464.49

#### 18. Advances from Customers

Items	Ending Balance	Beginning Balance
<b>Total</b>		14,403,680.35
Including: Within 1 year		50,504.19

**XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS** *(cont'd)*

**19. Employee Benefits**

Items	Beginning Balance	Increase	Decrease	Ending Balance
Salary (Including bonus and allowance)	4,803,533.82	49,799,682.20	54,603,216.02	
Welfare		1,030,933.48	1,030,933.48	
Social insurance	4,289,737.31	28,840,703.42	33,130,440.73	
Including:				
Medical insurance	2,479,618.30	9,882,773.91	12,362,392.21	
Basic endowment insurance	1,630,157.20	17,089,026.88	18,719,184.08	
Unemployment insurance	69,775.50	731,171.20	800,946.70	
Industrial injury insurance	61,215.79	626,611.63	687,827.42	
Fertility insurance	48,970.52	511,119.80	560,090.32	
Housing fund		6,198,859.00	6,198,859.00	
Labour union expenditure and employee education expenditure	1,535,311.46	1,742,994.43	3,278,305.89	
Other welfare		5,705,969.15	5,705,969.15	
Estimated expense for employee retirement in advance	27,252,116.32	125,496.00	27,377,612.32	
Others		1,929,189.88	1,929,189.88	
<b>Total</b>	<b>37,880,698.91</b>	<b>95,373,827.56</b>	<b>133,254,526.47</b>	

**20. Tax Payable**

Items	Ending Balance	Beginning Balance
Value added tax		-1,967,997.59
Business tax		274,990.88
Individual tax		69,505.35
Urban maintenance and construction tax		-76,931.95
Educational surcharge		-54,951.38
Stamp tax		
<b>Total</b>		<b>-1,755,384.69</b>

**21. Interest Payable**

Item	Ending Balance	Beginning Balance
Short-term loans interest payable		1,019,724.67

**22. Other Payable**

**(1) Other Payable**

Item	Ending Balance	Beginning Balance
<b>Total</b>	<b>13,774,136.35</b>	68,726,711.62
Including: Over 1 year		45,527,329.84

**(2)** No other payable to shareholders who have more than five (including 5) over-the-right-to-vote shares.

**23. Other current liabilities**

Item	Ending Balance	Beginning Balance
Other accrued expenses		1,050,000.00

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (cont'd)

#### 24. Specific Payable

Items	Beginning Balance	Increase	Decrease	Ending Balance
Medium newspaper printing machine core unit technology and half-way commercial product	4,927,019.97		4,927,019.97	
Folio single paper print machine series with multiple colour-new style 1050	5,417,630.42		5,417,630.42	
Digital single piece of paper split polychrome offset machine	5,472,304.21	317,183.66	5,789,487.87	
Digital single piece of paper split polychrome offset machine industry project	10,900,000.00		10,900,000.00	
Packaging industry high-tech research and development projects	1,150,000.00		1,150,000.00	
<b>Total</b>	<b>27,866,954.60</b>	<b>317,183.66</b>	<b>28,184,138.26</b>	

#### 25. Estimated liabilities

Items	Beginning Balance	Increase	Reverse	Ending Balance
Employee benefits for dwelling	542,407.38		542,407.38	

#### 26. Share capital

The Company's authorized issued and paid-up statement of changes in equity as follows. All the company shares are one RMB face value per share common stock.

Shareholder's Name/Regimentation	Beginning Balance		Issue new stock	Gifts share	Current changes			Ending Balance	
	Amount	Ratio (%)			accumulation funds to equity	Others	Subtotal	Amount	Ratio (%)
<b>Conditioning Stock</b>									
State-owned Holdings									
Subtotal									
<b>Un-conditioning Stock</b>									
Common Stock (RMB)	322,000.00	76.30						322,000.00	76.30
Stock listed over-sea	100,000.00	23.70						100,000.00	23.70
Subtotal	422,000.00	100.00						422,000.00	100.00
<b>Total</b>	<b>422,000.00</b>	<b>100.00</b>						<b>422,000.00</b>	<b>100.00</b>

#### 27. Capital reserves

Items	Beginning Balance	Increase	Decrease	Ending Balance
Capital premium	517,305,478.93	48,314,434.67		565,619,913.60
Other capital reverse	860,283.96			860,283.96
<b>Total</b>	<b>518,165,762.89</b>	<b>48,314,434.67</b>		<b>566,480,197.56</b>

#### 28. Surplus reserves

Items	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus reserves	38,071,282.24			38,071,282.24

**XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS** (cont'd)

**29. Retained earnings**

Items	Amount	%
<b>Retained earnings at The Last period End</b>	-309,375,834.99	
Add: adjustment of retained earnings at the year beginning		
Including: changes of accounting policies		
corrections to significant accounting errors for prior periods		
changes to consolidation scope under the same control		
other adjustments		
<b>Retained earnings at The Year Beginning</b>	-309,375,834.99	
Add: net profit this period	143,795,998.94	
Less: provision on statutory surplus fund		
provision on arbitrary surplus fund		
distribution of ordinary share's dividend		
transferred to share capital of ordinary shares dividend		
<b>Retained earnings at The Year End</b>	<b>-165,579,836.05</b>	

**30. Operating income and operating costs**

**(1) Operating income and operating costs detail**

Items	Current Year	Last Year
Main operating income	<b>298,611,244.02</b>	371,610,584.16
Other operating income	<b>16,591,518.20</b>	16,504,640.92
<b>Total</b>	<b>315,202,762.22</b>	388,115,225.08
Main operating costs	<b>259,973,072.91</b>	325,013,563.23
Other operating costs	<b>4,004,484.95</b>	6,629,186.08
<b>Total</b>	<b>263,977,557.86</b>	331,642,749.31

**(2) Main operating income and costs (classified by products)**

Items	Current Year		Last Year	
	Operating Income	Operating Costs	Operating Income	Operating Costs
Sales of hectograph machine	291,291,960.01	254,394,035.47	366,076,828.89	320,735,573.87
Sales of spares parts	3,813,188.67	2,590,244.73	4,813,030.15	3,338,516.56
Others	3,506,095.34	2,988,792.71	720,725.12	939,472.80
<b>Total</b>	<b>298,611,244.02</b>	<b>259,973,072.91</b>	371,610,584.16	325,013,563.23

**(3) Other operating income and costs**

Transaction	Current Year		Last Year	
	Other Operating Income	Other Operating Costs	Other Operating Income	Other Operating Costs
Selling materials	269,270.15	11,159.03	586,859.16	589,209.13
Selling utilities	1,095,197.81	1,233,360.05	2,611,312.99	2,402,517.29
Rentals	15,227,050.24	2,759,965.87	12,916,272.52	2,933,456.00
Other			390,196.25	704,003.66
<b>Total</b>	<b>16,591,518.20</b>	<b>4,004,484.95</b>	16,504,640.92	6,629,186.08

**(4)** The company's operating income from top five clients is 83,583,760.68RMB and it consists 26.52% of the total operating income.

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (cont'd)

#### 31. Business taxes and surcharges

Items	Current Year	Last Year	Tax rate (%)
Business tax	<b>989,795.61</b>	937,841.55	Taxable Income*5%/3%
Urban maintenance and construction tax	<b>950,711.08</b>	1,236,190.23	Turnover Tax*5%/7%
Educational surcharge	<b>679,079.33</b>	685,729.95	Turnover Tax *3%
Real estate tax	<b>67,083.89</b>	67,083.89	Property of Original Value*70%*1.2%
<b>Total</b>	<b>2,686,669.91</b>	2,926,845.62	

#### 32. Selling and distribution expenses

Items	Current Year	Last Year
Salary	<b>8,539,948.33</b>	11,804,131.35
Exhibition fee	<b>4,002,423.22</b>	2,858,451.87
Travelling fee	<b>1,988,177.72</b>	1,859,680.22
Staff going abroad fee	<b>1,291,667.41</b>	1,731,739.29
Entertainment expenses	<b>2,654,167.39</b>	3,404,920.37
Transportation and commissioning fee	<b>2,510,175.61</b>	3,318,981.20
Office and administrative fee	<b>2,188,861.63</b>	1,757,180.41
Commissions	<b>3,832,953.42</b>	4,204,949.47
Warranty maintenance cost	<b>840.00</b>	22,933.00
Others	<b>27,009,214.73</b>	30,962,967.18

#### 33. Administrative expenses

Items	Current Year	Last Year
Salary	<b>16,326,329.33</b>	23,845,405.85
Depreciation	<b>5,386,375.36</b>	6,921,297.74
Office and administrative fee	<b>1,055,554.32</b>	3,155,196.93
Amortization of intangible assets	<b>1,384,303.40</b>	1,661,164.08
Entertainment and meetings fee	<b>1,137,446.48</b>	2,181,823.54
Maintenance and repair fee	<b>1,273,334.30</b>	1,287,352.67
Energy fee	<b>1,038,378.60</b>	633,201.32
Tax fee	<b>7,317,666.80</b>	5,593,965.62
Agency fee	<b>7,545,753.66</b>	4,782,141.72
Research and development fee	<b>8,001,984.34</b>	10,042,028.46
Heating refrigeration fee	<b>1,046,406.17</b>	1,053,242.49
Trademark usage fee	<b>2,210,653.91</b>	3,519,440.35
Travelling fee	<b>327,870.34</b>	288,351.40
Allowance for retiring employees	<b>2,707,759.10</b>	6,304,050.31
Reorganizational expense	<b>1,237,173.08</b>	26,195,013.49
Severance benefits	<b>125,496.00</b>	21,981,331.05
Others	<b>2,694,935.90</b>	4,439,134.97
<b>Total</b>	<b>60,817,421.09</b>	123,884,141.99

#### 34. Financial expenses

Items	Current Year	Last Year
Interest payment	<b>10,843,467.22</b>	7,722,252.77
less:Interest income	<b>827,064.65</b>	582,295.16
Add:exchange loss	<b>68,735.51</b>	90,533.95
Add:other payment	<b>95,412.43</b>	152,070.41
<b>Total</b>	<b>10,180,550.51</b>	7,382,561.97

## XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS *(cont'd)*

### 35. Loss on impairment of assets

Items	Current Year	Last Year
Bad debt loss	-1,932,633.25	3,323,842.54
Impairment loss on inventories	10,102,073.02	35,574,120.20
<b>Total</b>	<b>8,169,439.77</b>	<b>38,897,962.74</b>

### 36. Investment income

#### (1) Resources of investment income

Items	Current Year	Last Year
Equity method of accounting for long-term equity investment income	-300,379.84	-918,329.21
Gain on disposal of long-term equity investments	-641,637.99	
<b>Total</b>	<b>-942,017.83</b>	<b>-918,329.21</b>

Note: There is no significant limit for the remittance back of investment income.

#### (2) Equity method of accounting for long-term equity investment income

Items	Current Year	Last Year	Reason of changes
<b>Total</b>	<b>-300,379.84</b>	<b>-918,329.21</b>	
Including:			
Beijing Beiyong Casting Company Limited	-301,202.67	-957,553.25	Equity method changed to the cost method
Beijing Monigraf Automations Co., Ltd.	822.83	39,224.04	

### 37. Non-operating income

Items	Current Year	Last Year
Gains from non-current assets disposal	202,351,702.97	
Among which: Gains from fixed assets	202,351,702.97	
Gain of debt restructure	34,759.16	
Other	57,210.64	1,172,502.88
<b>Total</b>	<b>202,443,672.77</b>	<b>1,172,502.88</b>

### 38. Non-operating expenses

Items	Current Year	Last Year
Loss from non-current asset disposal	67,540.81	66,467.30
Among which: Loss from fixed assets	67,540.81	66,467.30
Others	23.54	45,578.37
<b>Total</b>	<b>67,564.35</b>	<b>112,045.67</b>

## NOTES TO THE FINANCIAL STATEMENT

### XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS *(cont'd)*

#### 39. Notes to the Cash Flow Statement

##### (1) Received/paid cash relevant with the activities of other management/investment/financing

##### 1) Other cash received related to operation activity

Items	Current Year
Guarantee refunds	585,000.00
Receive social insurances from social insurance bureau	573,851.03
Interest income	827,064.65
Research issue fees	200,000.00
Beijing Jingcheng Holding Company in the second half of 2011 for Vocational preschool subsidies	106,008.00
Intercompany funds	4,856,673.90
Others	3,117,421.95
<b>Total</b>	<b>10,266,019.53</b>

##### 2) Other cash payment related to operation activity

Items	Current Year
All types of expenses	36,536,206.70
Others	8,998,639.62
<b>Total</b>	<b>45,534,846.32</b>

##### 3) Other cash received from investing activities

Items	Current Year
Consignment loan interest income	4,388,874.43

##### 4) Other cash payment related to investing activities

Items	Current Year
Assets replacement	267,852,514.97

## XIV. NOTES OF MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS *(cont'd)*

### 39. Notes to the Cash Flow Statement *(cont'd)*

#### (2) Supplement information of consolidated cash flow statement

Items	Current Year	Last Year
<b>1. Cash flow from operating activities</b>		
Net profit	143,795,998.94	-147,439,875.73
Add: Provision on the impairment of assets	8,169,439.77	38,897,962.74
Depreciation of fixed asset	18,420,640.82	23,513,189.12
Amortization of intangible asset	1,691,390.00	2,029,668.00
Amortization of long-term prepaid expenses		
Loss from disposal on fixed asset, intangible assets, and other long term asset ("-" if revenue)	-202,284,162.16	66,467.30
Loss of fixed asset disposal ("-" if revenue)		
Gain or loss from changes in fair value ("-" if revenue)		
Financial expenses ("-" if revenue)	10,843,467.22	7,722,252.77
Loss from investment ("-" if revenue)	942,017.83	918,329.21
Decrease in deferred tax assets ("-" if increase)		
Increase in deferred tax liability ("-" if decrease)		
Decrease in inventories ("-" if increase)	24,368,657.07	19,678,183.87
Decrease of account receivable ("-" if increase)	-1,770,957.05	-19,569,938.18
Increase of account payable ("-" if decrease)	-56,788,112.55	8,644,910.06
Others		
Net cash flow from operating activity	-52,611,620.11	-65,538,850.84
<b>2. Cash flow from financing activity:</b>		
Debts transferred into capital		
Corporation debenture with maturity less than one year		
Financing leased fixed asset		
<b>3. Changes in cash and cash equivalent:</b>		
Closing balance of cash	9,537,212.51	150,192,182.81
Less: opening balance of cash	150,192,182.81	133,470,663.08
Add: closing balance of cash equivalents		
Less: opening balance of cash equivalents		
Net increase in cash and cash equivalents	-140,654,970.30	16,721,519.73

#### (3) Cash and cash equivalents

Items	Current Year	Last Year
Cash	9,537,212.51	150,192,182.81
Including: Cash on hand		8,198.90
Bank deposit available to make payments	9,537,212.51	150,183,983.91
Cash equivalents		
Cash and cash equivalents at the end of the year	9,537,212.51	150,192,182.81
Cash		

## XIV. Approval of financial statements

The Company's financial statements were issued with the approval of the Board of the directors of the Company on 27 March 2014.

## XV. Supplementary information for financial statements

### 1. Non-operating profit and loss statement

Items	Current Year	Last Year	Note
Profit and loss from Non-current assets	-14,393.74	-111,794.87	
Government subsidies in current profit and loss	2,668,633.80	5,065,300.56	
Debt restructuring gains and losses	34,759.16	0.00	
Current net profit and loss from the beginning to the consolidated date under the common control by the subsidiary	-32,693,979.16	48,404,711.61	
Other non-operating income and expenses	-75,174.26	490,372.57	
Other profit or loss account	-641,637.99		
Sub-total	-30,721,792.19	53,848,589.87	
Income tax effect	-3,003.41		
Minority Interests effect (after tax)	873,356.67	5,109,283.85	
<b>Total</b>	<b>-31,592,145.45</b>	<b>48,739,306.02</b>	



## NOTES TO THE FINANCIAL STATEMENT

### XV. Supplementary information for financial statements

#### 2. Accounting data variation between P.R.C accounting standards and Hong Kong GAAP

Unit: RMB'000

Items	Net profit		Net assets	
	Current Year	Last Year	Current Year	Last Year
Under HK GAAP:	<b>-109,552</b>	-123,741	<b>1,163,638</b>	1,611,848
1. Difference in valuation of net assets contributed to the Company by Beiren Group Corporation				
2. Consequential adjustment on net assets contributed by Beiren Group Corporation				
3. Difference in valuation of capital contribution to subsidiaries				
4. Recognition of goodwill upon acquisition of a subsidiary				-3,135
5. Amortization of goodwill upon acquisition of a subsidiary				3,135
6. Others				
Under PRC accounting standards	<b>-109,552</b>	-123,741	<b>1,163,638</b>	1,611,848

#### 3. Returns on net assets and earnings per share

Profit for the reporting period	Weighted average (%)		Earnings per share			
	Current Year	Last Year	Basic EPS		Diluted EPS	
			Current Year	Last Year	Current Year	Last Year
Net profit for equity holders of the parent company	<b>-8.36</b>	-8.30	<b>-0.26</b>	-0.29	<b>-0.26</b>	-0.29
Net profit for equity holders of the parent company after deducting incidental gain and loss	<b>-12.68</b>	-25.77	<b>-0.18</b>	-0.41	<b>-0.18</b>	-0.41

#### 4. Special situation and explanation for main financial statement items

Assets	Note	Ending Balance	Beginning Balance	Change	Change %
Cash	Note 1	337,743,216.12	528,041,165.31	-190,297,949.19	-36.04%
Accounts receivable	Note 2	407,991,348.42	526,194,988.82	-118,203,640.40	-22.46%
Other receivable	Note 3	5,686,434.58	50,795,137.59	-45,108,703.01	-88.81%
Inventories	Note 4	734,199,271.84	995,479,780.27	-261,280,508.43	-26.25%
Other current assets	Note 5	15,718,684.47	15,718,684.47	15,718,684.47	100.00%
Investment property	Note 6	9,519,696.39	6,556,479.32	2,963,217.07	45.20%
Fixed assets	Note 7	714,960,989.70	1,273,027,529.95	-558,066,540.25	-43.84%
Construction in progress	Note 8	278,770,258.89	54,167,335.66	224,602,923.23	414.65%
long-term prepaid expenses	Note 9	2,634,697.21	10,372,591.29	-7,737,894.08	-74.60%
Deferred tax assets	Note 10	9,131,448.40	6,240,684.98	2,890,763.42	46.32%

Note 1: Cash has decreased by RMB 190,300,000.00, it is mainly caused by the Company's cash and other assets and liabilities set out from the Company; apart from this factor, the amount of cash is basically the same as the last year.

Note 2: Account receivable has decreased by RMB 118,200,000.00, it is mainly caused by the Company's cash and other assets and liabilities set out from the Company; apart from this factor, Account receivable is increased RMB 74,060,000.00, it is mainly caused by the macro-economy, financial constraint of clients and inability to collect the final payments.

Note 3: Other receivable has decreased by RMB 45,100,000.00, it is mainly caused by the Company's other receivable and other assets and liabilities set out from the Company. The beginning balance is RMB 18,590,000.00; the guarantee for purchasing land with the amount of 19,600,000.00 will be made as transferred payment due to the transfer into the intangible assets by Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd in this year.

Note 4: Inventory has decreased by RMB 261,280,000.00, it is mainly caused by the Company's inventory and other assets and liabilities set out from the Company; the beginning balance is RMB 403,660,000.00, apart from this factor, the ending balance is increased RMB 142,380,000.00 compared to the beginning of the year. It is mainly caused by the Group made some reserves to cope with the risk of raw materials' price going up when the market price of raw materials goes down.

Note 5: Other current assets include the Company's college apartment. As they have signed sale contract and have completed recently, the Company transfers the item into other current assets.

**XV. Supplementary information for financial statements (cont'd)**

**4. Special situation and explanation for main financial statement items (cont'd)**

- Note 6: Investment properties have increased by RMB 2,960,000.00. It is mainly caused by Beijing Jingcheng Compressor Co., Ltd. used in the production plant for outside lease reaching its intended use.
- Note 7: Fixed assets have decreased by RMB 558,070,000.00, it is mainly caused by the Company's fixed assets and other assets and liabilities set out from the Company. The beginning balance is RMB 498,620,000.00.
- Note 8: Construction in progress is increased by the amount of RMB 224,600,000.00; it is mainly caused by the increased input of the LNG industry base project from Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd.
- Note 9: the decrease in long-term prepaid expenses is RMB 7,740,000.00 which is caused by the outgoing assets and liabilities that is related to printing operations by the Company.
- Note 10: the increase in deferred tax assets is RMB 2,890,000.00; it is affected by the increase in the amount of impairment loss for assets which is accrued by the Group.

Liability and equity	Note	Ending Balance	Beginning Balance	Change	Change %
Accounts payable	Note 1	395,472,131.25	638,233,008.28	-236,816,463.23	-37.11%
Advances from customers	Note 2	135,006,560.18	179,715,862.44	-44,709,302.26	-24.88%
Employee Benefits	Note 3	20,327,742.14	73,342,027.24	-53,014,285.10	-72.28%
Tax payable	Note 4	2,260,951.16	-8,590,412.51	10,851,363.67	-126.32%
Other payable	Note 5	416,598,343.16	496,567,182.31	-79,821,600.65	-16.07%
Special payable	Note 6	131,468,000.00	60,562,414.47	70,905,585.53	146.01%
Capital reserves	Note 7	558,698,626.70	1,182,742,879.03	-624,044,252.33	52.76%

- Note 1: Account payable has decreased RMB 236,820,000.00, it is mainly caused by the Company's account payable and other assets and liabilities set out from the Company. The beginning balance is RMB 323,920,000.00. Apart from this factor, the ending balance has increased RMB 87,220,000.00. It is mainly caused by the increased material purchase of the Group and increased input of Beijing Minghui Tianhai Gas Storage Equipments Trading Co., Ltd. project.
- Note 2: Advances from customers has decreased by RMB 44,710,000.00. It is mainly caused by the Company's Advances from customers and other assets and liabilities set out from the Company.
- Note 3: Employee Benefits has decreased by RMB 53,010,000.00. It is mainly caused by the Company's Employee Benefits and other assets and liabilities set out from the Company.
- Note 4: Tax payable has decreased by RMB 10,850,000.00. It is mainly caused by the decrease of value added tax to be deductible.
- Note 5: Other payable has decreased by RMB 79,820,000.00. It is mainly caused by the Company's other payable and other assets and liabilities set out from the Company.
- Note 6: Special payable has increased by RMB 70,910,000.00. It is mainly caused by Beijing Tianhai Industry Co., Ltd. received the RMB 100,000,000.00 of natural gas storage and transportation equipment production base construction project from Jingcheng Holding (Hong Kong) Company Limited.
- Note 7: Capital reserves have decreased by RMB 624,040,000.00. It is mainly caused by the consolidation under the common control this year. The equity of increased input assets at the beginning of the year decreased this year.

Profit and loss	Note	Current Year	Last Year	Change	Change %
Operating income	Note 1	2,828,194,349.87	3,045,275,527.04	-217,081,177.17	-7.13%
Operating cost	Note 1	2,402,264,930.73	2,543,156,272.24	-140,891,341.51	-5.54%
Administration expense	Note 2	283,060,648.76	365,040,264.63	-82,029,653.11	-22.47%
Financial expense	Note 3	58,634,213.01	45,089,413.43	13,544,799.58	30.04%
Impairment loss for assets	Note 4	29,849,760.03	53,908,402.74	-24,058,642.71	-44.63%
Investment income	Note 5	4,924,368.24	14,461,321.73	-9,536,953.49	-65.95%
Non-operation income	Note 6	5,906,019.82	11,754,043.17	-5,790,812.71	-49.27%
Non-operation cost	Note 7	2,653,716.06	4,438,460.23	-1,784,744.17	-40.21%
Income tax expenses	Note 8	4,547,816.57	14,213,603.43	-9,665,786.86	-68.00%

- Note 1: Operating income has decreased RMB 217,080,000.00. It is mainly caused by depressive macro-economy environment, the decreased number of sales, cost is decreased as the same trend of income, and the overall profit margin is decreased.
- Note 2: Administration expense has decreased RMB 82,030,000.00. It is mainly caused by cutting unnecessary expenditures which made office expenses and entertainment expenses decreased and more restructuring expense and demission welfare in 2012.
- Note 3: Financial expense has increased RMB 13,540,000.00. It is mainly caused by the increased loans and interest expense is increased RMB 8,680,000.00. The exchange rate that RMB against USD goes up which caused foreign exchange losses increased RMB 5,710,000.00.

## NOTES TO THE FINANCIAL STATEMENT

### XV. Supplementary information for financial statements *(cont'd)*

#### 4. Special situation and explanation for main financial statement items *(cont'd)*

Note 4: Impairment loss for assets has decreased by the amount of RMB 24,060,000.00. It is mainly caused by the exceed provision of impairment loss for inventories by the amount of RMB 21,960,000.00 due to the inventories cost was higher than the net present value in the last year of the Group.

Note 5: Investment income has decreased by RMB 9,540,000.00. It is mainly caused by the low profit in Beijing Fusheng Machinery Co., Ltd which is an associate of Jingcheng Compressor Co., Ltd. which is also the subsidiary.

Note 6: Non-operating income has decreased by RMB 5,790,000.00. It is mainly caused by more governmental grants such as innovation awards in 2012.

Note 7: Non-operating cost has decreased by the amount of RMB 1,780,000.00. It is mainly caused by the expenses payment of the fine for land due to the delay payment last year.

Note 8: Income tax expense has decreased by RMB 9,670,000.00. It is mainly caused by the loss of the subsidiary this year.

### XVII. Other information to be disclosed

#### 1. Revenue

Revenue includes the net value of the received and receivable for the sales of different types of the printing machine unites, the sales of cold storage container, the sales of compressor, the sales of spare parts and service rendered as follows:

Items	Ending Balance	Beginning Balance
Sales of hectograph machine	291,291,960.01	366,076,828.89
Sales of intaglio printing machine	266,689,924.56	304,755,989.02
Sales of Form Machine	8,085,553.80	43,721,353.45
Sales of spare parts	7,633,519.60	16,230,623.59
Compressor Business	107,278,938.17	104,173,001.66
Seamless steel gas cylinders	783,911,544.08	1,142,272,475.66
Wrapped bottle	477,164,867.73	519,862,728.81
Cold bottle	361,637,537.34	210,074,516.15
Cryogenic storage and transportation equipment	158,164,067.44	103,725,730.51
Others	213,480,568.19	145,440,731.21
Total sales	2,675,338,480.92	2,956,333,978.95
Less: Sales tax and other surcharges	8,782,371.08	9,329,370.20
<b>Total</b>	<b>2,666,556,109.84</b>	<b>2,947,004,608.75</b>

#### 2. Tax

Items	Ending Balance	Beginning Balance
Business tax for the current year	7,438,579.99	11,587,188.33
Deferred tax	-2,890,763.42	2,626,415.10
<b>Total</b>	<b>4,547,816.57</b>	<b>14,213,603.43</b>

#### 3. Dividend

By the 2013 there is either no dividend paid nor suggested dividend. During the reporting period, no dividend is suggested by the board. (No dividend in 2012)

Beijing Jingcheng Machinery Electric Co. Ltd

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## SECTION 13 FIVE YEARS' FINANCIAL SUMMARY

The audited consolidated operating results and the audited balance sheet of the Company for each of the five years ended 31 December 2013 were summarized as follows:

### (1) Operating Results (Prepared under PRC Accounting Standards)

	2013 RMB'0,000	2012 RMB'0,000 (after adjustment)	2012 RMB'0,000 (before adjustment)	2011 RMB'0,000	2010 RMB'0,000	2009 RMB'0,000
Turnover	<b>282,819.43</b>	304,527.55	74,825.44	80,387.39	82,135.77	76,766.86
Total profit	<b>-10,500.44</b>	-10,952.77	-16,943.50	1,365.98	2,496.96	-17,998.99
Taxation	<b>454.78</b>	1,421.36	271.10	3.00	549.91	-47.23
Net profit attributable to shareholders of parent company	<b>-10,823.90</b>	-12,445.69	-16,835.80	1,138.29	2,227.94	-17,400.46
Equity attributable to the shareholders of parent company	<b>80,357.33</b>	143,675.01	58,798.83	75,638.23	74,499.94	72,286.25
Minority equity	<b>36,006.50</b>	17,509.81	1,455.83	1,836.04	1,611.34	2,044.64

### (2) Balance Sheet (Prepared under PRC Accounting Standards)

	2013 RMB'0,000	2012 RMB'0,000 (after adjustment)	2012 RMB'0,000 (before adjustment)	2011 RMB'0,000	2010 RMB'0,000	2009 RMB'0,000
<b>Assets</b>						
Current assets	<b>157,073.98</b>	218,324.16	83,502.99	81,676.69	74,525.03	92,954.69
Non-current assets	<b>125,862.10</b>	161,969.04	64,000.89	66,867.50	71,211.03	80,823.56
Total assets	<b>282,936.09</b>	380,293.20	147,503.87	148,544.19	145,736.06	173,778.25
<b>Liabilities</b>						
Current liabilities	<b>153,425.46</b>	212,766.38	84,015.12	67,773.01	66,037.72	95,830.29
Non-current liabilities	<b>13,146.80</b>	6,342.00	3,234.09	3,296.91	3,587.06	3,617.07
Total liabilities	<b>166,572.26</b>	219,108.38	87,249.21	71,069.92	69,624.78	99,447.36
<b>Shareholders' Equity</b>						
Equity attributable to the shareholders of parent company	<b>80,357.33</b>	143,675.01	58,798.83	75,638.23	74,499.94	72,286.25
Minority equity	<b>36,006.50</b>	17,509.81	1,455.83	1,836.04	1,611.34	2,044.64
Shareholders' Equity	<b>116,363.83</b>	161,184.82	60,254.66	77,474.27	76,111.28	74,330.89

## SECTION 14 DOCUMENTS AVAILABLE FOR INSPECTION

1. Original copy of the annual report, which has been signed by the Chairman.
2. Original copy of the auditors' report signed and chopped by the certified public accountant and under the seal of the accountant firm.
3. The original copies of all documents and announcements of the Company publicly disclosed during the Reporting Period in Shanghai Securities News and the websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong.
4. The Articles of Association of the Company.
5. The above documents are available for inspection at the Office of the Board of Directors of the Company, whose address is No.9 Tianying North Road, Chaoyang District, Beijing, the PRC.

Chairman: **Jiang Zili**  
**Beijing Jingcheng Machinery Electric Company Limited**

27 March 2014