
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Beiren Printing Machinery Holdings Limited**, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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

(Stock Code: 0187)

**(I) VERY SUBSTANTIAL ACQUISITION, VERY SUBSTANTIAL
DISPOSAL AND CONNECTED TRANSACTIONS IN RELATION TO THE
MATERIAL ASSET REORGANISATION OF THE COMPANY
(II) PROPOSED CHANGE OF NAME OF THE COMPANY
AND
(III) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 7 to 108 of this circular and a letter from the Independent Board Committee is set out on page 109 of this circular. A letter from Celestial Capital containing its advice to the Independent Board Committee is set out on pages 110 to 153 of this circular.

A notice convening the extraordinary general meeting of Beiren Printing Machinery Holdings Limited to be held at Conference Room of the Company, Room 6206, No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing, on 18 December 2012 (Tuesday) at 9 a.m. is set out on pages EGM-1 to EGM-9 of this circular.

Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“A Share(s)”	Renminbi ordinary shares of RMB1.00 in the share capital of the Company, which are listed on the Shanghai Stock Exchange
“Acquisition”	the transfer by Jingcheng Holding of the Incoming Assets to the Company pursuant to the terms and conditions of the Material Asset Reorganisation Agreement
“America Fortune”	America Fortune Company, a company incorporated in the United States
“AQSIQ”	國家質量監督檢驗檢疫總局, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC
“associate”	has the meaning ascribed to it under the Listing Rules
“Beiren Fuji”	北京北人富士印刷機械有限公司 (Beijing Beiren Fuji Printing Machinery Co., Ltd.), a company established in the PRC which is 70% owned by the Company as at the Latest Practicable Date
“Beijing Beiying”	北京北瀛鑄造有限責任公司 (Beijing Beiying Casting Co., Ltd.), a company established in the PRC which is owned as to 20% by the Company as at the Latest Practicable Date
“Beijing Monigraf”	北京莫尼自控系統有限公司 (Beijing Monigraf Automations Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC which is owned as to 49% by the Company as at the Latest Practicable Date
“Beiren Jingyan”	北京北人京延印刷機械有限責任公司 (Beijing Beiren Jinyan Printing Machinery Co., Ltd.), a limited liability company established in the PRC as more particularly set out under the section headed “Information on the Outgoing Assets” in the Letter from the Board
“Beijing SASAC”	State-owned Assets Supervision and Administration Commission of Beijing Municipal Government
“Beiren Group”	Beiren Group Corporation (北人集團公司), a company incorporated in the PRC and the controlling shareholder holding approximately 47.78% equity interest in the Company as at the Latest Practicable Date
“Board”	the board of Directors
“Business Day(s)”	a day on which banks in the PRC are generally open for business

DEFINITIONS

“BSCOMC”	Beijing State-owned Capital Operation &. Management Centre (北京市人民政府國有資產監督管理委員會)
“CASBE”	the China Accounting Standards for Business Enterprises
“Celestial Capital” or “Independent Financial Adviser”	Celestial Capital Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
“CNG”	Compressed Natural Gas
“Company”	Beiren Printing Machinery Holdings Limited (北人印刷機械股份有限公司), 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
“Completion”	completion of the Reorganisation
“Completion Date”	means the date when Completion shall take place, being the date as agreed between the parties to the Material Asset Reorganisation Agreement upon satisfaction of the conditions as more particularly described in the section headed “The Material Asset Reorganisation Agreement – Conditions to Completion” in the Letter from the Board
“Completion Period”	means the period commencing from the Effective Date and ending on the Completion Date
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the transfer by the Company of the Outgoing Assets to Beiren Group pursuant to the terms and conditions of the Material Asset Reorganisation Agreement
“Disposal Properties”	various properties situated in Beijing, the PRC directly held by the Company as at the Latest Practicable Date and which shall be transferred to Beiren Group pursuant to the Reorganisation
“Effective Date”	the effective date of the Material Asset Reorganisation Agreement upon the satisfaction of all the conditions as more particularly described in the section headed “The Material Asset Reorganisation Agreement – Conditions for the Material Asset Reorganisation Agreement to become effective” in the Letter from the Board

DEFINITIONS

“EGM”	the first extraordinary general meeting of 2012 of the Company to be convened on 18 December 2012 (Tuesday) at 9:00 a.m. at Conference Room of the Company, Room 6206, No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing
“Existing Group”	the Company and its subsidiaries before the completion of the Reorganisation
“Fusheng Machine”	北京復盛機械有限公司 (Beijing Fusheng Machine Co., Ltd.), a company established in the PRC
“GDP”	Gross Domestic Product
“Group”	the Company and its subsidiaries
“H Shares”	the overseas foreign listed shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange subscribed for and traded in HK\$
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Incoming Assets”	(i) 71.56% equity interests in Tianhai Industrial (or approximately 88.51% equity interests in Tianhai Industrial if the increase in the paid-up capital of Tianhai Industrial is completed prior to the Completion); (ii) 100% equity interests in Jingcheng Compressor (after the disposal its environmental protection business); and (iii) 100% interests in Jingcheng HK
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu, which has been established by the Company to advise the Independent Shareholders on the Material Asset Reorganisation Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the general meeting to be convened for the purposes of approving the Reorganisation under the Listing Rules
“ISO”	International Organization for Standardization
“Jingcheng Compressor” or “Jingcheng Environment”	北京京城壓縮機有限公司 (Beijing Jingcheng Compressor Co., Ltd.) (formerly known as 北京京城環保產業發展有限責任公司 (Beijing Jingcheng Environmental Protection Development Co., Ltd.)), a company established in the PRC and a wholly-owned subsidiary of Jingcheng Holding as at the Latest Practicable Date

DEFINITIONS

“Jingcheng HK”	Jingcheng Holding (Hong Kong) Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Jingcheng Holding as at the Latest Practicable Date
“Jingcheng Holding”	北京京城機電控股有限責任公司 (Jingcheng Holding Machinery Electric Holding Co., Ltd.), a company established in the PRC and holding 100% equity interest in Beiren Group and the beneficial controlling Shareholder
“Jingcheng Tianyi”	北京京城天義環保科技有限公司 (Beijing Jingcheng Tianyi Environment Technology Co., Ltd.), a company established in the PRC
“Langfang Tianhai”	廊坊天海高壓容器有限公司 (Langfang Tianhai High Pressure Cylinder Co., Ltd.), a company established in the PRC
“Listing Committee”	the listing sub-committee of the directors of the Stock Exchange elected or appointed in accordance with the articles of association of the Stock Exchange
“Latest Practicable Date”	29 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	Liquefied Natural Gas
“Material Asset Reorganisation Agreement”	the Material Asset Reorganisation Agreement dated 2 November 2012 between the Company, Jingcheng Holding and Beiren Group setting out terms and conditions of the Reorganisation, as amended and supplemented from time to time
“MIIT”	中華人民共和國工業和信息化部, the Ministry of Industry and Information Technology of the PRC
“Mitsubishi Beiren”	北京三菱重工北人印刷機械有限公司 (Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC which is owned as to 49% by the Company
“New Business”	the research and development, manufacture and sale of compressed gas cylinders, gas compressors and related equipment after the Completion
“NDRC”	國家發展和改革委員會, the National Development and Reform Commission of the PRC
“Outgoing Assets”	all the assets and liabilities owned by the Company as at the Latest Practicable Date

DEFINITIONS

“Panni Gaokong”	北京攀尼高空作業設備有限公司 (Beijing Panni Gaokong Equipment Co., Ltd.), a company established in the PRC
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purposes of this circular
“PRC Legal Adviser”	Beijing Kangda Law Firm
“Property Valuer”	Savills Valuation and Professional Services Limited
“R&D”	Research and Development
“Reorganisation”	the Acquisition and the Disposal
“Reorganised Group”	the Company and its subsidiaries after the completion of the Reorganisation
“Reorganisation Framework Agreement”	the reorganisation framework agreement dated 5 July 2012 between the Company and Jingcheng Holding setting out the framework of the Reorganisation
“Sale Subsidiaries”	Shaanxi Beiren, Beiren Fuji and Beiren Jingyan, all of which are non-wholly owned subsidiaries of the Company as at the Latest Practicable Date
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Shaanxi Beiren”	陝西北人印刷機械有限責任公司 (Shaanxi Beiren Printing Machinery Co., Ltd.), a company established in the PRC
“Shanghai Tianhai”	上海天海德坤復合氣瓶有限公司 (Shanghai Tianhai Gas Cylinder Co., Ltd.), a company established in the PRC
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	share(s) of the Company, including A Shares and H Shares, unless otherwise specified
“State Council”	中華人民共和國國務院, the State Council of the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Target Companies”	Tianhai Industrial, Jingcheng Compressor and Jingcheng HK
“Target Group”	the Target Companies and their respective subsidiaries
“Tianhai Cryogenic”	北京天海低溫設備有限公司 (Beijing Tianhai Cryogenic Equipment Co., Ltd.), a company established in the PRC

DEFINITIONS

“Tianhai Industrial”	北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of Jingcheng Holding as at the Latest Practicable Date
“Tianhai Xigang”	北京天海西港環境技術有限公司 (Beijing Tianhai Xigang Environmental Technique Co., Ltd.), a company established in the PRC
“Tianjin Tianhai”	天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Containers Co., Ltd.), a company established in the PRC
“Track Record Period”	the three years ended 31 December 2011 and the seven months ended 31 July 2012
“Transition Period”	means the period commencing from 31 March 2012 and ending on the Completion Date
“United States”	the United States of America
“valuation report”	the valuation report to be issued by a qualified valuer in respect of the Incoming Assets and the Outgoing Assets, the valuation results of which are reviewed by or filed at the relevant government authorities for the management of state-owned assets
“Valuation Date”	31 March 2012
“Valuer”	國友大正資產評估有限公司 (China Faith Appraisers Co., Ltd.), an independent valuer engaged by the Company to prepare the valuation reports in respect of the Incoming Assets and the Outgoing Assets
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“°C”	degree Celcius
“%”	per cent.

For the purpose of this circular, the Chinese names of the PRC-incorporated companies shall prevail and the English transliteration or translation is for identification purposes only.

LETTER FROM THE BOARD



北人印刷機械股份有限公司

BEIREN PRINTING MACHINERY HOLDINGS LIMITED

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

(Stock Code: 0187)

Executive directors:

Mr. Zhang Peiwu
Mr. Chen Bangshe
Ms. Jiang Chi

Registered office:

6 Rongchangdong Street
Economic and Technological
Development Zone
Beijing
PRC

Non-executive directors:

Mr. Teng Mingzhi
Ms. Wu Dongbo
Mr. Li Shenggao
Ms. Wei Li

Independent non-executive directors:

Mr. Zhang Shuangru
Ms. Wang Hui
Mr. Xie Bingguang
Mr. Wang Deyu

3 December 2012

To the Shareholders

Dear Sir or Madam,

**(I) VERY SUBSTANTIAL ACQUISITION, VERY SUBSTANTIAL
DISPOSAL AND CONNECTED TRANSACTIONS IN RELATION TO THE
MATERIAL ASSET REORGANISATION OF THE COMPANY
(II) PROPOSED CHANGE OF NAME OF THE COMPANY
AND
(III) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

Reference is made to the announcements of the Company dated 5 July 2012, 2 November 2012 and 30 November 2012.

The purpose of this circular is, among other things, to provide you with more information in relation to the Reorganisation (including the New Business and the Incoming Assets), the Material Asset Reorganisation Agreement and the transactions contemplated thereunder in order to enable you to make an informed decision on whether to approve vote for or against the resolutions to be proposed at the EGM.

This circular also provides you with information regarding (i) the special resolution relating to the proposed amendments to the Articles of Association; (ii) the ordinary resolution relating to the proposed change of name of the Company to be proposed at the EGM and (iii) the notice of the EGM.

LETTER FROM THE BOARD

(I) THE MATERIAL ASSET REORGANISATION OF THE COMPANY

Reference is made to the announcement of the Company dated 5 July 2012, whereby it was disclosed that the Company and Jingcheng Holding had entered into a conditional Reorganisation Framework Agreement, particulars of which are disclosed in the announcement of the Company dated 5 July 2012.

In the announcement of the Company dated 2 November 2012, the Board has further announced that following the second meeting of the Board with respect to the Reorganisation, the Company, Jingcheng Holding and Beiren Group entered into the conditional Material Asset Reorganisation Agreement pursuant to which the Company shall transfer or procure the transfer of the Outgoing Assets (representing all the assets and liabilities of the Company) to Beiren Group on the instructions of Jingcheng Holding (the “**Disposal**”); and in consideration thereof, Jingcheng Holding shall transfer or procure (a) the transfer of the Incoming Assets (being 71.56% equity interest in Tianhai Industrial (so far as the Directors are aware, Jingcheng Holding has taken steps to increase the registered capital of Tianhai Industrial by RMB230,000,000. Upon the approval by relevant governmental authorities of such capital increase, Jingcheng Holding shall own approximately 88.51% equity interest in Tianhai Industrial), 100% interest in Jingcheng HK and 100% interest in Jingcheng Compressor (after disposal of its environmental protection business)) to the Company (the “**Acquisition**”) and (b) the payment of a cash consideration in the amount of RMB6,145,600.

Reference is also made to the announcement of the Company dated 30 November 2012. On 29 November 2012, the Company, Jingcheng Holding and Beiren Group entered into the Supplemental Agreement to the Material Assets Reorganisation Agreement, whereby it is agreed that the consideration for the Incoming Assets as at the valuation date of 31 March 2012 would be the value of RMB1,179,346,700 as approved by BSCOMC on 28 November 2012 and the amount of difference in the consideration of the Outgoing Assets and Incoming Assets becomes RMB5,522,900, which will be paid in full by Jingcheng Holding in cash.

THE MATERIAL ASSET REORGANISATION AGREEMENT

Date

2 November 2012

Parties

1. The Company
2. Jingcheng Holding
3. Beiren Group

The Disposal

Subject to the terms and conditions of the Material Asset Reorganisation Agreement, the Company has agreed to transfer or procure the transfer of, and Jingcheng Holding has agreed to accept transfer of, the Outgoing Assets by its wholly-owned subsidiary, Beiren Group.

The aggregate consideration for the Disposal is RMB1,184,869,600, which was the aggregate valuation amount of the Outgoing Assets as at 31 March 2012 as set out in the valuation report in respect of the Outgoing Assets prepared by the Valuer and approved by BSCOMC, the text of which is set out in Appendix VII to this circular.

LETTER FROM THE BOARD

Such consideration shall be settled by (i) the transfer to the Company of the Incoming Assets by Jingcheng Holding pursuant to the Acquisition and (ii) the payment of a cash consideration of RMB6,145,600 to the Company, being the value of the Outgoing Assets less that of the Incoming Assets, by Jingcheng Holding.

Following the Disposal, each of the Sale Subsidiaries will cease to be a subsidiary of the Company.

The Acquisition

Subject to the terms and conditions of the Material Asset Reorganisation Agreement, Jingcheng Holding has agreed to transfer or procure the transfer of, and the Company has agreed to accept transfer of, the Incoming Assets.

The valuation amount in respect of each of Tianhai Industrial, Jingcheng Compressor and Jingcheng HK at 31 March 2012 as set out in the valuation reports in respect of the Incoming Assets prepared by the Valuer is approximately RMB659,016,800, approximately RMB224,932,500 and approximately RMB222,209,100 respectively. Accordingly, the aggregate valuation amount of the Incoming Assets is approximately RMB918,734,000 (being the aggregate of RMB471,592,400 (i.e. $\text{RMB659,016,800} \times 71.56\%$), RMB224,932,500 and RMB222,209,100) (the “**Incoming Assets Valuation Amount**”). The valuation reports were prepared using the Asset Based Method.

After 31 March 2012, the valuation date of the valuation report, and prior to the EGM, (i) the registered capital of Jingcheng Compressor has been increased and fully paid up by Jingcheng Holding in the amount of RMB29,990,000 and (ii) in view of the investments projects on the fixed assets, including the development project of CNG hoop-wrapped glass cylinders and Tianjin seamless steel gas cylinder capacity expansion project, which require investment funding and the need to supplement the cash flow, the registered capital of Tianhai Industrial shall be increased and fully paid up by Jingcheng Holding in the amount of RMB230,000,000 (the “**Increased Paid-up Capitals**”), which will be applied for the said purposes. The Increased Paid-up Capitals has been fully injected, among which RMB100,000,000 was injected on 7 April 2011 and the remaining RMB130,000,000 was injected on 18 August 2011. Jingcheng Holding has further undertaken that it shall complete all formalities relating to the aforesaid increase in registered capital of Tianhai Industrial prior to the EGM. The application for the Increased Paid-up Capitals has been made to Beijing Municipal Commission of Commerce and is pending its approval thereon as at the Latest Practicable Date. Upon receipt of the said approval, the Increased Paid-up Capitals will be effective.

Accordingly, the aggregate consideration for the Acquisition was RMB1,178,724,000, being the total of the Incoming Asset Valuation Amount (RMB918,734,000) and the Increased Paid-up Capitals (i.e. $\text{RMB29,990,000} + \text{RMB230,000,000}$).

Such consideration shall be settled by the transfer of the Outgoing Assets pursuant to the Disposal by the Company to Jingcheng Holding.

Following the Acquisition, the Target Companies will become wholly-owned subsidiaries of the Company.

LETTER FROM THE BOARD

Conditions for the Material Asset Reorganisation Agreement to become effective

The Material Asset Reorganisation Agreement shall become effective upon each of the following conditions being satisfied:

- (a) the approval of the Reorganisation and other related matters including but not limited to the Reorganisation by the Independent Shareholders in a general meeting of the Company;
- (b) the approval by BSCOMC of the valuation results of the valuation reports in respect of the Incoming Assets and the Outgoing Assets;
- (c) the approval by the Ministry of Commerce of the relevant matters of the Reorganisation;
- (d) the approval by BSCOMC of the plans relating to the Reorganisation;
- (e) the approval by the CSRC of the plans relating to the Reorganisation; and
- (f) the approval by the Stock Exchange of the despatch of this circular.

In the event that not all the conditions for the Material Asset Reorganisation Agreement to become effective have been fulfilled within the period to be agreed by the parties thereto, the Material Asset Reorganisation Agreement shall be of no further effect and no party shall have any claim against or liability or obligation to the other party save in respect of any deliberate or serious default (including but not limited to any breach of mandatory requirements prescribed under any applicable laws and regulations) causing any of the conditions set out above unable to be fulfilled.

As at the Latest Practicable Date, the conditions set out in (b), (d) and (f) above have been satisfied.

Conditions to Completion

Completion is conditional upon the following conditions being satisfied:

- (a) the conditions for the Material Asset Reorganisation Agreement to become effective being fulfilled;
- (b) there being no breach or any evidence showing the breach of the Material Asset Reorganisation Agreement;
- (c) there being no violation of any applicable laws or regulations, judgments, decisions or orders issued by any judicial authorities, regulatory authorities or statutory supervisory authorities as a result of the implementation of the Reorganisation; and
- (d) all the statements and warranties contained in the Material Asset Reorganisation Agreement remain true, accurate and valid.

Jingcheng Holding, Beiren Group and the Company shall endeavour to satisfy all the conditions to the Completion as set out above the soonest possible. After the approval by the CSRC of the Reorganisation is granted, Jingcheng Holding and the Company shall negotiate and agree upon the Completion Date.

LETTER FROM THE BOARD

Completion

During the Completion Period: -

- (a) the Company shall deliver to Beiren Group all contracts, documents and information relating to the Outgoing Assets and provide assistance to complete all formalities in relation to the transfer of the Outgoing Assets;
- (b) the Company and Beiren Group shall execute confirmation documents in respect of the transfer of the Outgoing Assets;
- (c) Jingcheng Holding shall deliver to the Company all contracts, documents and information relating to the Incoming Assets; and
- (d) Jingcheng Holding and the Company shall execute confirmation documents in respect of the transfer of the Incoming Assets. Jingcheng Holding shall also ensure the Company's legal ownership of 71.56% interest in Tianhai Industrial (or approximately 88.51% equity interest in Tianhai Industrial if the increase in paid-up capital of Tianhai Industrial is completed prior to the Completion), 100% interest in Jingcheng HK and 100% interest in Jingcheng Compressor shall be filed with the relevant commerce department recorded in the respective articles of association of each of Tianhai Industrial, Jingcheng Compressor and Jingcheng HK.

Upon Completion, the Company shall become the legal owner of 71.56% interest in Tianhai Industrial (or approximately 88.51% interest in Tianhai Industrial if the increase in the paid-up capital of Tianhai Industrial is completed prior to the Completion), 100% interest in Jingcheng HK and 100% interest in Jingcheng Compressor.

Jingcheng Holding has further undertaken that it shall complete the aforesaid increase in the registered capital of Tianhai Industrial prior to the EGM and held 100% interest in Jingcheng HK and 100% interest in Jingcheng Compressor, and enjoy the full shareholders' rights in respect of the said interests on the Completion Date.

In the event that transfer of certain Outgoing Assets is subject to authorisation or consent from third parties and such authorisation or consent cannot be obtained prior to the Completion Date, the Company shall hold such Outgoing Assets on behalf of Beiren Group until such authorisation or consent has been obtained and the relevant Outgoing Assets have been legally and validly transferred to Beiren Group.

Replacement of the Reorganisation Framework Agreement

Jingcheng Holding, Beiren Group and the Company agree that the Material Asset Reorganisation Agreement shall supersede and replace the Reorganisation Framework Agreement.

Profit and Loss in respect of the Outgoing Assets and the Incoming Assets

Jingcheng Holding and the Company agreed that, upon fulfilment of all the conditions for the Material Asset Reorganisation Agreement to become effective:-

- (a) all the profit and loss in relation to the Outgoing Assets arising from or incurred during the Transition Period shall belong to or be borne by Beiren Group; and
- (b) all the profit and loss in relation to the Incoming Assets arising from or incurred during the Transition Period shall belong to or be borne by the Company.

LETTER FROM THE BOARD

Transfer of creditors' rights or liabilities

Upon Completion, all creditors' rights, debts and/or liabilities in respect of the Outgoing Assets shall be borne by Beiren Group.

The Company shall in accordance with the relevant laws notify its creditors and debtors about the aforesaid transfer and obtain consent from the relevant creditors. In the event that creditors assert their rights against the Company, Beiren Group shall, upon written notice by the Company, be responsible for all the liabilities and costs arising in connection therewith and forfeit their right to seek compensation from the Company. Beiren Group shall further indemnify the Company of all liabilities or loss incurred in connection with the aforesaid.

Arrangements in respect of staff of the Outgoing Assets

In accordance with the principle of "people move with the assets" (人隨資產走), it is thus expected that upon completion of the Reorganisation, all the staff in respect of the Outgoing Assets will be transferred to and settle in Beiren Group, whereupon Beiren Group shall continue to provide such staff with all the benefits enjoyed by them during their tenure at the Company.

SUPPLEMENTAL AGREEMENT

On 29 November 2012, Jingcheng Holding received the approvals on authorization of the results of the valuation reports issued by the Valuer (Jing Guo Zi Chan Quan [2012] No. 241, Jing Guo Zi Chan Quan [2012] No. 242, Jing Guo Zi Chan Quan [2012] No. 243, Jing Guo Zi Chan Quan [2012] No. 244) ((京國資產權[2012]241號、京國資產權[2012]242號、京國資產權[2012]243號、京國資產權[2012]244號) (the "Approvals").

According to the Approvals, the difference between the results of the assets valuation by BSCOMC and the original results of the assets valuation are as follows:

Unit: RMB

Name of companies	Original net assets value	Approved Net assets value	Change	Rate of increase under original valuation	Rate of increase under approved valuation
The Company	1,184,869,600	1,184,869,600	0.00	46.20%	46.20%
Tianhai Industrial	659,016,800	659,530,100	513,300	74.54%	74.67%
Jingcheng HK	222,209,100	222,464,500	255,400	64.09%	64.28%
Jingcheng Compressor	224,932,500	224,932,500	0.00	53.91%	53.91%

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Under the said results of the valuation, the net assets value of Tianhai Industrial and Jingcheng HK after being approved by BSCOMC have respectively increased by RMB513,300 and RMB255,400. Based on the aforesaid, as at the valuation date of 31 March 2012, the valuation of the assets of the Reorganisation is as follows:

Unit: RMB

Assets		Book value of the net assets	Net assets value under the valuation	Value-added rate under the valuation
Outgoing Assets	All assets and liabilities of the Company	810,471,500	1,184,869,600	46.20%
Incoming Assets	71.56% shareholdings in Tianhai Industrial	270,193,100	471,959,700	74.67%
	100% shareholdings in Jingcheng HK	135,422,000	222,464,500	64.28%
	100% shareholdings in Jingcheng Compressor	146,148,200	224,932,500	53.91%
Total for Incoming Assets		–	919,356,700	–

On the same day, Jingcheng Holding received the Approval relating to the authorisation on the Material Asset Reorganisation of Beiren Printing Machinery Holdings Limited by Beijing State-owned Capital Operation & Management Centre (Jing Guo Zi Chan Quan [2012] No. 245) (《北京市人民政府國有資產監督管理委員會關於同意北人印刷機械股份有限公司重大資產重組的批覆》(京國資產權[2012]245號)) issued by BSCOMC, approving the Reorganisation.

The aforesaid approvals are conditions precedent to the Material Asset Reorganisation Agreement.

In order to confirm the Approvals, the Company, Jingcheng Holding and Beiren Group entered into the supplemental agreement to the Material Asset Reorganisation Agreement on 29 November 2012, whereby it is agreed that in the Material Asset Reorganisation Agreement, the consideration clause for the Outgoing Assets and Incoming Assets will be amended to be: the consideration for the Incoming Assets as at the valuation date of 31 March 2012 would be the value of the shareholdings of the three companies mentioned above as approved by BSCOMC of RMB919,356,700, adding the injection of share capital of RMB29,990,000 after the valuation date by Jingcheng Holding into Jingcheng Compressor and the proposed injection of capital of RMB230,000,000 into Jingcheng Industrial being taken place, which amount to RMB1,179,346,700 in total. The amount of difference in the consideration for the Outgoing Assets and Incoming Assets is RMB5,522,900, which will be paid in full by Jingcheng Holding in cash.

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INFORMATION ON THE OUTGOING ASSETS

The Sale Subsidiaries

Shaanxi Beiren

Shaanxi Beiren is a limited liability company established in the PRC and is owned by the Company as to approximately 86.24% as at the Latest Practicable Date. It is principally engaged in the manufacture, sale and maintenance of printing machines, copying machines, packing machines, engineering machines, electrical equipments and relevant fittings; and the manufacture and sale of typesetting machines and printing equipment.

Based on the audited financial statements of Shaanxi Beiren for the two years ended 31 December 2011 prepared in accordance with CASBE, its net profits (loss) before and after taxation and minority interest for the two financial years ended 31 December 2011 were as follow:

For the year ended 31 December 2010		For the year ended 31 December 2011	
Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
7,740	7,542	11,942	11,912

Based on the audited financial statements of Shaanxi Beiren for the two years ended 31 December 2011 prepared in accordance with CASBE, the audited net asset value and the audited total asset value of Shaanxi Beiren as at 31 December 2011 were as follows:

As at 31 December 2011	
Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
341,967	76,172

Beiren Fuji

Beiren Fuji is a limited liability company established in the PRC and is owned by the Company as to approximately 70% as at the Latest Practicable Date. It is principally engaged in the manufacture printing machines and the sale of self-manufactured products.

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Based on the audited consolidated financial statements of Beiren Fuji for the two years ended 31 December 2011 prepared in accordance with CASBE, its net profit (loss) before and after taxation and minority interest for two years ended 31 December 2011 were as follow:

For the year ended 31 December 2010		For the year ended 31 December 2011	
Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
(7,482)	(12,783)	2,044	2,044

Based on the audited consolidated financial statements of Beiren Fuji for the year ended 31 December 2011 prepared in accordance with CASBE, the audited net asset value and the audited total asset value of Beiren Fuji as at 31 December 2011 were as follows:

As at 31 December 2011	
Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
77,654	26,217

Beiren Jingyan

Beiren Jingyan is a limited liability company established in the PRC and is wholly-owned by the Company as at the Latest Practicable Date. It is principally engaged in the manufacture of printing machines and relevant components and the provision of relevant technical consulting services.

Based on the audited consolidated financial statements of Beiren Jingyan for the two years ended 31 December 2011 prepared in accordance with CASBE, its net profit(loss) before and after taxation and minority interest for two financial years ended 31 December 2011 were as follows:

For the year ended 31 December 2010		For the year ended 31 December 2011	
Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
(4,800)	(4,800)	(2,234)	(2,234)

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Based on the audited consolidated financial statements of Beiren Jingyan for the year ended 31 December 2011 prepared in accordance with CASBE, the audited net asset value and the audited total asset value of Beiren Jingyan as at 31 December 2011 were as follow:

As at 31 December 2011	
Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
21,969	5,843

Other investments of the Company

49% equity interests in Beijing Monigraf

Beijing Monigraf is a Sino-foreign equity joint venture enterprise established in the PRC which is owned as to 49% by the Company as at the Latest Practicable Date. Its operating scope includes the research and development, design, manufacture, sale of the control system of printing ink within the printer, the sale of the printing facilities and printing material, and in connection with its own products' illustration, adjustment, maintenance, technology advisory and training.

20% equity interests in Beijing Beiyong

Beijing Beiyong is a limited liability company established in the PRC which is owned as to 20% by the Company as at the Latest Practicable Date. Its operating scope includes the processing and sale of standard and non-standard components, manufacture of casting, processing of model, technology development, transfer, advisory, service.

49% equity interests in Mitsubishi Beiren

Mitsubishi Beiren is a Sino-foreign equity joint venture enterprise established in the PRC which is owned as to 49% by the Company as at the Latest Practicable Date. Its operating scope includes the manufacture and sale of printing machinery, related technology advisory and service.

Please refer to Appendix III of this circular for the audit report of the Existing Group for the three years ended 31 December 2011 and seven months ended 31 July 2012.

Disposal Properties

As part of the Reorganisation, the Company shall transfer the Disposal Properties to Beiren Group. As at the Latest Practicable Date, the Disposal Properties were held directly by the Company for, among other things, office and dormitory use. A property valuation report prepared by Savills Valuation and Professional Services Limited in respect of the Disposal Properties is set out in Appendix IX to this circular.

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INFORMATION ON THE INCOMING ASSETS

Target Companies

Tianhai Industrial

Tianhai Industrial is a Sino-foreign equity joint venture enterprise established in the PRC wholly owned by Jingcheng Holding, of which 71.56% equity interest is held by Jingcheng Holding directly and 28.44% equity interests is held by Jingcheng Holding through Jingcheng HK as at the Latest Practicable Date. So far as the Directors are aware, Jingcheng Holding has taken steps to increase the registered capital of Tianhai Industrial by RMB230,000,000. Upon the approval by relevant governmental authorities of such capital increase, Tianhai Industrial shall be owned as to 88.51% by Jingcheng Holding and 11.49% by Jingcheng HK. It is principally engaged in the research and development, manufacture and sale of equipment for gas storage and transportation.

Tianhai Industrial, together with its various subsidiaries, possesses various qualifications relating to the design of class A1, A2, C2, C3 pressured cylinders and the manufacture of class A1, A2, B1, B2, B3, C3, D1, D2 pressured cylinders. The major products of Tianhai Industrial and its subsidiaries includes seamless steel gas cylinders (鋼質無縫氣瓶), hoop-wrapped gas cylinders (纏繞氣瓶), gas cylinders with seams (焊接氣瓶), cryogenic gas cylinders (低溫氣瓶) and large cryogenic storage and transportation equipment (大型低溫儲運裝備). Each of the products are designed for the storage and transportation of different types of gas, including but not limited to industrial gas, fire control gas (such as carbon dioxide), liquefied oxygen, liquefied nitrogen, automobile compressed natural gas and liquefied natural gas.

Based on the audited consolidated financial statements of Tianhai Industrial for the two years ended 31 December 2011 prepared in accordance with CASBE, the profit (loss) before taxation and profit (loss) after taxation and minority interest of Tianhai Industrial for the two financial years ended 31 December 2011 are set out as below:

For the year ended 31 December 2010		For the year ended 31 December 2011	
Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
(9,521)	(8,156)	56,965	44,745

Based on the audited consolidated financial statements of Tianhai Industrial for the year ended 31 December 2011 prepared in accordance with CASBE, the audited total asset value and audited net asset value of Tianhai Industrial are set out as below:

As at 31 December 2011	
Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
1,655,964	486,477

The aggregate original purchase cost of the entire interests in Tianhai Industrial held, directly and indirectly, by Jingcheng Holding was approximately RMB227,500,000.

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Jingcheng Compressor

Jingcheng Compressor is a limited liability company established in the PRC wholly owned by Jingcheng Holding as at the Latest Practicable Date. It is principally engaged in air compressor machinery business and environmental protection business. In order to avoid competition between the Company (after the Reorganisation) and other subsidiaries of Jingcheng Holding which are engaged in environmental protection business, Jingcheng Compressor has disposed of its environmental protection business in October 2012. Accordingly, Jingcheng Compressor shall only be engaged in the design, manufacture and sale of gas compressor products when acquired by the Company pursuant to the Reorganisation. Jingcheng Compressor's products are used in, amongst others, the petrochemical, fine chemical, coal chemical, steel, polycrystalline silicon industries as well as for scientific research and nuclear power plants.

Based on the audited consolidated financial statements of Jingcheng Compressor for the two years ended 31 December 2011 prepared in accordance with CASBE, the profit (loss) before taxation and profit (loss) after taxation and minority interest of Jingcheng Compressor for the two financial years ended 31 December 2011 after disposal of its environmental protection business are set out as below:

	For the year ended 31 December 2010		For the year ended 31 December 2011	
	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) before taxation (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
After disposal of its environmental protection business	11,140	10,788	14,853	14,927

Based on the audited consolidated financial statements of Jingcheng Compressor for the year ended 31 December 2011 prepared in accordance with CASBE, the audited total asset value and audited net asset value of Jingcheng Compressor after disposal of its environmental protection business are set out as below:

	As at 31 December 2011	
	Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
After disposal of its environmental protection business	252,430	147,789

Jingcheng Holding established Jingcheng Compressor in 2002 by way of a capital contribution of RMB21,000,000. It increased its capital contribution in Jingcheng Compressor by RMB17,005,200 and RMB8,277,400 respectively in 2004 and 2008. In 2009, it obtained an investment amount of RMB36,998,900 from Jingcheng Compressor at nil consideration. After the said increases and purchase, the aggregate original purchase cost of the entire interests in Jingcheng Compressor held by Jingcheng Holding was RMB83,281,500. The said aggregate original purchase cost is lower than the valuation amount of RMB224,932,500 as set out in the

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valuation report of Jingcheng Compressor as at 31 March 2012 in Appendix VIII(2) by approximately RMB141,651,000 mainly because Jingcheng Compressor has retained its earnings accumulated during the years of operation and the properties considered in the valuation have increased in value.

Jingcheng HK

Jingcheng HK is an investment holding company incorporated in Hong Kong with limited liability whose entire issued share capital is owned by Jingcheng Holding. Other than the holding of 28.44% interest in Tianhai Industrial (so far as the Directors are aware, Jingcheng Holding has taken steps to increase the registered capital of Tianhai Industrial by RMB230,000,000. Upon the approval by relevant governmental authorities of such capital increase, Jingcheng HK shall own approximately 11.49% equity interest in Tianhai Industrial) and 9.48% interests in Tianjin Tianhai, Jingcheng HK has no other business operations.

Based on the audited consolidated financial statements of Jingcheng HK for the two years ended 31 December 2011 prepared in accordance with CASBE, the profit (loss) before taxation and profit (loss) after taxation and minority interest of Jingcheng HK for the years ended 31 December 2010 and 31 December 2011 after deduction of the amounts attributed from Jingcheng HK's 28.44% interest in Tianhai Industrial are set out as below:

	For the year ended 31 December 2010		For the year ended 31 December 2011	
	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)	Audited net profit (loss) after taxation and minority interest (RMB'000)
After deducting the amounts attributed from Jingcheng HK's 28.44% interest in Tianhai Industrial	1,259	1,259	(99)	(99)

Based on the audited consolidated financial statements of Jingcheng HK for the year ended 31 December 2011 prepared in accordance with CASBE, the audited total asset value and audited net asset value of Jingcheng HK after deduction of the amounts attributed from Jingcheng HK's 28.44% interest in Tianhai Industrial are set out as below:

	As at 31 December 2011	
	Audited total asset value (RMB'000)	Audited net asset value (RMB'000)
After deducting the amounts attributed from Jingcheng HK's 28.44% interest in Tianhai Industrial	440	24,684

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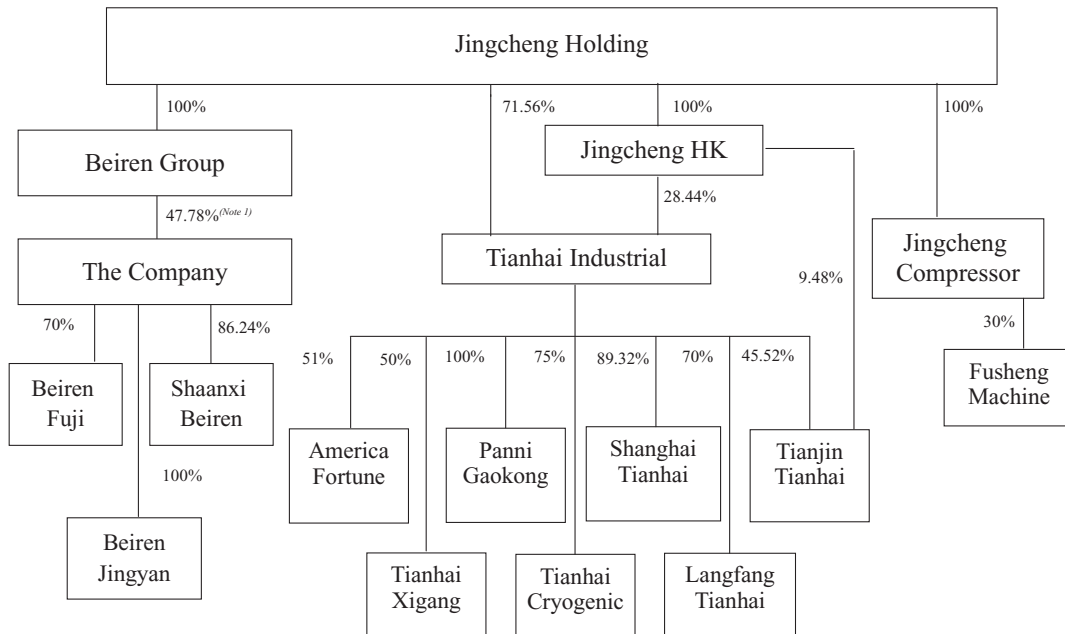
Jingcheng Holding established Jingcheng HK by way of a capital contribution of HK\$1,000 and increased its capital investment to US\$12,900,000 and therefore the aggregate original purchase cost of the entire interests in Jingcheng HK held by Jingcheng Holding is approximately RMB98,742,000. The said aggregate original purchase cost is lower than the valuation amount of RMB222,209,100 as set out in the valuation report of Jingcheng Compressor as at 31 March 2012 in Appendix VIII(3) by RMB123,467,100 mainly because Jingcheng HK has retained its earnings accumulated during the years of operation.

Shareholding structure

Based upon the shares in issue for each of the companies identified below, as at the Latest Practicable Date (and assuming no changes to such issued share capitals prior to the Completion), the simplified shareholding structure of the relevant companies before and after the Completion will be as follows:–

Before the Completion

The following reflects the simplified shareholding structure of the relevant companies as at the Latest Practicable Date.



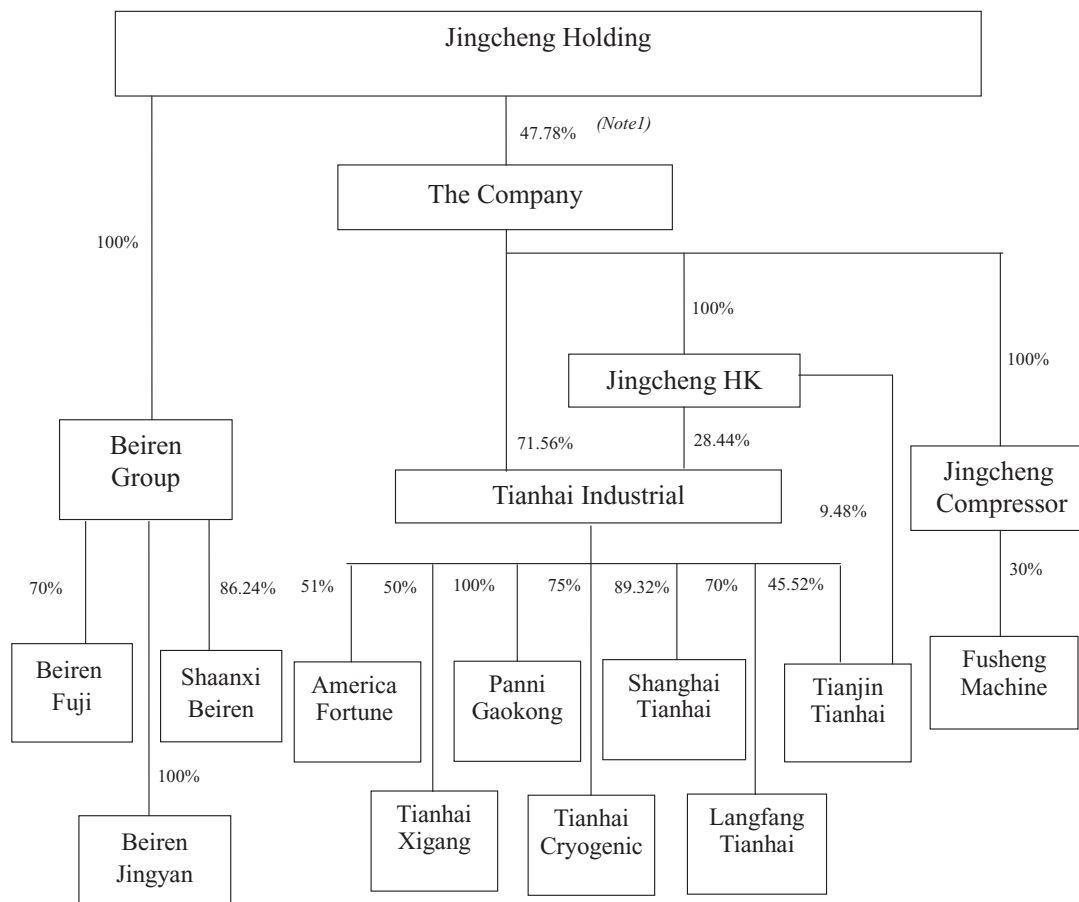
Note:

- So far as the Directors are aware, Jingcheng Holding proposed to transfer 47.78% interest in the Company held through Beiren Group to Jingcheng Holding at nil consideration, following which Jingcheng Holding shall directly hold 47.78% in the Company. This transfer is not inter-conditional upon the Reorganisation.
- America Fortune, Tianhai Xigang, Panni Gaokong, Tianhai Cryogenic, Shanghai Tianhai, Langfang Tianhai, Tianjin Tianhai and Fusheng Machine refer to American Fortune Company, Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司), Beijing Panni Gaokong Equipment Co., Ltd. (北京攀尼高空作業設備有限公司), Beijing Tianhai Cryogenic Equipment Co., Ltd. (北京天海低溫設備有限公司), Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. (上海天海德坤復合氣瓶有限公司), Langfang Tianhai High Pressure Containers Co., Ltd. (廊坊天海高壓容器有限公司), Tianjin Tianhai High Pressure Containers Co., Ltd. (天津天海高壓容器有限責任公司) and Beijing Fusheng Machine Co., Ltd. (北京復盛機械有限公司) respectively, all of which are owned by Tianhai Industrial (and in respect of Tianjin Tianhai which is also owned by Jingcheng HK) or in respect of Fusheng Machine which is owned by Jingcheng Compressor as to the relevant percentages set out above. Each of these companies specializes in or possesses different qualifications for the manufacture and sale of different types of equipment for gas storage and transportation, related components, testing equipment or other relevant products.

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After the Completion

The following reflects the simplified shareholding structure of the relevant companies upon Completion (assuming no changes in the issued share capital of any of the companies prior to Completion).



Note:

- So far as the Directors are aware, Jingcheng Holding proposed to transfer 47.78% interest in the Company held through Beiren Group to Jingcheng Holding at nil consideration, following which Jingcheng Holding shall directly hold 47.78% in the Company. This transfer is not inter-conditional upon the Reorganisation.
- America Fortune, Tianhai Xigang, Panni Gaokong, Tianhai Cryogenic, Shanghai Tianhai, Langfang Tianhai, Tianjin Tianhai and Fusheng Machine refer to America Fortune Company, Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司), Beijing Panni Gaokong Equipment Co., Ltd. (北京攀尼高空作業設備有限公司), Beijing Tianhai Cryogenic Equipment Co., Ltd. (北京天海低溫設備有限公司), Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. (上海天海德坤復合氣瓶有限公司), Langfang Tianhai High Pressure Containers Co., Ltd. (廊坊天海高壓容器有限公司), Tianjin Tianhai High Pressure Containers Co., Ltd. (天津天海高壓容器有限責任公司) and Beijing Fusheng Machine Co., Ltd. (北京復盛機械有限公司) respectively, all of which are owned by Tianhai Industrial (and in respect of Tianjin Tianhai which is also owned by Jingcheng HK) or in respect of Fusheng Machine which is owned by Jingcheng Compressor as to the relevant percentages set out above. Each of these companies specializes in or possesses different qualifications for the manufacture and sale of different types of equipment for gas storage and transportation, related components, testing equipment or other relevant products.

Upon the Completion, the Sale Subsidiaries will cease to be subsidiaries of the Company, the Target Companies, America Fortune, Panni Gaokong, Tianhai Cryogenic, Shanghai Tianhai, Langfang Tianhai and Tianjin Tianhai will become subsidiaries of the Company, Tianhai Xigang will become a jointly controlled entity of the Company and Fusheng Machine will become an associated company of the Company.

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For further information regarding the New Business and the Reorganised Group, please refer to Appendix I – Information on the New Business and the Incoming Assets and Appendix X – General Information on the Reorganised Group to this circular.

REASONS FOR AND BENEFITS OF THE REORGANISATION

Due to the downturn of the printing industry as a whole, the Company had difficulty in operating in its printing machineries business. The Company recorded a loss of more than RMB100 million in the each of the years ended 31 December 2008 and 2009 and the loss for the year ended 31 December 2008 was over RMB200 million. For the years ended 31 December 2007, 2010 and 2011, the profits recorded were contributed by non-operating income. The Company further recorded a loss for the seven months ended 31 July 2012. As the difficulties currently confronting the printing industry in the PRC are not expected to be alleviated in the near future, it would be in the interest of the Company and the Shareholders to implement the Reorganisation, which involves the disposal of its existing business and an acquisition of new profitable business, to improve the profitability and prospects of the Company.

The Target Companies have 3 major products, (i) industrial gas storage and transportation equipment (including products such as industrial gas cylinders, industrial gas cryogenic gas cylinders, industrial gas cryogenic storage tank), (ii) liquefied natural gas storage and transportation equipment (including products as such hoop-wrapped compressed natural gas cylinders for vehicles, liquefied natural gas cryogenic gas cylinders and liquefied natural gas cryogenic storage tank) (which are produced by Tianhai Industrial) and (iii) gas compressor machinery (which are produced by Jingcheng Compressor). According to statistics of China Machinery Industry Federation of the PRC, among industrial gas cylinders manufacturers with an annual turnover above RMB50,000,000, Tianhai Industrial ranked first with a market share of approximately 45% in the year of 2011.

After completion of the Reorganisation, it is expected that Tianhai Industrial will continue to maintain its leading position in the gas container market. Besides the continual development of cryogenic transportation equipment and natural gas cylinders equipment, the Company intends to diversify in the direction of “from cylinders to tanks, from automobiles to stations” (瓶、罐、車、站), and therefore gradually develop into a system equipment supplier and solution provider. At the same time, the Company expects Jingcheng Compressor to continue the steady development of its current compressor equipment business and expand its production lines to include large-medium size compressor machinery. This development will enable the Company to satisfy demands from the petroleum, coal, steel and chemical fertilizers industries, all of which require skillful and reliable large-medium compressor machinery.

To use clean energy is the policy of the PRC government. The manufacture and sales of gas cylinders for compressed natural gas (“CNG”) and liquefied natural gas (“LNG”) for automobiles by the Target Companies is thus expected to benefit from the more popularized and promoted use of CNG and LNG as fuel for automobiles. Since CNG and LNG gas cylinders are products with a high gross profit margin, the Company’s profitability after the Reorganisation is expected to be enhanced substantially. Further, the Target Companies have successfully obtained state certification for use in the nuclear energy industry for some of its compressor machinery. It should benefit from the rapid development of the third generation of nuclear energy plants in the PRC.

Accordingly, the Directors (excluding the independent non-executive directors whose views will be rendered upon having received the advice of the independent financial advisor) believe that the terms of the Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Since the Company is under the control of Jingcheng Holding, the difference between the book value of the Outgoing Assets and that of the Incoming Assets will be recorded as capital reserve and the Company does not expect to record any profit or loss as a result of the Disposal.

The cash consideration to be received by the Company pursuant to the Disposal, being approximately RMB5,522,900, will be applied by the Company as working capital. The consideration for the Outgoing Assets is RMB1,184,869,600. As at 31 July 2012, the audited net book value of the Company is approximately RMB726,151,345.15. Accordingly, the excess of the consideration over the net book value of the Outgoing Assets is approximately RMB458,718,254.85.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE EXISTING GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2011 AND SEVEN MONTHS ENDED 31 JULY 2012

A. Management Discussion and Analysis of the Company

Set out below is the management discussion and analysis of the Company for the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and for the seven months ended 31 July 2012. The following information is based on the audit report of the Existing Group as set out in Appendix III to this Circular.

The Existing Group is principally engaged in the manufacture and sales of printing presses, packing machines, pressing machines and related products and components, technical development, technical consultancy, services, operation of the import and export businesses related to the production of own enterprises, subcontracting work for overseas printing machinery projects and domestic projects by international tendering.

For the year ended 31 December 2009

Business review for the year

Operating Incomes

In accordance with the PRC accounting standards, the Existing Group recorded operating income of RMB767,668,587.26 for the year ended 31 December 2009. The operating incomes mainly consisted of the sales of three series of product, namely the sales of offset press series of RMB448,572,601.58, sales of intrusion printers series of RMB233,438,692.09 and sales of form press series of RMB26,685,627.24.

Profit for the year

In accordance with the PRC accounting standards, the Company recorded net loss attributable to the parent amounted to approximately RMB174,004,582.85 for the year ended 31 December 2009. The recorded loss for this period was mainly attributable to the then market which had not recovered completely and the Company controlled the volume of the input and output in order to digest the inventory. The decrease of the output caused the increase in the per-hour cost and amortization of fixed cost, which caused the increase in the cost of finished products.

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Financial and liquidity position

Total assets value, total liabilities and total equity interest attributable to shareholders amounted to RMB1,737,782,547.50, RMB994,473,594.68 and RMB743,308,952.82 respectively during the reporting period 2009. In relation to the liquidity and capital structure of the Existing Group, the assets-liabilities ratio, quick ratio and liquidity ratio of the Existing Group were approximately 57.23%, 45.94% and 97.00% respectively during the reporting period 2009. The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. As at 31 December 2009, the total carrying value of loans obtained by the Existing Group was amounted to RMB378,900,000.00. Among which, the carrying value of loans granted from the ultimate holding company was amounted to RMB240,500,000.00 with fixed interest rates ranging from 4.86% to 5.31%, and the carrying value of bank and other borrowings, which including non-interest bearing loan, amounted to RMB138,400,000.00 with fixed interest rate ranging from 0% to 6.91%. All the loans mentioned above were denominated in RMB and hence there was no foreign currency risk exposure. As at the end of the year, the Company's gearing ratio was 57.23%, which the calculation was based on total liabilities divided by total assets.

Treasury policy

Working capital of the Existing Group is mainly financed through capital generated from its business operations. For the year ended 31 December 2009, the Existing Group did not enter into any form of hedging arrangements.

Employees and remuneration

As at 31 December 2009, the Company had 2,036 employees and the total staff costs (including retirement benefits scheme contributions) were approximately RMB214,815,619.33. Total staff costs included standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund which were granted according to the positions, years of employment and work responsibilities.

Exchange rate risk

For the year ended 31 December 2009, the Existing Group's exposure to exchange rate loss due to the changes in exchange rates was RMB11,961.41. As the Company held relatively small amount of deposits in foreign currencies, the change in foreign exchange rates will not have material impact on the results of the Company.

Pledge of assets

As at 31 December 2009, the Existing Group has pledged its assets, including buildings in the PRC, plant and machinery and land use rights with carrying values of approximately RMB68,037,344.24, RMB1,282,100.85, RMB21,991,273.97 respectively, to secure loans granted to the Existing Group.

Contingent liabilities

As at 31 December 2009, the Existing Group did not have external guarantee events and other material contingent events that need to be disclosed.

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Future Plans for Material Investments or Capital Assets

As for the financial year 2009, the invested budget of technical improvement in 2010 is RMB8,753,500.00, in which the invested budget of new projects is RMB8,520,000.00, and the carry-over project of 2009 is RMB233,500.00. The invested budget will be mainly used in the update and improvement of the equipment in order to boost productivity and improve level of processing.

For the year ended 31 December 2010

Business review for the year

Turnover

In accordance with the PRC accounting standards, the Existing Group recorded operating income of RMB821,357,719.69 for the year ended 2010 (2009: RMB767,668,587.26), representing an increase of approximately 6.99% compared with the previous year during the reporting period. The increase in revenue was mainly due to the increase in production volume as a result of market recovery.

For the year ended 31 December 2010, the operating incomes mainly consisted of the sales of three series of product, namely the sales of offset press series of RMB431,053,389.36 (2009: RMB448,572,601.58 representing a decrease of approximately 3.91% over 2009), sales of intrusion printers series of RMB299,370,754.59 (2009: RMB233,438,692.09) representing an increase of approximately 28.24% over 2009) and sales of form press series of RMB44,799,531.00 (2009: RMB26,685,627.24 representing an increase of approximately 67.88% over 2009).

Profit for the year

In accordance with the PRC accounting standards, the Company recorded a net profit attributable to the parent amounted to RMB22,279,381.53 for the year ended 2010 (2009: net loss of RMB174,004,582.85). The increase in net profit was mainly due to the increase in operating income, increase in production volume as a result of market recovery so that amortization of fixed cost was relatively low, and the increase in investment revenue to RMB172,505,755.82, representing a 13,688.33% increase over previous year.

Financial and liquidity position

Total assets value amounted to RMB1,457,360,678.14 during the reporting period, decreased by 16.14% as compared with the beginning of the year, of which inventory, accounts receivable, other receivables decreased substantially. Total liabilities amounted to RMB696,247,855.87, decreased by 29.99% as compared with the beginning of the year, mainly due to a significant decrease in short term loans and accounts payable. Total equity interest attributable to shareholders amounted to RMB761,112,822.27, increased by 2.4% as compared with the beginning of the year.

In relation to the liquidity and capital structure of the Existing Group, the assets-liabilities ratio, quick ratio and liquidity ratio of the Existing Group were approximately 47.77% (57.23% in 2009), 59.91% (45.94% in 2009) and 112.85% (97.00% in 2009) respectively during the reporting period 2010. The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. As at 31 December 2010, the total carrying value of loans obtained by the Existing Group amounted to RMB167,369,000.00 (2009: RMB378,900,000.00). Among which, the carrying value of loans granted from the ultimate

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holding company amounted to RMB79,619,000.00 (2009: RMB240,500,000.00) with interest rates ranging from 5.31% to 5.76% (2009: 4.86% to 5.31%), and the carrying value of bank and other borrowings, which including non-interest bearing loan, was amounted to RMB87,750,000.00 (2009: RMB138,400,000.00) with fixed and variable interest rate ranging from 0% to 7.14% (2009: from 0% to 6.91%). All the loans mentioned above were denominated in RMB and hence there was no foreign currency risk exposure. As at the end of the year, the Company's gearing ratio was 47.77% (2009: 57.23%), which was calculated based on total liabilities divided by total assets.

Treasury policy

Working capital of the Existing Group is mainly financed through capital generated from its business operations. For the year ended 31 December 2010, the Existing Group did not enter into any form of hedging arrangements.

Employees and remuneration

As at 31 December 2010, the Company had 1,714 employees and the total staff costs (including retirement benefits scheme contributions) were RMB194,476,773.15 (2009: RMB214,815,619.33), representing a decrease of approximately 9.47% relative to previous year. Total staff costs include standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund which were granted according to the positions, years of employment and work responsibilities.

Exchange rate risk

For the year ended 31 December 2010, the Existing Group's exposure to exchange rate gain due to the changes in exchange rates was RMB243,969.09 (2009: exchange rate loss of RMB11,961.41). As the Company held relatively small amount of deposits in foreign currencies, the change in foreign exchange rates will not have material impact on the results of the Company.

Pledge of assets

As at 31 December 2010, the Existing Group has pledged its assets, which including buildings in the PRC, land use right and plant and machinery with carrying values of approximately of RMB60,021,956.09 (2009: RMB68,037,344.24), RMB17,018,814.50 (2009: RMB1,282,100.85) and nil (2009: RMB21,991,213.97) respectively, to secure loans granted to the Existing Group.

Contingent liabilities

As at 31 December 2010, the Existing Group did not have external guarantee events and other material contingent events that need to be disclosed.

Future Plans for Material Investments or Capital Assets

As for the financial year 2010, the invested budget of technical improvement in 2011 is RMB57,320,000.00, in which the invested budget of new equipment projects is RMB8,302,000.00, equipment renewal projects is RMB19,102,000.00, equipment transformation projects is RMB8,310,000.00, equipment special projects is RMB100,000.00, corporate information projects is RMB336,000.00 and technical improvement projects of its subsidiary

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Shaanxi Beiren Printing Machinery Company Limited is RMB21,170,000.00. The purpose for the above investment in technical improvement projects is to boost productivity and improve level of processing.

For the year ended 31 December 2011

Business review for the year

Turnover

In accordance with the PRC accounting standards, the Existing Group recorded operating income of approximately RMB803,873,926.57 (2010: RMB821,357,719.69) for the year ended 2011, representing an decrease of approximately 2.13% compared with the previous year during the reporting period. Although sales of pressing machines and form presses machines was thriving with an increased market share and revenue of such machines increased by 21.45% and 39.39% respectively, sales of printing machines and offset machine decreased by approximately 2.57% and 24.01% in 2011 relative to the corresponding period over 2010, thus rendered the total operating income of the Existing Group to decrease by approximately 2.13% compared with the previous year during the reporting period.

For the year ended 2011, operating income mainly consisted of the sales of three series of product, namely sales of offset press series of RMB327,543,008.42 (2010: RMB431,053,389.36, representing a decrease of approximately 24.01% over 2010), sales of intrusion printers series of RMB363,587,203.39 (2010: RMB299,370,754.59, representing an increase of approximately 21.45% over 2010) and sales of form press series of RMB62,445,299.14 (2010: RMB44,799,531.00, representing an increase of approximately 39.39% over 2010).

Profit for the year

In accordance with the PRC accounting standards, the Company recorded a net profit attributable to the parent amounted to RMB11,382,900.84 (2010: RMB22,279,381.53) for the year ended 2011, representing a decrease of approximately 48.91% compared with the previous year. The decrease in net profit was mainly due to the decrease in investment revenue by approximately 99.88% over the last year.

Financial and liquidity position

Total assets value amounted to RMB1,485,441,846.03 during the reporting period, increased by 1.93% as compared with the beginning of the year, of which accounts receivable decreased by 19.27% and inventory increased by 20.92%. Total liabilities amounted to RMB710,699,175.44, increased by 2.08% as compared with the beginning of the year, mainly due to increase in short term loans. Total equity interest attributable to shareholders amounted to RMB774,742,670.59, increased by 1.79% as compared with the beginning of the year.

In relation to the liquidity and capital structure of the Existing Group, the assets-liabilities ratio, quick ratio and liquidity ratio of the Existing Group were approximately 47.84% (47.77% in 2010), 58.14% (59.91% in 2010) and 120.52% (112.85% in 2010) respectively during the reporting period 2011. The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. As at 31 December 2011, the carrying value of the short term loans obtained by the Existing Group was RMB220,000,000.00 (2010: RMB139,750,000.00) with fixed interest rate ranging from 6.06% to 6.56% that were matured within a year. The Existing Group did not obtain any long-term loan as at 31 December 2011 (2010: RMB18,000,000.00). All the loans as abovementioned were denominated in RMB and

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hence no foreign currency risk exposure. As at the end of the year, the Company's gearing ratio was 47.84% (2010: 47.77%), which the calculation was based on total liabilities divided by total assets.

Treasury policy

Working capital of the Existing Group is mainly financed through the capital generated from its business operations. For the year ended 31 December 2011, the Existing Group did not enter into any form of hedging arrangements.

Employees and remuneration

As at 31 December 2011, the Existing Group had 1,635 employees and the total staff costs (including retirement benefits scheme contributions) were RMB199,598,997.58 (2010: RMB194,476,773.15), representing an increase of approximately 2.63% relative to previous year. Total staff costs include standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund which were granted according to the positions, years of employment and work responsibilities.

Exchange rate risk

For the year ended 31 December 2011, the Existing Group's exposure to exchange rate gain due to the changes in exchange rates was RMB56,760.49 (2010: RMB243,969.09). As the Company held relatively small amount of deposits in foreign currencies, the change in foreign exchange rates did not have a material impact on the results of the Company.

Pledge of assets

As at 31 December 2011, the buildings of the Existing Group, which are collateral to the bank as a short-term loan guarantee, are with the original cost of RMB8,533,337.00 and net book value of RMB7,505,193.62. Furthermore, the land use right which is collateral to the bank as a guarantee for issuing bank acceptance notes, is with the original cost of RMB6,292,266.84 and with the net book value of RMB5,533,851.39 (2010: total carrying values of the pledged assets of the Existing Group amounted to RMB79,017,000.00).

Contingent liabilities

As at 31 December 2011, the Existing Group did not have external guarantee events and other material contingent events that need to be disclosed.

Future Plans for Material Investments or Capital Assets

As for the financial year 2011, the invested budget of technical improvement in 2012 is RMB34,977,400.00, in which the invested budget of new equipment projects is RMB13,168,000.00, equipment renewal projects is RMB13,276,400.00, equipment transformation projects is RMB5,430,000.00, equipment special projects is RMB80,000.00, environmental protection project is RMB125,000.00 and relocation project is RMB2,898,000.00. The purpose for the above investment in technical improvement projects is to boost productivity and product quality as well as lower operation cost.

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For the seven months ended 31 July 2012

Business review for the seven months ended 2012

Turnover

In accordance with the PRC accounting standards, the Existing Group recorded operating income of RMB431,599,015.14 for the seven months ended 2012 (RMB464,881,488.47 for the seven months ended 2011(unaudited)), representing a decrease of approximately 7.16% compared with the corresponding period over 2011. The decrease in revenue was mainly due to the decrease in sales from the series of intaglio presses, forms printing presses and the spare parts.

For the seven months ended 31 July 2012, the operating incomes mainly consisted of the sales of three series of product, namely sales of offset press series of RMB201,914,156.95 (representing an increase of approximately 6.61% relative to seven months ended 31 July 2011), sales of intrusion printers series of RMB187,172,945.54 (representing a decrease of approximately 8.55% compared with the seven months ended 31 July 2011) and sales of form press series of RMB26,229,567.31 (representing a decrease of approximately 24.51% compared with the seven months ended 31 July 2011).

Profit for the year

In accordance with the PRC accounting standards, the Company recorded net loss attributable to the parent amounted to RMB47,244,464.23 for the seven months ended 31 July 2012, representing an increase in net loss of approximately 976.22% as compared with the corresponding period over 2011 (net loss of RMB2,545,640.83 for the seven months ended 31 July 2011). The increase in net loss was mainly due to (i) the decrease in operating income and the change in product mix, caused the gross profit has declined by approximately RMB20,940,000.00 and the gross profit margin has dropped by approximately 3%; (ii) the increase in administration expense by approximately RMB7,400,000.00, mainly due to the fee paid for obtaining the technical services for enhancing the quality of the existing products. Also the increase in transportation fee and the installation fee by approximately RMB2,240,000.00 attributable to the relative increase in sales volume; (iii) the increase in management fee by approximately RMB8,190,000.00 mainly due to the increase in salaries expense and the professional fees in relation to the Reorganization; (iv) the increase in financial expense by approximately RMB2,410,000.00 due to the prolongation of the holding of the bank loans during 31 July 2012; (v) the increase in assets impairment losses by RMB8,010,000.00 due to the increase in age of account receivable.

Financial and liquidity position

Total assets value amounted to RMB1,474,519,542.00 as at 31 July 2012 (RMB1,485,441,846.03 as at 31 December 2011), decreased by 0.74% as compared with the end of the previous year. Total liabilities amounted to RMB748,368,196.85 (RMB710,699,175.44 as at 31 December 2011), increased by approximately 5.30% as compared with the end of the previous year. Total equity interest attributable to shareholders amounted to RMB726,151,345.15 (RMB774,742,670.59 as at 31 December 2011), decreased by approximately 6.27% as compared with the end of the previous year.

In relation to the liquidity and capital structure of the Existing Group, the assets-liabilities ratio, quick ratio and liquidity ratio of the Existing Group were approximately 50.75% (47.84% as at the end of 2011), 54.46% (58.14% as at the end of 2011) and 114.99% (120.52% as at the end of 2011) respectively as at 31 July 2012. The Company's capital structure consists of interests and liabilities attributable to shareholders during the reporting period. As at 31 July

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2012, the carrying value of the short term loans obtained by the Existing Group was RMB219,000,000.00 (2011: RMB220,000,000.00) with fixed interest rate ranging from 6.06% to 6.56% (from 6.06% to 6.56% as at 31 December 2011) that were matured within a year. The Existing Group did not obtain any long-term loan as at 31 July 2012 (as at 31 December 2011: Nil). As at the 31 July 2012, the Company's gearing ratio was 50.75% (47.84% as at 31 December 2011), which the calculation was based on total liabilities divided by total assets.

Treasury policy

Working capital of the Existing Group is mainly financed through the capital generated from its business operations. For the seven months ended 31 July 2012, the Existing Group did not enter into any form of hedging arrangements.

Employees and remuneration

As at 31 July 2012, the Company had 1,664 employees. For the seven months ended 31 July 2012, the total staff costs (including retirement benefits scheme contributions) were RMB121,134,383.61 (RMB112,918,884.19 for the seven months ended 31 July 2011 (unaudited)), representing an increase of approximately 7.28% compared with the seven months ended 31 July 2011. Total staff costs include standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund which were granted according to the positions, years of employment and work responsibilities.

Exchange rate risk

For the seven months ended 31 July 2012, the Existing Group's exposure to exchange rate loss due to the changes in exchange rates was RMB121,500.79 (an exchange rate loss of RMB9,568.11 for the seven months ended 31 July 2011 (unaudited)). As the Company held relatively small amount of deposits in foreign currencies, the change in foreign exchange rates will not have material impact on the results of the Company.

Pledge of assets

As at 31 July 2012, the buildings of the Existing Group, which are collateral to the bank as a short-term loan guarantee, are with the original cost of RMB8,533,337.00 and net book value of RMB7,384,373.76 (31 July 2011: net book value of RMB7,505,193.62). Furthermore, the land use right which is collateral to the bank as a guarantee for issuing bank acceptance notes, is with the original cost of RMB6,292,266.84 and with the net book value of RMB5,460,206.98 (31 July 2011: net book value of RMB5,533,851.39).

Contingent liabilities

As at 31 July 2012, the Existing Group did not have external guarantee events and other material contingent events that need to be disclosed.

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2011 AND SEVEN MONTHS ENDED 31 JULY 2012

A. Management Discussion and Analysis of Tianhai Industrial

Set out below is the management discussion and analysis of Tianhai Industrial for the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and for the seven months ended 31 July 2012. The following information is based on the audit report of Tianhai Industrial as set out in Appendix IV(1) to this circular.

Tianhai Industrial is a limited liability company incorporated in the PRC on 18 July 1992, which is owned as to 71.56% by Jingcheng Holding and as to 28.44% by Jingcheng HK. So far as the Directors are aware, Jingcheng Holding has taken steps to increase the registered capital of Tianhai Industrial by RMB230,000,000. Upon the approval by relevant governmental authorities of such capital increase, Tianhai Industrial shall be owned as to approximately 88.51% by Jingcheng Holding and approximately 11.49% by Jingcheng HK. The principal business activities of Tianhai Industrial are research and development, manufacture and sale of equipment for gas storage and transportation. The major products of Tianhai Industrial and its subsidiaries include seamless steel gas cylinders (鋼質無縫氣瓶), (ii) hoop-wrapped gas cylinders (纏繞氣瓶), gas cylinders with seams (焊接氣瓶), cryogenic gas cylinders (低溫氣瓶) and large cryogenic storage and transportation equipment (大型低溫儲運裝備). Each of the products are designed for the storage and transportation of different types of gas, including but not limited to industrial gas, fire control gas (such as carbon dioxide), liquefied oxygen, liquefied nitrogen and automobile compressed natural gas. As at the Latest Practicable Date, particulars of the subsidiaries of Tianhai Industrial are described as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Interest attributable to Tianhai Industrial	Registered capital	Principal activities
Subsidiaries acquired from business combination under common control				
廊坊天海高壓容器有限公司 (Langfang Tianhai High Pressure Cylinder Co., Ltd.)	PRC 27 March 2007	70%	RMB180,000,000	Design and manufacture of seamless gas cylinders and sales of self-production products
上海天海德坤複合氣瓶有限公司 (Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.)	PRC 25 October 2000	87.84%	US\$3,017,400	Manufacture of new enhanced complex materials (carbon fibre, organic fibre and high strength glass fibre) and products, complex gas cylinders (wrapped cylinders only), testing equipment for complex gas cylinders, and sales of self-production product
北京攀尼高空作業設備有限公司 (Beijing Panni Gaokong Equipment Co., Ltd.)	PRC 24 May 1993	100%	RMB20,000,000	Design of equipment for work at height, sale and maintenance of self-production product
America Fortune Company	United States 11 August 1994	51%	US\$3,367,550	Import and export of industrial gas cylinders and mechanical and electrical products and the sales service of products
天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Containers Co., Ltd.)	PRC 8 January 2003	45.52%	RMB225,578,400	Design, manufacture and sale of high-pressure containers and after-sales services

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Name of subsidiary	Place and date of incorporation/ establishment	Interest attributable to Tianhai Industrial	Registered capital	Principal activities
北京天海低温設備有限公司 (Beijing Tianhai Cryogenic Equipment Co., Ltd.)	PRC 9 May 2008	75%	RMB40,000,000	Manufacture of cryogenic tanks, tank bodies for tank trucks and tank containers; sale and maintenance of cryogenic tanks, tank bodies for tank vehicles, tank containers, sale of machinery equipment, metal manufacturing, computer software and hardware and auxiliary equipment, chemical industrial products
北京天海西港環境技術有限公司 (Beijing Tianhai Xigang Environmental Technique Co., Ltd.)	PRC 13 April 2007	50%	US\$800,000	Wholesale of cryogenic storage cylinders for vehicles, after-sale and technical services, technical consultation, and R&D for the aforementioned products

1. For the year ended 31 December 2009

Business review for the year

On 2 July 2009, Tianhai Industrial signed the equity transfer agreement with Jingcheng Holding, pursuant to which Tianhai Industrial agreed to acquire the 67.78% equity interests in Shanghai Tianhai held by Jingcheng Holding at the consideration of RMB5,054,600. Following the completion of all legal formalities for such transfer in December 2009, Shanghai Tianhai was owned by Tianhai Industrial and Mr. Wu Shouzong as to 67.78% and 32.22%, respectively.

Turnover

Tianhai Industrial recorded revenue of approximately RMB1,684,292,753.94 for the year ended 31 December 2009. All the revenue was from gas storage and transportation equipment business.

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Revenue segments

The primary business of Tianhai Industrial, which generated revenue of RMB1,630,476,812.82 and accounted for approximately 96.80% of the total operating income of the Tianhai Industrial in 2009, could be categorized into five different types of products, namely seamless steel gas cylinders, hoop-wrapped cylinders, cryogenic cylinders, cryogenic storage and transportation equipment and others. For the year ended 31 December 2009, the operating income and operating cost incurred from those products segments are set out as below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin
Seamless steel gas cylinders	1,026,947,559.65	966,946,582.56	5.84%
Hoop-wrapped cylinders	407,495,513.78	297,866,267.70	26.90%
Cryogenic cylinders	83,286,615.39	74,242,056.07	10.86%
Cryogenic storage and transportation equipment	16,304,670.51	14,804,014.99	9.20%
Others	96,442,453.49	94,305,797.60	2.22%

The sales of seamless steel gas cylinders was the major revenue segment of Tianhai Industrial, which accounted for approximately 60.97% of the total operating income of Tianhai Industrial for the year ended 31 December 2009. The sales of hoop-wrapped cylinders, cryogenic cylinders, cryogenic storage and transportation equipment and others have accounted for approximately 24.19%, 4.94%, 0.97% and 5.73% of the total operating income of Tianhai Industrial respectively for the year ended 31 December 2009.

Profit for the year

As for the financial performance of Tianhai Industrial, the net profit after taxation and minority interest was approximately RMB2,251,314.08 for the year ended 31 December 2009.

Financial and liquidity position

As at 31 December 2009, the audited net assets and current assets of Tianhai Industrial were approximately RMB509,458,525.81 and RMB494,703,236.71, respectively. As of 31 December 2009, the total cash and bank balances of Tianhai Industrial were approximately RMB87,598,336.63. As at 31 December 2009, the bank borrowings of Tianhai Industrial were RMB284,881,836.00 which comprised short term loan of RMB264,881,836.00 and non-current liabilities maturity within one year of RMB20,000,000.00. The borrowings were needed for the increased purchase of materials and assets expenses.

Assets to liabilities ratio was 55.70%, the gearing ratio was approximately 161.89% and the calculation of gearing ratio was based on gearing ratio = liabilities/net assets attributable to the parent company *100% = 161.89%.

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Total assets

As at 31 December 2009, Tianhai Industrial recorded total assets of RMB1,150,050,284.46, among which, total current assets was RMB494,703,236.71 and total non-current assets was RMB655,347,047.75. The major total assets items of Tianhai Industrial as at 31 December 2009 including the following:

(1) Cash and cash balances

Tianhai Industrial recorded cash and cash balances of RMB87,598,336.63 as at 31 December 2009, representing approximately 17.71% of the total current assets.

(2) Accounts receivables

Tianhai Industrial recorded accounts receivables of RMB93,338,159.54 as at 31 December 2009, representing approximately 18.87% of the total current assets.

(3) Prepayment

Tianhai Industrial recorded prepayment of RMB45,621,159.37 as at 31 December 2009, representing approximately 9.22% of the total current assets.

(4) Inventory

Tianhai Industrial recorded inventory of RMB261,597,757.53 as at 31 December 2009, representing approximately 52.88% of the total current assets.

(5) Fixed assets

Tianhai Industrial recorded fixed assets of RMB561,143,024.75 as at 31 December 2009, representing approximately 85.63% of the total non-current assets.

(6) Construction in progress

Tianhai Industrial recorded construction in progress of RMB35,798,691.60 as at 31 December 2009, representing approximately 5.46% of the total non-current assets.

(7) Intangible assets

Tianhai Industrial recorded intangible assets of RMB53,901,048.28 as at 31 December 2009, representing approximately 8.22% of the total non-current assets.

Total liabilities

As at 31 December 2009, Tianhai Industrial recorded total liabilities of RMB640,591,758.65, which were all ascribed to total current liabilities of RMB640,591,758.65 and recorded no non-current liabilities. The major total liabilities items of Tianhai Industrial as at 31 December 2009 included the following:

(1) Notes payable

As at 31 December 2009, Tianhai Industrial recorded notes payable of RMB94,000,000.00, representing approximately 14.67% of the total current liabilities.

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(2) Account payable

As at 31 December 2009, Tianhai Industrial recorded account payable of RMB167,943,963.37, representing approximately 26.22% of the total current liabilities.

(3) Other payable

As at 31 December 2009, Tianhai Industrial recorded other payables of RMB37,780,659.80, representing approximately 5.90% of the total current liabilities.

Shareholders' equity

As at 31 December 2009, the total shareholders' equity amounted to RMB509,458,525.81, comprising total shareholder's equity attributed to the parent in the amount of RMB395,698,261.75 (representing approximately 77.67% of the total shareholders' equity) and minority shareholder's equity in the amount of RMB113,760,264.06 (representing approximately 22.33% of the total shareholders' equity).

Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2009, the total operating cost of Tianhai Industrial was amounted to RMB1,682,462,375.30, in which items comprising the total operating costs and the other income statement items are as follow:

1. Operating costs

For the year ended 31 December 2009, the operating cost of Tianhai Industrial was amounted to RMB1,493,851,404.13, representing approximately 88.79% of the total operating cost. The operating cost mainly consists of costs incurred from the manufacturing and sales of seamless steel gas cylinders, hoop-wrapped gas cylinders, cryogenic cylinders and cryogenic storage and transportation equipment of which the main operating costs (which mainly included costs of raw materials, labour, energy and depreciation, etc.), was RMB1,448,164,718.92 and the other operating costs (which mainly included costs of raw materials procured for subsidiaries and costs of freights, etc.), was RMB45,686,685.21.

2. Tax and additional expenses

For the year ended 31 December 2009, Tianhai Industrial recorded no tax and additional expense because of Tianhai Industrial enjoyed the VAT exempt-credit-refund through export sales.

3. Sales expenses

For the year ended 31 December 2009, Tianhai Industrial recorded sales expense of RMB56,329,998.80, representing approximately 3.35% of the total operating cost. Among the sales expenses, transportation fee, salary, travelling fee, operation fee and maintenance cost were the major components of the sales expenses.

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4. Administration expenses

For the year ended 31 December 2009, the administration expenses of Tianhai Industrial amounted to RMB117,106,923.84, representing approximately 6.96% of the total operating cost. Among the administration expenses, salary, depreciation, research and development fee, office and administrative fee, entertainment fee, agency fee, tax expense and energy cost were the major components of the administration expenses.

5. Finance expenses

For the year ended 31 December 2009, the finance expenses of Tianhai Industrial amounted to RMB14,396,838.89, representing approximately 0.86% of the total operating cost. Among the finance expenses, interest expense was the major component which accounted for more than 90% of the finance expenses.

6. Assets impairment losses

For the year ended 31 December 2009, Tianhai Industrial recorded assets impairment losses of RMB777,209.64, which were solely ascribed to the loss in bad debts.

7. Non-operating income

For the year ended 31 December 2009, Tianhai Industrial recorded non-operating income of RMB3,424,847.76, which mainly comprised of government subsidy of RMB2,967,248.00, representing approximately 86.63% of the non-operating income.

Analysis of cash flow

For the year ended 31 December 2009, Tianhai Industrial had a net cash flow of RMB-20,545,948.44, among which, the net cash flow from operating activities amounted to RMB-15,260,958.94, the net cash flow from investing activities amounted to RMB-59,176,548.53 and net cash flow from financing activities amounted to RMB53,993,957.07. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Tianhai Industrial from the operating activities amounted to RMB1,263,674,756.49 and RMB1,278,935,715.43 respectively, resulting in a net cash flow of RMB-15,260,958.94 from the operating activities. The major cash inflow items from operating activities was the cash receipts from the sale of goods and the major cash outflow items from operating activities was the cash payments for goods acquired.

(ii) Cash flow from investing activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Tianhai Industrial from the investing activities amounted to RMB211,900.00 and RMB59,388,448.53 respectively, resulting in a net cash flow of RMB-59,176,548.53 from the investing activities. The cash inflow from investing activities was generated solely from the net cash receipts from the sale of fixed assets, intangible assets and other long-term assets of RMB211,900.00. Moreover, the cash outflow items from

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investing activities was solely from the cash payments to acquired fixed assets, intangible assets and other long-term assets of RMB59,388,448.53 including acquiring buildings, equipments and land use right.

(iii) Cash flow from financing activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Tianhai Industrial from the financing activities amounted to RMB289,881,836.00 and RMB235,887,878.93 respectively, resulting in a net cash flow of RMB53,993,957.07 from the financing activities. The major cash inflow items from financing activities was cash receipts from borrowings and the major cash outflow items from financing activities was cash repayments of amounts borrowed.

Liquidity

As at 31 December 2009, the current ratio of Tianhai Industrial was 0.75, debtors' turnover days were 20.23 and inventory turnover days were 56.69.

Employees and remuneration

As at 31 December 2009, Tianhai Industrial had 2,928 employees. As of 31 December 2009, the total staff costs (including retirement benefits scheme contributions) were approximately RMB167,145,233.38. Total staff costs include standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund which were granted according to the positions, years of employment and work responsibilities.

Exchange rate risk

In 2009, Tianhai Industrial's exposure to exchange rate loss due to the changes in exchange rates was RMB482,343.27.

Pledge of assets

As at 31 December 2009, the following assets of Tianhai Industrial were pledged to banks to secure loans granted to Tianhai Industrial:

Collateral	Balance of Borrowings RMB
Buildings	40,000,000
Machinery and equipment	<u>15,000,000</u>
Total	<u><u>55,000,000</u></u>

Contingent liabilities

As at 31 December 2009, Tianhai Industrial did not have external guarantee events and other material contingent events that need to be disclosed.

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Capital commitment

For the year ended 31 December 2009, Tianhai Industrial has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

In order to expand the production capacity, Tianjin Tianhai, a subsidiary of Tianhai Industrial, planned to obtain approval for the production expansion in 2010. Such approval was obtained and the purchase of equipment commenced in 2011. Modification works of the manufacture plants were carried out in July 2011 and production commenced in 2012. Following the modification works, the annual production capacity of big tube-type bottle would be increased by 600,000.

2. For the year ended 31 December 2010

Business review for the year

1. In 2010, Tianhai Industrial acquired 100% equity interests in Panni Gaokong, details of which are as follows:

Pursuant to a resolution passed at a shareholders' meeting of Panni Gaokong held in May 2010, 75% equity interests in Panni Gaokong held by 北京第一機床廠 (Beijing First General Machinery) and 25% equity interests in Panni Gaokong held by Jingcheng Holding were transferred to Tianhai Industrial. Panni Gaokong thus became a wholly owned subsidiary of Tianhai Industrial.

The State-owned assets equity exchange certificate was obtained in November 2010 and the industry and commerce formalities were completed in December 2010, following which Tianhai Industrial obtained 100% control over Panni Gaokong.

2. In 2010, Tianhai Industrial acquired 51% equity interests in America Fortune, details of which are as follows:

In June 2010, Tianhai Industrial, America Fortune, Zheng Guoxiang and Guo Zhihong signed the Capital Increase and Merger and Acquisition Agreement, pursuant to which (i) America Fortune shall issue 612 shares to Tianhai Industrial and Tianhai Industrial shall contribute capital of US\$2.70 million to America Fortune; and (ii) America Fortune shall issue 44 shares to Zheng Guoxiang and Zheng Guoxiang shall contribute capital of US\$267,650 to America Fortune.

Following the capital increase which was completed in August 2010, the total number of issued shares of America Fortune became 1,200 shares, of which 612 shares were held by Tianhai Industrial (representing 51% of the total shares in America Fortune); 294 shares were held by Zheng Guoxiang (representing 24.5% of the total shares in America Fortune); and 294 shares were held by Guo Zhihong (representing 24.5% of the total shares in America Fortune).

Turnover

Tianhai Industrial recorded revenue of approximately RMB1,894,787,822.26 for the year ended 31 December 2010 (RMB1,684,292,753.94 for the year ended 31 December 2009). The revenue had increased by approximately RMB210.50 million (approximately 12.50%) from the corresponding period of the previous year mainly due to the increase in

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sales of seamless steel gas cylinders and hoop-wrapped gas cylinders. Starting from 2010, the sales of Tianhai Industrial's products to foreign markets have increased from 20% to 40% of its total sales. Since the selling price of its products to foreign markets was higher than the local market by 10%, Tianhai Industrial could be benefitted from a higher turnover therefrom. Furthermore, as the increasing fuel price was in favor of the use of gas-fueled vehicles, it resulted in the growth of the sales of hoop-wrapped gas cylinders. All the revenue was from gas storage and transportation equipment business.

Revenue segments:

The primary business of Tianhai Industrial, which generated revenue of RMB1,833,987,914.83 and accounted for approximately 96.79% of the total operating income of the Tianhai Industrial in 2010, could be categorized into five different types of products, namely seamless steel gas cylinders, hoop-wrapped cylinders, cryogenic cylinders, cryogenic storage and transportation equipment and others. For the year ended 31 December 2010, the operating income and operating cost incurred from those products segments are set out as below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Seamless steel gas cylinders	1,148,365,905.43	1,069,930,438.27	6.83%	11.82%	10.65%
Hoop-wrapped cylinders	426,376,981.14	334,426,625.31	21.57%	4.63%	12.27%
Cryogenic cylinders	103,593,055.90	90,645,299.27	12.50%	24.38%	22.09%
Cryogenic storage and transportation equipment	48,923,055.84	39,584,522.24	19.09%	200.06%	167.39%
Others	106,728,916.52	104,471,150.68	2.12%	10.67%	10.78%

For the year ended 31 December 2010, the sales of seamless steel gas cylinders of RMB1,148,365,905.43, which accounted for approximately 60.61% of the total operating income of Tianhai Industrial, was the major revenue segment of Tianhai Industrial. The sales of seamless steel gas cylinders has increased by approximately 11.82% over the previous year (2009: RMB1,026,947,559.65) mainly because of the domestic and international economic conditions were in favor of the sales of seamless steel gas cylinders.

For the year ended 31 December 2010, the sale of hoop-wrapped cylinders of RMB426,376,981.14, which accounted for approximately 22.50% of the total operating income of Tianhai Industrial for the year ended 31 December 2010, has increased by approximately 12.27% over the previous year (2009: RMB407,495,513.78) mainly because the sales of hoop-wrapped cylinders were driven by the new energy policies launched by the PRC government.

For the year ended 31 December 2010, the sale of cryogenic storage and transportation equipment of RMB48,923,055.84, which accounted for approximately 2.58% of the total operating income of Tianhai Industrial, has increased by approximately 200.06% as compared with the previous year (2009: RMB16,304,670.51) mainly because Tianhai

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Cryogenic was under a trial production phase in 2009 and turned into normal production stage in 2010. Moreover, the popularized and promoted use of LNG was in line with the clean energy policy of the PRC government.

The sales of cryogenic cylinders and other products under the primary business of Tianhai Industrial have accounted for approximately 5.47% and 5.63% of the total operating income of Tianhai Industrial respectively for the year ended 31 December 2010.

Profit for the year

As for the financial performance of Tianhai Industrial, the net loss after taxation and minority interest was RMB-8,156,404.15 for the year ended 31 December 2010 (net profit after taxation and minority interest of RMB2,251,314.08 for the year ended 31 December 2009). The net profit after taxation and minority interest has dropped by approximately RMB10.41 million from the corresponding period in 2009 mainly because Langfang Tianhai had just began to operate in between 2009 to 2010 and it could not fully utilized its production capacity, thus resulted in a higher fixed cost per unit of its products and reducing the profit of Tianhai Industrial.

Financial and liquidity position

As at 31 December 2010, the audited net assets and current assets of Tianhai Industrial were RMB513,215,005.31 and RMB595,063,001.87, respectively (RMB509,458,525.81 and RMB494,703,236.71 respectively as at 31 December 2009). As at 31 December 2010, the total cash and bank balances of Tianhai Industrial were RMB106,694,286.10 (2009: RMB87,598,336.63). As at 31 December 2010, the bank borrowings of Tianhai Industrial were RMB175,000,000.00 which comprised short term loan of RMB125,000,000.00 and long term loan of RMB50,000,000.00 (2009: total bank borrowings of RMB284,881,836.00, which comprised short term loan of RMB264,881,836.00 and non-current liabilities maturing within one year of RMB20,000,000.00). The borrowings were required for increased purchase of materials and assets expenses.

Assets to liabilities ratio was approximately 59.30% (2009: approximately 55.70%), the gearing ratio was approximately 190.35% (2009: approximately 161.89%) and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities} / \text{net assets attributable to the parent company} \times 100\% = 190.35\%$. The increase in gearing ratio relative to previous year was mainly because of the increase in current liabilities.

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Total assets

As at 31 December 2010, Tianhai Industrial recorded total assets of RMB1,260,872,709.66, representing an increase of approximately 9.64% over the previous year (2009: RMB1,150,050,284.46). Among the total assets, total current assets amounted to RMB595,063,001.87, representing an increase of approximately 20.29% over the previous year (2009: RMB494,703,236.71) and total non-current assets amounted to RMB665,809,707.79, representing an increase of approximately 1.60% over the previous year (2009: RMB655,347,047.75). The major items which were attributable to the changes of the total assets of Tianhai Industrial as at 31 December 2010 included the following:

(1) Cash and cash balances

Tianhai Industrial recorded cash and cash balances of RMB106,694,286.10 as at 31 December 2010, representing an increase of approximately 21.80% over the previous year (2009: RMB87,598,336.63), mainly due to the increase in operating income and borrowings.

(2) Account receivables

Tianhai Industrial recorded account receivables of RMB104,325,561.91 as at 31 December 2010, representing an increase of approximately 11.77% as compared with previous year (2009: RMB93,338,159.54). The increase in account receivables was mainly due to the increase credit sales resulted from the relative increase in operating income.

(3) Prepayment

Tianhai Industrial recorded prepayment of RMB35,151,928.97 as at 31 December 2010, representing a decrease of approximately 22.95% as compared with previous year (2009: RMB45,621,159.37). The decrease in prepayment was mainly due to the increase in the receipt of the prepaid materials.

(4) Inventory

Tianhai Industrial recorded inventory of RMB340,629,963.45 as at 31 December 2010, representing an increase of approximately 30.21% as compared with previous year (2009: RMB261,597,757.53). The increase in sales resulted a higher level of materials and work-in-progress to be stored in the inventory, thus increasing in the inventory level.

(5) Fixed assets

Tianhai Industrial recorded fixed assets of RMB563,642,587.91 as at 31 December 2010, representing an increase of approximately 0.45% as compared with previous year (2009: RMB561,143,024.75). The increase in fixed assets of 0.45% was deemed to have no significant changes over the previous year.

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(6) Construction in progress

Tianhai Industrial recorded construction in progress of RMB38,747,937.76 as at 31 December 2010, representing an increase of approximately 8.24% as compared with previous year (2009: RMB35,798,691.60). The increase in construction in progress was mainly because Jingcheng Compressor has launched transformation of aluminum liner workshop thus increase in the construction in progress level.

(7) Intangible assets

Tianhai Industrial recorded intangible assets of RMB53,394,010.58 as at 31 December 2010, representing a decrease of approximately 0.94% as compared with previous year (2009: RMB53,901,048.28). The decrease in intangible assets was deemed to have no significant changes as compared to previous year.

Total liabilities

As at 31 December 2010, Tianhai Industrial recorded total liabilities of RMB747,657,654.35, representing an increase of approximately 16.71% over the previous year (2009: RMB640,591,758.65). Among the total liabilities, total current liabilities amounted to RMB697,657,654.35, representing an increase of approximately 8.91% over the previous year (2009: RMB640,591,758.65) and total non-current liabilities amounted to RMB50,000,000.00, which Tianhai Industrial recorded no non-current liabilities at the beginning of this year. The major items which were attributable to the changes of the total liabilities of Tianhai Industrial as at 31 December 2010 included the following:

(1) Notes payable

As at 31 December 2010, Tianhai Industrial recorded notes payable of RMB89,000,000.00, representing a decrease of approximately 5.32% as compared with previous year (2009: RMB94,000,000.00). Such decrease was deemed to have no significant changes as compared with the previous year.

(2) Account payable

As at 31 December 2010, Tianhai Industrial recorded account payable of RMB232,826,761.83, representing an increase of approximately 38.63% as compared with the previous year (2009: RMB167,943,963.37). The increase in account payable was mainly due to the increase in credit purchase of materials as a result from the relative increase in sales.

(3) Other payables

As at 31 December 2010, Tianhai Industrial recorded other payables of RMB188,838,464.58, representing an increase of approximately 399.83% as compared with the previous year (2009: RMB37,780,659.80). The major composition of other payables was the borrowing from Jingcheng Holding and the increase in other payables was mainly due to the increase in the borrowing from Jingcheng Holding.

Shareholders' equity

As at 31 December 2010, the total shareholders' equity amounted to RMB513,215,055.31, representing an increase of approximately 0.74% as compared with the previous year (2009: RMB509,458,525.81). The shareholders' equity comprised of total

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shareholder's equity attributed to the parent of RMB392,779,049.42, representing a decrease of approximately 0.74% as compared with the previous year (2009: RMB395,698,261.75) and minority shareholder's equity of RMB120,436,005.89, representing an increase of approximately 5.87% as compared with the previous year (2009: RMB113,760,264.06). The changes in total shareholders' equity, total shareholder's equity attributed to the parent and minority shareholder's equity were deemed to have no significant changes over the previous year.

The undistributed profit of RMB81,793,964.99, representing a decrease of approximately 9.07% over the previous year (2009: RMB89,950,369.14), was mainly due to the economic fluctuation and the loss from Langfang Tianhai that attributed to the net loss of Tianhai Industrial, thus decrease the undistributed profit as compared with the previous year.

Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2010, the total operating cost of Tianhai Industrial was amounted to RMB1,902,612,873.99, representing an increase of approximately 13.09% as compared with the previous year (2009: RMB1,682,462,375.30). The analysis of the factors affecting the changes in total operating cost and other income statements items were as following:

1. Operating costs

For the year ended 31 December 2010, the operating cost of Tianhai Industrial amounted to RMB1,688,160,788.40, representing an increase of approximately 13.01% over the previous year (2009: RMB1,493,851,404.13). The increase in operating cost was mainly due to the increase in main operating costs of approximately RMB190,893,316.85 (which mainly included costs of raw materials, labour, energy and depreciation, etc.), and other operating costs of approximately RMB3,416,067.42 (which mainly included costs of raw materials procured for subsidiaries and costs of freights, etc.), as a result of an increase in main operating income.

2. Tax and additional expenses

For the year ended 31 December 2010, Tianhai Industrial recorded tax and additional expense of RMB223,926.99, which Tianhai Industrial recorded no tax and additional expense in 2009. The increase in tax and additional expense was mainly because of the increase in value added tax expenses, and the related urban maintenance and construction tax and education surtax have also increased.

3. Sales expenses

For the year ended 31 December 2010, Tianhai Industrial recorded sales expense of RMB67,871,821.69, representing an increase of approximately 20.49% as compared with the previous year (2009: RMB56,329,998.80). The increase in sales expense was mainly due to the relative increase in transportation fee of approximately RMB6,213,303.77, salary of approximately RMB1,487,960.41 and maintenance cost of approximately RMB1,675,739.59 as a result of increase in sales and the corresponding increase in cost of fuel, performance-linked bonus and packaging costs for exports.

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4. Administration expenses

For the year ended 31 December 2010, the administration expenses of Tianhai Industrial was amounted to RMB125,576,392.17, representing an increase of approximately 7.23% as compared with the previous year. (2009: RMB117,106,923.84). The increase of administration expenses was mainly due to the increase in research and development fee of approximately RMB3,985,133.92, increase in salary of approximately RMB2,237,074.19, increase of entertainment fee of approximately RMB1,930,140.40, increase in depreciation of approximately RMB1,716,190.92 and increase in amortization of intangible assets of approximately RMB1,417,913.87 as the results of salary adjustment, increase in sales, investment in research and development, promotion campaign, fixed assets and equipment for Langfang Tianhai and the amortization of a patent hold by Tianhai Cryogenic.

5. Finance expenses

For the year ended 31 December 2010, the finance expenses of Tianhai Industrial amounted to RMB21,075,534.24, representing an increase of approximately 46.39% over the previous year (2009: RMB14,396,838.89). The increase in finance expenses was mainly due to the increase in interest expenses and the exchange rate loss from the appreciation of RMB against US\$.

6. Assets impairment losses

For the year ended 31 December 2010, Tianhai Industrial recorded assets impairment gains of RMB295,589.50 (2009: asset impairment losses of RMB777,209.64). The turn of asset impairment losses into gains was mainly due to the decrease in account receivable with age longer than a year.

7. Non-operating income

For the year ended 31 December 2010, Tianhai Industrial recorded non-operating income of RMB242,319.80, representing a decrease of approximately 92.92% over the previous year (2009: RMB3,424,847.76). The decrease in non-operating income was mainly due to the decrease in government subsidies.

Analysis of cash flow

For the year ended 31 December 2010, Tianhai Industrial had a net cash flow of RMB23,455,403.35, representing an increase of RMB44,001,351.79 as compared with the previous year (2009: RMB-20,545,948.44). Among which, Tianhai Industrial recorded a net cash flow of RMB59,316,435.69 from the operating activities, which has increased by RMB94,577,394.63 over the previous year. However, the net cash flow from investing activities has decreased by RMB18,385,548.16 over the previous year, resulting in a net cash flow from investing activities of RMB-77,562,096.69 in 2010. The net cash flow from financing activities was amounted to RMB44,619,762.19, which has decreased by RMB9,374,194.88 as compared with the previous year. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the year ended 31 December 2010, the cash inflow from operating activities increased by RMB235,907,938.33, which was mainly attributable to the increase in cash inflow from the cash receipts from the sale of goods of RMB221,135,646.61 as

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compared with the previous year. On the other hand, cash outflow from operating activities also increased by RMB161,330,543.70, which was mainly attributable to the increase in cash payments for goods acquired of RMB101,217,865.31 as compared with the previous year. As a result, Tianhai Industrial recorded a net cash flow from operating activities of RMB59,316,435.69, which has increased by RMB74,577,394.63 as compared with the previous year.

(ii) Cash flow from investing activities

For the year ended 31 December 2010, the cash inflow from investing activities increased by RMB34,455.37. On the other hand, cash outflow from investing activities also increased by RMB18,420,003.53, which was attributable to the increase in cash payments to acquired fixed assets, intangible assets and other long-term assets of RMB9,216,303.53 as compared with the previous year and the additional cash outflow of acquiring equity interest in Shanghai Tianhai and Panni Gaokong of RMB9,203,700.00 in total. As a result, Tianhai Industrial recorded a net cash flow of RMB-77,562,096.69 from investing activities, representing a decrease of RMB18,385,548.16 as compare with the previous year.

(iii) Cash flow from financing activities

For the year ended 31 December 2010, the cash inflow from financing activities increased by RMB71,515,284.15, which was mainly attributable to the increase in cash receipts from borrowings. On the other hand, cash outflow from financing activities also increased by RMB80,889,479.03, which was mainly attributable to the increase in repayment of borrowings of RMB84,881,836.00 as compared with the previous year. As a result, Tianhai Industrial recorded a net cash flow of RMB44,619,762.19, representing a decrease of RMB9,374,194.88 as compared with the previous year.

Liquidity

As at 31 December 2010, the current ratio of Tianhai Industrial was 0.89 (2009: 0.75), debtors' turnover days were 20.10 (2009: 20.23) and inventory turnover days were 65.62 (2009: 56.69).

Employees and remuneration

As at 31 December 2010, Tianhai Industrial had 3,267 employees (2,928 employees as at 31 December 2009). As at 31 December 2010, the total staff costs (including retirement benefits scheme contributions) were RMB211,752,568.23 (RMB167,145,233.38 as at 31 December 2009). Total staff costs include standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund, etc. granted according to the positions, years of employment and work.

Exchange rate risk

In 2010, Tianhai Industrial's exposure to exchange rate loss due to the changes in exchange rates was RMB3,513,785.45 (RMB482,343.27 in 2009).

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Pledge of assets

As at 31 December 2010, the following assets of Tianhai Industrial were pledged to banks to secure loans granted to Tianhai Industrial and there were no changes as comparing to the previous year:

Collateral	Balance of Borrowings RMB
Buildings	40,000,000
Machinery and equipment	15,000,000
	<u>55,000,000</u>

Contingent liabilities

As at 31 December 2010, Tianhai Industrial did not have external guarantee events and other material contingent events that need to be disclosed.

Capital commitment

For the year ended 31 December 2010, Tianhai Industrial has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

According to the “12th Five-Year” development plan of Tianhai Industrial, Langfang Tianhai intended to commence the “Annual Production of 200,000 CNG Gas Cylinders” project in July 2011, which was intended to be completed in 2012. The total budget for the project was RMB121.41 million. Following completion, it would optimise the product mix of Langfang Tianhai, increase contract delivery rate of the hoop-wrapped gas cylinders of Tianhai Industrial and enhance the market competitiveness of the hoop-wrapped gas cylinders of Tianhai Industrial.

3. For the year ended 31 December 2011

Business review for the year

- (1) In 2011, Tianhai Industrial acquired 70% equity interests in Langfang Tianhai, details of which are as follows:

In October 2011, Tianhai Industrial and Jingcheng Holding signed an equity transfer agreement, pursuant to which Tianhai Industrial agreed to acquire 70% equity interests in Langfang Tianhai held by Jingcheng Holding at the consideration of RMB68,808,180.00.

Following the completion such equity transfer in December 2011, the registered capital of Tianhai Industrial became RMB180,000,000.00, which is owned as to 70% by Tianhai Industrial and 30% by Mr. Wu Shouzong.

- (2) In July 2011, the registered capital of Shanghai Tianhai was increased from US\$1,000,000.00 to US\$3,017,400.00.

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- (3) In June 2011, the registered capital of Panni Gaokong, a subsidiary of Tianhai Industrial was increased from RMB2,730,800.00 to RMB20,000,000.00.

Turnover

Tianhai Industrial recorded revenue of RMB2,331,544,267.05 for the year ended 31 December 2011 (RMB1,894,787,822.26 for the year ended 31 December 2010). It has increased by approximately RMB436.76 million (approximately 23.05%) from the corresponding period in 2010 mainly due to the increase in sales of seamless steel gas cylinders and hoop-wrapped gas cylinders. Since 2010, Tianhai Industrial has increased its sales to foreign markets from 20% to 40% of its total sales. The selling price of the products in foreign markets was higher than the local market by 10% thus resulted in a higher turnover. Furthermore, as the increasing fuel price was in favor of the use of gas-fueled vehicles, it resulted to the growth of the sales of hoop-wrapped gas cylinders. All the revenue was from its gas storage and transportation equipment business.

Revenue segment

The primary business of Tianhai Industrial, which generated revenue of RMB2,260,377,759.77 and accounted for approximately 96.95% of the total operating income of the Tianhai Industrial in 2011, could be categorized into five different types of products, namely seamless steel gas cylinders, hoop-wrapped cylinders, cryogenic cylinders, cryogenic storage and transportation equipment and others. For the year ended 31 December 2011, the operating income and operating cost incurred from those products segments are set out as below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Seamless steel gas cylinders	1,341,563,875.31	1,206,473,344.80	10.07%	16.82%	12.76%
Hoop-wrapped cylinders	565,250,910.55	425,482,831.86	24.73%	32.57%	27.23%
Cryogenic cylinders	129,924,789.07	113,804,243.45	12.41%	25.42%	25.55%
Cryogenic storage and transportation equipment	79,659,257.13	61,565,104.33	22.71%	62.83%	55.53%
Others	143,978,927.71	137,922,480.21	4.21%	34.90%	32.02%

For the year ended 31 December 2011, the sale of seamless steel gas cylinders of RMB1,341,563,875.31, which accounted for approximately 57.54% of the total operating income of Tianhai Industrial, was the major revenue segment of Tianhai Industrial. The sale of seamless steel gas cylinders has increased by approximately 16.82% over the previous year (2010: RMB1,148,365,905.43) mainly because domestic and international economic conditions were in favor of the sales of seamless steel gas cylinders.

The sale of hoop-wrapped cylinders of RMB565,250,910.55, which accounted for approximately 24.24% of the total operating income of Tianhai Industrial for the year ended 31 December 2011, has increased by approximately 32.57% over the previous year (2010: RMB426,376,981.14) mainly because the sales of hoop-wrapped cylinders were driven by the new energy policies launched by the PRC government.

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The sales of cryogenic cylinders, cryogenic storage and transportation equipment and others have accounted for approximately 5.57%, 3.42% and 6.18% of the total operating income of Tianhai Industrial respectively for the year ended 31 December 2011.

Profit for the year

As for the financial performance of Tianhai Industrial, the net profit after taxation and minority interest was RMB44,744,661.01 for the year ended 31 December 2011 (net loss after taxation and minority interest of RMB8,156,404.15 for the year ended 31 December 2010). The net profit after taxation and minority interest for the year ended 31 December 2011 has increased by RMB52,901,065.15 relative to the corresponding period in 2010. Since the economic started to recover in 2011, Tianhai Industrial benefitted from higher sales volume and selling prices, thus turning from loss into profit in 2011.

Financial and liquidity position

As at 31 December 2011, the audited net assets and current assets of Tianhai Industrial were RMB486,476,673.52 and RMB837,089,518.21 respectively (RMB513,215,005.31 and RMB595,063,001.87 respectively as at 31 December 2010). As at 31 December 2011, the total cash and bank balances of Tianhai Industrial were RMB123,072,267.05 (RMB106,694,286.10 as at 31 December 2010). As at 31 December 2011, the bank borrowings of Tianhai Industrial were RMB175,000,000.00 which comprised short term loan of RMB145,000,000.00 and non-current liabilities maturing within one year of RMB30,000,000.00 (2010: total bank borrowings of RMB175,000,000.00, comprising short term loan of RMB125,000,000.00 and long term loan of RMB50,000,000.00). The borrowings were required for the increased expenses for the purchase of materials and assets.

Assets to liabilities ratio was approximately 70.62% (2010: approximately 59.70%), the gearing ratio was approximately 317.68% (2010: approximately 190.35%) and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities} / \text{net assets attributable to the parent company} \times 100\% = 317.68\%$. The increase in gearing ratio from 2010 to 2011 was mainly because of the significant increase in current liabilities in 2011.

Total assets

As at 31 December 2011, Tianhai Industrial recorded total assets of RMB1,655,964,122.86, representing an increase of approximately 31.33% over the previous year (2010: RMB1,260,872,709.66). Among the total assets, total current assets amounted to RMB837,089,518.21, representing an increase of approximately 40.67% over the previous year (2010: RMB595,063,001.87) and total non-current assets amounted to RMB818,874,604.65, representing an increase of approximately 22.99% over the previous year (2010: RMB665,809,707.79). The major items which were attributable to the changes of the total assets of Tianhai Industrial as at 31 December 2011 including the following:

(1) Cash and cash balances

Tianhai Industrial recorded cash and cash balances of RMB123,072,267.05 as at 31 December 2011, representing an increase of approximately 15.35% over the previous year (2010: RMB106,694,286.10). The increase in cash and cash balances was mainly due to capital increase from Jingcheng Holding.

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(2) Account receivables

Tianhai Industrial recorded account receivables of RMB166,217,484.81 as at 31 December 2011, representing an increase of approximately 59.33% as compared with previous year (2010: RMB104,325,561.91). The increase in account receivables was mainly due to the increase in credit sales as a result from the increase in the total sales in 2011.

(3) Prepayment

Tianhai Industrial recorded prepayment of RMB65,422,655.15 as at 31 December 2011, representing a increase of approximately 86.11% as compared with previous year (2010: RMB35,151,928.97). The increase in prepayment was mainly due to the increase in purchase of materials as a result from the increase in sales.

(4) Inventory

Tianhai Industrial recorded inventory of RMB458,040,333.08 as at 31 December 2011, representing an increase of approximately 34.47% as compared with previous year (2010: RMB340,629,963.45). The increase in sales resulted to a higher level of more materials and work-in-progress to be stored in the inventory, thus increased the inventory level.

(5) Fixed assets

Tianhai Industrial recorded fixed assets of RMB542,289,731.04 as at 31 December 2011, representing a decrease of approximately 3.79% as compared with previous year (2010: RMB563,642,587.91). The decrease in fixed assets was deemed to have no significant changes over the previous year.

(6) Construction in progress

Tianhai Industrial recorded construction in progress of RMB215,276,788.41 as at 31 December 2011, representing an increase of approximately 455.58% as compared with previous year (2010: RMB38,747,937.76). The increase in construction in progress was mainly due to the increase in the investment amount into the TTTP406 Project and the 200,000 CNG Gas Cylinders Project.

(7) Intangible assets

Tianhai Industrial recorded intangible assets of RMB51,148,663.39 as at 31 December 2011, representing a decrease of approximately 4.21% as compared with previous year (2010: RMB53,394,010.58). Such decrease in intangible assets was deemed to have no significant changes as compared to previous year.

Total liabilities

As at 31 December 2011, Tianhai Industrial recorded total liabilities of RMB1,169,487,449.34, representing an increase of approximately 56.42% over the previous year (2010: RMB747,657,654.35). Among the total liabilities, total current liabilities amounted to RMB1,166,787,449.34, representing an increase of approximately 67.24% over the previous year (2010: RMB697,657,654.35) and total non-current liabilities amounted to RMB2,700,000.00, which Tianhai Industrial recorded non-current liabilities of

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RMB50,000,000.00 at the beginning of this year. The major items which were attributable to the changes of the total liabilities of Tianhai Industrial as at 31 December 2011 included the following:

(1) Notes payable

As at 31 December 2011, Tianhai Industrial recorded notes payable of RMB70,000,000.00, representing a decrease of approximately 21.35% as compared with previous year (2010: RMB89,000,000.00). The decrease in noted payable was mainly due to Tianhai Industrial received more bank acceptance bills from customers than issue to suppliers.

(2) Account payable

As at 31 December 2011, Tianhai Industrial recorded account payable of RMB310,686,573.83, representing an increase of approximately 33.44% as compared with the previous year (2010: RMB232,826,761.83). The increase in account payable was mainly due to increase in credit purchase resulted from the increase in total purchase of materials.

(3) Other payables

As at 31 December 2011, Tianhai Industrial recorded other payables of RMB545,554,287.30, representing an increase of approximately 188.90% as compared with the previous year (2010: RMB188,838,464.58). The increase in other payables was mainly due to the capital increase from Jingcheng Holding.

Shareholders' equity

As at 31 December 2011, the total shareholders' equity amounted to RMB486,476,673.52, representing a decrease of approximately 5.21% as compared with the previous year (2010: RMB513,215,055.31). The shareholders' equity comprised of total shareholder's equity attributed to the parent of RMB368,134,621.27, representing a decrease of approximately 6.27% as compared with the previous year (2010: RMB392,779,049.42) and minority shareholder's equity of RMB118,342,052.25, representing a decrease of approximately 1.74% as compared with the previous year (2010: RMB120,436,005.89). The decrease in total shareholder's equity attributed to the parent was mainly due to the adjustment of the net asset value of Langfang Tianhai attributable to Tianhai Industrial as both Tianhai Industrial and Langfang Tianhai were under the same control by Jingcheng Holding. Such adjustment was in accordance to the provisions under "Enterprise Accounting Standards No. 20 – Merger of Enterprises" (企業會計準則第20號—企業合併) of the accounting standard of the PRC.

The undistributed profit of RMB122,422,332.56, representing an increase of approximately 49.67% over the previous year (2010: RMB81,793,964.99), was mainly because of the increase in net profit.

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Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2011, the total operating cost of Tianhai Industrial was amounted to RMB2,275,127,239.53, representing an increase of approximately 19.58% as compared with the previous year (2010: RMB1,902,612,873.99). The analysis of the factors affecting the changes in total operating cost and other income statements items were as follow:

1. Operating costs

For the year ended 31 December 2011, the operating cost of Tianhai Industrial was amounted to RMB2,001,170,579.49, representing an increase of approximately 18.54% over the previous year (2010: RMB1,688,160,788.40). The increase in operating cost was mainly due to the respective increase in main operating costs of approximately RMB306,189,968.88 (which mainly included costs of raw materials, labour, energy and depreciation, etc.), and other operating costs of approximately RMB6,819,822.21 (which mainly included costs of raw materials procured for subsidiaries and costs of freights, etc.), as a result of the increase in main operating income.

2. Tax and additional expenses

For the year ended 31 December 2011, Tianhai Industrial recorded tax and additional expense of RMB2,310,299.87, representing an increase of approximately 931.72% as compared with the previous year (2010: RMB223,926.99). The increase in tax and additional expense was mainly because of the increase in, among others, value-added tax, urban maintenance and construction tax and education surtax, as a result of the relative increase in sales.

3. Sales expenses

For the year ended 31 December 2011, Tianhai Industrial recorded sales expense of RMB76,985,141.76, representing an increase of approximately 13.43% as compared with the previous year (2010: RMB67,871,821.69). The increase in sales expense was mainly due to the relative increase in transportation fee of approximately RMB2,989,076.82, maintenance cost of approximately RMB3,417,002.04 and after sale cost of approximately RMB2,174,025.48 as a result of increase in sales, the corresponding increase in cost of fuel, performance-linked bonus, packaging costs for exports and cost in product quality test.

4. Administration expenses

For the year ended 31 December 2011, the administration expenses of Tianhai Industrial was amounted to RMB166,745,298.11, representing an increase of approximately 32.78% as compared with the previous year. (2010: RMB125,576,392.17). The increase of administration expenses was mainly due to the increased expenses incurred from the workforce expansion of which the salary increased by approximately RMB25,760,651.65 as a result of increase in sale and the enhancement in research and development of which the research and development fee increased by approximately RMB7,900,716.67 and the increase in professional fees in of approximately RMB5,042,880.54.

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5. Finance expenses

For the year ended 31 December 2011, the finance expenses of Tianhai Industrial was amounted to RMB25,661,210.43, representing an increase of approximately 21.76% over the previous year (2010: RMB21,075,534.24). The increase in finance expenses was mainly due to the increase in interest expense as borrowings increased.

6. Assets impairment losses

For the year ended 31 December 2011, Tianhai Industrial recorded assets impairment losses of RMB2,254,709.87, as compared with the asset impairment gains of RMB295,589.50, the assets impairment losses has increased by RMB2,550,299.37 over the previous year. The turn of asset impairment gains into losses was mainly due to the increase in account receivable as compared with previous year.

7. Non-operating income

For the year ended 31 December 2011, Tianhai Industrial recorded non-operating income of RMB1,724,388.36, representing an increase of approximately 611.62% over the previous year (2010: RMB242,319.80). The increase in non-operating income was mainly due to the increase in government subsidies.

Analysis of cash flow

For the year ended 31 December 2011, Tianhai Industrial had a net cash flow of RMB42,412,753.98, representing an increase of RMB18,957,350.63 as compared with the previous year (2010: RMB23,455,403.35). Among which, the cash flow from operating activities has decreased by RMB136,205,547.82 over the previous year, resulting a net cash flow of RMB-76,889,112.13 from operating activities in 2011. Furthermore, the net cash flow from investing activities has further decreased by RMB128,656,569.23 over the previous year, resulting a net cash flow of RMB-206,218,665.92 from investing activities in 2011. The net cash flow from financing activities was amounted to RMB328,503,584.14, which has increased by RMB283,883,821.95 as compared with the previous year. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the year ended 31 December 2011, the cash inflow from operating activities has increased by RMB114,998,358.78, which was mainly attributable to the increase in the cash receipts from the sale of goods of RMB97,692,991.17 as compared with the previous year. On the other hand, cash outflow from operating activities has also increased by RMB251,203,906.60, which was mainly attributable to the increase in cash payments for goods acquired of RMB201,560,402.18 as compared with the previous year. Due to the increase in cash outflow from operating activities exceeded the cash inflow from the operating activities for the year ended 31 December 2011, the cash flow from operating activities has decreased by RMB136,205,547.82 and resulting a net cash flow of RMB-76,889,112.13 from operating activities.

(ii) Cash flow from investing activities

For the year ended 31 December 2011, the cash inflow from investing activities has increased by RMB54,691.31. On the other hand, cash outflow from investing activities has also increased by RMB128,711,260.54, which was mainly attributable to

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the increase in cash payments in TTHP406 Project and 200,000 CNG Gas Cylinders Project of RMB69,106,780.54 and increase in cash payments to acquired investments of RMB59,604,480.00 as compared with the previous year. As a result of the increase in cash outflow from investing activities exceeded the cash inflow from investing activities, Tianhai Industrial recorded a net cash flow from the investing activities of RMB-206,218,665.92 for the year ended 31 December 2011, representing a decrease of net cash flow of RMB128,656,569.23 from the investing activities as compared with the previous year.

(iii) Cash flow from financing activities

For the year ended 31 December 2011, the cash inflow from financing activities has increased by RMB275,402,879.85, which was mainly attributable to the increase in cash receipts from borrowings. On the other hand, cash outflow from financing activities has decreased by RMB8,480,942.10, which was mainly attributable to the decrease in repayment of borrowings of RMB11,881,836.00 as compared with the previous year.

Liquidity

As at 31 December 2011, the current ratio of Tianhai Industrial was 1.02 (2010: 0.89), debtors' turnover days were 26.02 (2010: 20.10) and inventory turnover days were 71.71 (2010: 65.62).

Employees and remuneration

As at 31 December 2011, Tianhai Industrial had 3,522 employees (3,267 employees as at 31 December 2010). As at 31 December 2011, the total staff costs (including retirement benefits scheme contributions) were approximately RMB255,410,150.93 (RMB211,752,568.23 as at 31 December 2010). Total staff costs included standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund, etc. which were granted according to the positions, years of employment and work.

Exchange rate risk

In 2011, Tianhai Industrial's exposure to exchange rate loss due to the changes in exchange rates was RMB3,725,663.25 (RMB3,513,785.45 in 2010).

Pledge of assets

As at 31 December 2011, the following assets of Tianhai Industrial were pledged to banks to secure loans granted to Tianhai Industrial and there were no changes as comparing to the previous year:

Collateral	Balance of Borrowings RMB
Buildings	40,000,000
Machinery and equipment	<u>15,000,000</u>
	<u><u>55,000,000</u></u>

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Contingent liabilities

As at 31 December 2011, Tianhai Industrial did not have external guarantee events and other material contingent events that need to be disclosed.

Capital commitment

In July 2011, Langfang Tianhai (the subsidiary of Tianhai Industrial) undertook the “Annual Production of 200,000 CNG Gas Cylinders Project”, in accordance with the 12th Five-Year” development plan of Tianhai Industrial. The total budget for the project was RMB121.41 million. Following completion, it would optimize the product mix of Langfang Tianhai, increase contract delivery rate of the hoop-wrapped gas cylinders of Tianhai Industrial and enhance the market competitiveness of the hoop-wrapped gas cylinders of Tianhai Industrial.

At the beginning of the year 2011, Tianjin Tianhai (the subsidiary of Tianhai Industrial) has entered into the TTHP406 Project, which was intended to enhance the production capacity of Tianjin Tianhai through acquiring additional equipment and the expansion of the manufacture. The total budget of TTHP406 Project amounted to RMB160,000,000.00 and completed in 2012.

Future Plans for Material Investments or Capital Assets

As at 31 December 2011, Tianhai Industrial did not have any concrete future plans in place with regard to its material investments or capital assets.

4. For the seven months ended 31 July 2012

Business review for the seven months

Turnover

Tianhai Industrial recorded revenue of RMB1,398,822,809.48 from January to July of 2012 (an unaudited revenue of RMB1,379,784,679.39 for the seven months ended 2011). The revenue had increased by approximately RMB19 million (approximately 1.38%), which was deemed to be steady relative to the corresponding period in 2011. All revenue was from gas storage and transportation equipment business.

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Revenue segment

The primary business of Tianhai Industrial, which generated revenue of RMB1,353,417,608.17 and accounted for approximately 96.75% of the total operating income of the Tianhai Industrial for the seven months ended 31 July 2012, could be categorized into five different types of products, namely seamless steel gas cylinders, hoop-wrapped cylinders, cryogenic cylinders, cryogenic storage and transportation equipment and others. For the seven months ended 31 July 2012, the operating income and operating cost incurred from those products segments are set out as below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Seamless steel gas cylinders	761,815,973.41	700,566,263.10	8.04%	(3.60%)	(0.53%)
Hoop-wrapped cylinders	337,083,424.29	235,806,912.50	30.04%	(3.10%)	(16.97%)
Cryogenic cylinders	105,786,796.87	84,847,221.97	19.79%	66.68%	48.20%
Cryogenic storage and transportation equipment	63,526,181.73	47,476,482.24	25.26%	74.65%	61.28%
Others	85,205,231.87	82,615,209.46	3.04%	2.81%	2.73%

The sale of seamless steel gas cylinders of RMB761,815,973.41, which accounted for approximately 54.46% of the total operating income of Tianhai Industrial, was the major revenue segment of Tianhai Industrial for the seven months ended 31 July 2012. The sale of seamless steel gas cylinders, has turned from a growth into decline of approximately 3.60% over the corresponding period in the previous year (RMB790,262,681.90 for the seven months ended 31 July 2011).

The sale of hoop-wrapped cylinders of RMB337,083,424.29, which accounted for approximately 24.10% of the total operating income of Tianhai Industrial, was the major revenue segment of Tianhai Industrial for the seven months ended 31 July 2012 (RMB347,872,467.45 for the seven months ended 31 July 2011). The sale of seamless steel gas cylinders, has turned from a growth into decline of approximately 3.10% over the corresponding period in the previous year.

The sales of cryogenic cylinders, cryogenic storage and transportation equipment and other products have accounted for approximately 7.56%, 4.54% and 6.09% of the total operating income of Tianhai Industrial respectively for the seven months ended 31 July 2012.

Profit for the seven months

As for the financial performance of Tianhai Industrial, the net profit after taxation and minority interest was RMB30,776,186.11 from January to July of 2012 (an unaudited net profit after taxation and minority interest was RMB25,442,796.87 from January to July 2011) and increased by approximately RMB5,333,389.24 (approximately 20.96%) relative to the corresponding period in 2011.

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Financial and liquidity position

As at 31 July 2012, the audited net assets and current assets of Tianhai Industrial were RMB522,352,955.55 and RMB888,822,231.93, respectively (RMB486,476,673.52 and RMB837,089,518.21 respectively as at 31 December 2011). As at 31 July 2012, the total cash and bank balances of Tianhai Industrial were RMB77,683,384.45. As at 31 July 2012, the bank borrowings of Tianhai Industrial were RMB305,000,000.00 which comprised solely short term loan (as at 31 December 2011, the total bank borrowing of RMB175,000,000.00 comprised short term loan of RMB145,000,000.00 and non-current liabilities maturing within one year of RMB30,000,000.00). The short term loan increased by RMB160,000,000.00 from 31 December 2011 due to the increase in capital expenditures.

Assets to liabilities ratio was approximately 70.03% (2011: approximately 70.62%), gearing ratio was approximately 305.97% (2011: approximately 317.68%) and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 305.97\%$. The borrowings were needed for the increased purchase of materials and assets expenses.

Total assets

As at 31 July 2012, Tianhai Industrial recorded total assets of RMB1,743,100,044.22, representing an increase of approximately 5.26% as compared with 31 December 2011 (2011: RMB1,655,964,122.86). Among the total assets, total current assets amounted to RMB888,822,231.93, representing an increase of approximately 6.18% as compared with 31 December 2011 (2011: RMB837,089,518.21) and total non-current assets amounted to RMB854,277,812.29, representing an increase of approximately 4.32% as compared with 31 December 2011 (2011: RMB818,874,604.65). The major items which were attributable to the changes of the total assets of Tianhai Industrial as at 31 July 2012 included the following:

(1) Cash and cash balances

Tianhai Industrial recorded cash and cash balances of RMB77,683,384.45 as at 31 July 2012, representing a decrease of approximately 36.88% as compared with the beginning of this year of RMB123,072,267.05. The decrease of cash and cash balances was mainly due to the increase in the expenditure of long-term assets.

(2) Account receivables

Tianhai Industrial recorded account receivables of RMB323,235,962.22 as at 31 July 2012, representing an increase of approximately 94.47% as compared with the beginning of this year (2011: RMB166,217,484.81). The increase in account receivables was mainly due to the prolongation of the credit period to the customers that have favorable credit history.

(3) Prepayment

Tianhai Industrial recorded prepayment of RMB49,504,311.86 as at 31 July 2012, representing a decrease of approximately 24.33% as compared with the beginning of this year (2011: RMB65,422,655.15). The decrease in prepayment was mainly due to the increase in the receipts of prepaid materials.

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(4) Inventory

Tianhai Industrial recorded inventory of RMB430,643,038.57 as at 31 July 2012, representing a decrease of approximately 5.98% as compared with the beginning of this year (2011: RMB458,040,333.08). The decrease in inventory was deemed to have no significant changes as compared with the beginning of this year.

(5) Fixed assets

Tianhai Industrial recorded fixed assets of RMB631,093,318.40 as at 31 July 2012, representing an increase of approximately 16.38% as compared with the beginning of this year (2011: RMB542,289,731.04). The increase in fixed assets was mainly due to the completion of the 200,000 CNG gas cylinders project, which has transferred from construction in progress into fixed assets.

(6) Construction in progress

Tianhai Industrial recorded construction in progress of RMB162,383,579.94 as at 31 July 2012, representing a decrease of approximately 24.57% as compared with the beginning of this year (2011: RMB215,276,788.41). The decrease in construction in progress was mainly due to the completion of the 200,000 CNG gas cylinders project, which has transferred from construction in progress into fixed assets.

(7) Intangible assets

Tianhai Industrial recorded intangible assets of RMB50,232,211.43 as at 31 July 2012, representing a decrease of approximately 1.79% as compared with previous year (2011: RMB51,148,663.69). Such decrease was deemed to have no significant changes as compared to previous year.

Total liabilities

As at 31 July 2012, Tianhai Industrial recorded total liabilities of RMB1,220,747,088.67, representing an increase of approximately 4.38% as compared with the beginning of this year (2011: RMB1,169,487,449.34). Among the total liabilities, total current liabilities was amounted to RMB1,218,128,088.67 (representing an increase of approximately 4.40% as compared with the beginning of this year of RMB1,166,787,449.34) and total non-current liabilities was amounted to RMB2,619,000.00, which Tianhai Industrial recorded non-current liabilities of RMB2,700,000.00 at the beginning of this year. The major items which were attributable to the changes of the total liabilities of Tianhai Industrial as at 31 July 2012 including the following:

(1) Notes payable

As at 31 July 2012, Tianhai Industrial recorded notes payable of RMB74,000,000.00, representing a increase of approximately 5.71% as compared with previous year (2011: RMB70,000,000.00). The increase in noted payable was deemed to have no significant changes as compared with the beginning of this year.

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(2) Account payable

As at 31 July 2012, Tianhai Industrial recorded account payable of RMB371,733,350.72, representing an increase of approximately 19.65% as compared with the beginning of this year (2011: RMB310,686,573.83). The increase in account payable was mainly due to the increase in credit purchase resulted from the increase in the total purchase amount.

(3) Other payables

As at 31 July 2012, Tianhai Industrial recorded other payables of RMB413,971,407.45, representing a decrease of approximately 24.12% as compared with the beginning of this year (2011: RMB545,554,287.30). The decrease in other payables was mainly due to the repayment of the borrowing from Jingcheng Holding.

Shareholders' equity

As at 31 July 2012, the total shareholders' equity amounted to RMB522,352,955.55, representing an increase of approximately 7.37% as compared with the beginning of this year (2011: RMB486,476,673.52). The shareholders' equity comprised of total shareholder's equity attributed to the parent of RMB398,974,817.71, representing an increase of approximately 8.38% as compared with the beginning of this year (2011: RMB368,134,621.27) and minority shareholder's equity of RMB123,378,137.84, representing an increase of approximately 4.26% as compared with the beginning of this year (2011: RMB118,342,052.25). The increase in total shareholder's equity attributed to the parent was mainly due to the increase in net profit.

The undistributed profit of RMB153,198,518.67, representing an increase of approximately 25.14% as compared with the beginning of this year (2011: RMB122,422,332.56), was mainly because of the increase in net profit.

Analysis of the changes in operating cost and the other income statement items

For the seven months ended 31 July 2012, the total operating cost of Tianhai Industrial amounted to RMB1,355,000,743.62, representing an increase of approximately 0.65% as compared with the corresponding period over the previous year (RMB1,346,298,190.04 for the seven months ended 31 July 2011). The analysis of the factors affecting the changes in total operating cost and other income statements items were as follow:

1. Operating costs

For the seven months ended 31 July 2012, the operating cost of Tianhai Industrial was amounted to RMB1,192,831,536.48, representing a decrease of approximately 1.10% as compared with the corresponding period over the previous year (RMB1,206,075,950.34 for the seven months ended 31 July 2011(unaudited)). As the operating income increased by approximately 1.38% as compared with the corresponding period over the previous year, the change in operating cost was deemed to insignificant.

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2. Tax and additional expenses

For the seven months ended 31 July 2012, Tianhai Industrial recorded tax and additional expense of RMB2,086,211.85, representing an increase of approximately 36.92% as compared with the corresponding period over the previous year (RMB1,523,727.06 for the seven months ended 31 July 2011(unaudited)). The increase in tax and additional expense was mainly because of the increase in value-added tax and the related urban maintenance and construction tax and educational surcharge has also increased.

3. Sales expenses

For the seven months ended 31 July 2012, Tianhai Industrial recorded sales expense of RMB45,421,105.82, representing an increase of approximately 10.41% as compared with the corresponding period over the previous year (RMB41,140,229.25 for the seven months ended 31 July 2011(unaudited)). The increase in sales expense was mainly due to the combined effect of increase in transportation expense by approximately RMB7,236,897.91 as a result of the increase in sales and the corresponding increase in cost of fuel, the increase in operation fee and travelling fee by approximately RMB1,039,670.50 and RMB1,529,497.50 as a result of the exploration and research on new markets, the decrease in salary and maintenance cost by approximately RMB2,719,875.71 and RMB2,039,381.09 as a result of decrease in performance-linked bonus and packaging costs for exports.

4. Administration expenses

For the seven months ended 31 July 2012, the administration expenses of Tianhai Industrial was amounted to RMB97,305,977.12, representing an increase of approximately 18.34% as compared with the corresponding period over the previous year. (RMB82,228,847.39 for the seven months ended 31 July 2011(unaudited)). The increase of administration expenses was mainly due to the increase in research and development expense of approximately RMB6,098,482.49, the professional fees in relation to the anti-dumping and countervailing duty investigations of approximately RMB1,875,361.12, the business advertising fee of approximately RMB1,159,212.76 and the salary of approximately RMB1,037,765.27 as the results of workforce expansion, increase in scale for research and development and promotion campaign.

5. Finance expenses

For the seven months ended 31 July 2012, the finance expenses of Tianhai Industrial was amounted to RMB15,867,448.13, representing an increase of approximately 7.53% as compared with the corresponding period over the previous year (RMB14,756,301.52 for the seven months ended 31 July 2011(unaudited)). The increase in finance expenses was mainly due to the increase in interest expense as a result of the increase in borrowing.

6. Assets impairment losses

For the seven months ended 31 July 2012, Tianhai Industrial recorded assets impairment losses of RMB1,488,464.22, as compared with the asset impairment losses of RMB573,134.48 (unaudited) for the seven months ended 31 July 2011, the assets impairment losses has increased by 159.71%. The increase in asset impairment losses was mainly due to the increase in account receivable which age more than a year.

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7. Non-operating income

For the seven months ended 31 July 2012, Tianhai Industrial recorded non-operating income of RMB827,339.37, representing an increase of approximately 33.61% as compared with the corresponding period over the previous year (RMB619,233.79 for the seven months ended 31 July 2011(unaudited)). The increase in non-operating income was mainly due to increase in the income from the disposal of fixed assets.

Analysis of cash flow

For the seven months ended 31 July 2012, Tianhai Industrial had a net cash flow of RMB-36,885,547.41, representing a decrease of RMB74,752,549.96 as compared with the corresponding period over the previous year. Among which, the net cash flow from operating activities has increased by RMB79,417,631.97 over the corresponding period in the previous year, resulting a net cash flow from operating activities of RMB30,911,897.78. Furthermore, the net cash flow from investing activities has decreased by RMB30,924,363.96 over the corresponding period in the previous year, resulting a net cash flow from investing activities of RMB-52,471,624.10. The net cash flow from financing activities has decreased by RMB125,936,790.66 as compared with the corresponding period in the previous year, resulting a net cash flow of RMB-16,165,500.61 from financing activities. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the seven months ended 31 July 2012, the cash inflow from operating activities has decreased by RMB79,708,784.61, which was mainly attributable to the decrease in cash receipts from the sale of goods of RMB80,359,381.30 as compared with the corresponding period in the previous year. Since the decrease of cash outflow from operating activities of RMB159,126,416.58 exceeded the decrease of cash inflow from operating activities, Tianhai Industrial recorded a net cash flow of RMB30,911,897.78 from the operating activities for the seven months ended 31 July 2012 and representing an increase of RMB79,417,631.97 as compared with the corresponding period over the previous year.

(ii) Cash flow from investing activities

For the seven months ended 31 July 2012, the cash inflow from investing activities has decreased by RMB12,050.00 as compared with the corresponding period over the previous year. On the other hand, cash outflow from investing activities has increased by RMB30,912,313.96, which was mainly attributable to the increase in cash payments for the TTHP406 Project and 200,000 CNG Gas Cylinders Project as compared with corresponding period in the previous year. As a result of the increase in cash outflow from investing activities exceeded the cash inflow from investing activities, Tianhai Industrial recorded a net cash flow of RMB-52,471,624.10 from investing activities for the seven months ended 31 July 2012 and representing a decrease of RMB30,924,363.96 as compared with the corresponding period in the previous year.

(iii) Cash flow from financing activities

For the seven months ended 31 July 2012, the cash inflow from financing activities has increased by RMB30,000,000.00, which was mainly attributable to the increase in cash receipts from borrowings. On the other hand, cash outflow from

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financing activities has increased by RMB155,936,790.66, which was mainly attributable to the increase in repayment of borrowings of RMB150,000,000.00 as compared with corresponding period over the previous year. As a result, the net cash flow from financing activities has decreased by RMB125,936,790.66 and Tianhai Industrial recorded a net cash flow of RMB-16,165,500.61 from the financing activities for the seven months ended 31 July 2012.

Liquidity

As at 31 July 2012, the current ratio of Tianhai Industrial was 1.04 (31 December 2011: 1.02), debtors' turnover days were 84.34 (31 December 2011: 26.02) and inventory turnover days were 112.37 (31 December 2011: 71.71).

Employees and remuneration

As at 31 July 2012, Tianhai Industrial had 3,778 employees (3,522 employees as at 31 December 2011). As of January to July of 2012, the total staff costs (including retirement benefits scheme contributions) were RMB150,887,092.81 (RMB147,288,588.84 for the seven months ended 2011 (unaudited)). Total staff costs included standard wage, piece wage, responsibility-based wage as well as allowances, insurance and housing provident fund, etc. granted according to the positions, years of employment and work.

Exchange rate risk

From January to July of 2012, Tianhai Industrial's exposure to exchange rate gains due to the changes in exchange rates was RMB960,206.77 (an unaudited exchange rate loss of RMB2,616,169.02 for the seven months ended 2011).

Pledge of assets

As at 31 July 2012, particulars of the secured borrowings of Tianhai Industrial were as follows and there were no changes from 31 December 2011:

Collateral	Balance of Borrowings RMB
Buildings	40,000,000.00
Machinery and equipment	<u>15,000,000.00</u>
Total	55,000,000.00

Contingent liabilities

As at 31 July 2012, Tianhai Industrial did not have external guarantee events and other material contingent events that need to be disclosed.

Capital commitment

For the seven months ended 31 July 2012, Tianhai Industrial has not entered into any capital commitment.

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Future Plans for Material Investments or Capital Assets

As of 31 July 2012, Tianhai Industrial did not have any concrete future plans in place with regard to its material investments or capital assets.

B. Management Discussion and Analysis of Jingcheng Compressor

Set out below is the management discussion and analysis of Jingcheng Compressor for the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and for the seven months ended 31 July 2012. The following information is based on the audit report of Jingcheng Compressor as set out in Appendix IV (2) to this circular.

Jingcheng Compressor is a limited liability company established in the PRC on 6 August 2002, which is owned as to 100% by Jingcheng Holding as at the Latest Practicable Date. The principal business activities of Jingcheng Compressor are the research and development, manufacture and sales of gas compressors, and its main products include piston compressors and diaphragm compressors, which are mainly used in gas filling, polycrystalline silicon, coal chemical, nuclear power and military industries. In October 2008, Beiren Group transferred its 33.86% equity interests in Jingcheng Compressor to Jingcheng Holding at nil consideration. Such transfer was completed in February 2009, following which Jingcheng Compressor was owned as to 76.21% by Jingcheng Holding and 23.79% by 北京工業發展投資管理有限公司 (Beijing Industrial Development Investment Management Co., Ltd.).

1. For the year ended 31 December 2009

Business review for the year

Turnover

Jingcheng Compressor recorded revenue of RMB95,205,592.43 for the year ended 31 December 2009, of which RMB94,550,891.57 was from its compressor business and Jingcheng Compressor sold 141 compressor machineries in 2009.

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Revenue segment:

The primary business of Jingcheng Compressor, which generated revenue of RMB94,596,345.11, accounted for approximately 99.36% of the total operating income in 2009, could be categorized into two different types of businesses, namely compressor business and environmental protection business. For the year ended 31 December 2009, the operating income and operating cost incurred from those business segments are set out as below:

Principal operations by businesses

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin
Compressor	93,941,644.25	62,311,460.33	33.67%
Environmental protection	654,700.86	277,184.96	57.66%

The operating income derived from compressor business was the major revenue segment of Jingcheng Compressor, which accounted for approximately 98.67% of the total operating income of Jingcheng Compressor for the year ended 31 December 2009. On the other hand, the operating income derived from environmental protection of RMB654,700.86 accounted for approximately 0.69% of the total operating income of Jingcheng Compressor for the year ended 31 December 2009.

Profit for the year

As for the financial performance of Jingcheng Compressor, the net profit after taxation and minority interest was RMB8,453,626.00. After excluding its environmental protection business, RMB10,922,009.46 of net profit was generated from its compressor business for the year ended 31 December 2009.

Financial and liquidity position

As at 31 December 2009, the audited net assets and current assets of Jingcheng Compressor were approximately RMB117,154,572.84 and RMB122,450,246.52, respectively. Excluding its environmental protection business, the audited net assets and current assets of Jingcheng Compressor were approximately RMB122,039,534.90 and RMB118,936,877.26 respectively. As of 31 December 2009, the total cash and bank balances of Jingcheng Compressor were RMB19,216,710.76. As at 31 December 2009, the bank borrowings of Jingcheng Compressor were RMB20,000,000.00, the borrowings will fall due on 24 March 2010 and 19 November 2010, and carry a fixed rate of 5.31%. Assets to liabilities ratio was 45.34%, the gearing ratio was 82.95%, and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 82.95\%$ as of 31 December 2009.

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Total assets

As at 31 December 2009, Jingcheng Compressor recorded total assets of RMB214,339,123.09, among which, total current assets was RMB122,450,246.52 and total non-current assets was RMB91,888,876.57. The major total assets items of Jingcheng Compressor as at 31 December 2009 including the following:

(1) Cash and cash balances

Jingcheng Compressor recorded cash and cash balances of RMB19,216,710.76 as at 31 December 2009, representing approximately 15.69% of the total current assets.

(2) Notes receivable

Jingcheng Compressor recorded note receivable of RMB7,203,720.00 as at 31 December 2009, representing approximately 5.88% of the total current assets.

(3) Accounts receivables

Jingcheng Compressor recorded accounts receivables of RMB29,837,186.69 as at 31 December 2009, representing approximately 24.37% of the total current assets.

(4) Prepayment

Jingcheng Compressor recorded prepayment of RMB4,700,625.52 as at 31 December 2009, representing approximately 3.84% of the total current assets.

(5) Inventory

Jingcheng Compressor recorded inventory of RMB59,696,848.70 as at 31 December 2009, representing approximately 48.75% of the total current assets.

(6) Long-term equity investments

Jingcheng Compressor recorded long-term equity investments of RMB46,385,025.66 as at 31 December 2009, representing approximately 50.48% of the total non-current assets.

(7) Fixed assets

Jingcheng Compressor recorded fixed assets of RMB31,832,658.17 as at 31 December 2009, representing approximately 34.64% of the total non-current assets.

(8) Construction in progress

Jingcheng Compressor has no construction in progress as at 31 December 2009.

(9) Intangible assets

Jingcheng Compressor recorded intangible assets of RMB10,140,642.68 as at 31 December 2009, representing approximately 11.04% of the total non-current assets.

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Total liabilities

As at 31 December 2009, Jingcheng Compressor recorded total liabilities of RMB97,184,550.25, among which the total current and non-current liabilities were amounted to RMB96,828,198.07 and RMB356,352.18. The major total liabilities items of Jingcheng Compressor as at 31 December 2009 including the following:

(1) Account payable

As at 31 December 2009, Jingcheng Compressor recorded account payable of RMB16,026,535.58, representing approximately 16.55% of the total current liabilities.

(2) Receipts in advance

As at 31 December 2009, Jingcheng Compressor recorded receipts in advance of RMB49,228,498.20, representing approximately 50.84% of the total current liabilities.

(3) Other payables

As at 31 December 2009, Jingcheng Compressor recorded other payables of RMB8,565,562.48, representing approximately 8.85% of the total current liabilities.

Shareholders' equity

As at 31 December 2009, the total shareholders' equity amounted to RMB117,154,572.84, in which were all ascribed to total shareholder's equity attributed to the parent of RMB117,154,572.84 with no minority shareholder's equity. The undistributed profit as at December 2009 was -RMB4,667,683.28 due to the net loss recorded prior to the track record period.

Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2009, the total operating cost of Jingcheng Compressor amounted to RMB99,943,468.04, in which the items comprising the total operating costs and the other income statement items are as follow:

1. Operating costs

For the year ended 31 December 2009, the operating cost of Jingcheng Compressor amounted to RMB63,105,315.04, representing approximately 63.14% of the total operating cost. The operating costs comprised of the costs incurred from the primary businesses of Jingcheng Compressor, namely the compressor business and environmental protection business of which the prime operating cost, (which mainly included costs of raw materials, labour, energy and depreciation, etc.), was RMB62,588,645.29 and other operating cost was RMB516,669.75.

2. Business tax and surcharge

For the year ended 31 December 2009, Jingcheng Compressor recorded tax and additional expense of RMB667,600.49, representing approximately 0.67% of the total operating cost. The business tax and surcharge mainly consisted of urban maintenance and construction tax, and educational surcharge of RMB415,131.57 and RMB249,078.92 respectively for the year ended 31 December 2009.

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3. Sales expenses

For the year ended 31 December 2009, Jingcheng Compressor recorded sales expense of RMB8,363,264.97, representing approximately 8.37% of the total operating cost. The sales expenses mainly consisted of employee compensation, travel expense, entertainment expense, sales service fee, and transportation and storage of RMB3,102,835.74, RMB1,226,571.65, RMB1,039,057.26, RMB1,277,979.28 and RMB1,414,794.51 respectively for the year ended 31 December 2009.

4. Administration expenses

For the year ended 31 December 2009, the administration expenses of Jingcheng Compressor was amounted to RMB19,932,398.35, representing approximately 19.94% of the total operating cost. Among the administration expenses, research and development expenses and employee compensation of RMB5,513,500.00 and RMB6,182,326.65 respectively were the two major administration expenses components that together accounted for approximately 58.68% of the administration expenses.

5. Finance expenses

For the year ended 31 December 2009, the finance expenses of Jingcheng Compressor amounted to RMB1,222,834.33, representing approximately 1.22% of the total operating cost. Among the finance expenses, interest expense was the major component which accounted for approximately 90% of the finance expenses.

6. Assets impairment losses

For the year ended 31 December 2009, Jingcheng Compressor recorded assets impairment losses of RMB6,652,054.86, which comprised the loss in bad debts and the impairment loss in inventories of RMB4,576,873.55 and RMB2,075,181.31 respectively.

7. Income on investment

For the year ended 31 December 2009, Jingcheng Compressor recorded income on investment of RMB11,648,552.81, which were solely ascribed to the long-term equity investment income from Fusheng Machine.

8. Non-operating income

For the year ended 31 December 2009, Jingcheng Compressor recorded non-operating income of RMB941,116.38, which was mainly consisted of the indemnity income of RMB820,000.

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Analysis of cash flow

For the year ended 31 December 2009, Jingcheng Compressor had a net cash flow of RMB-1,549,606.34, among which, the net cash outflow from operating activities amounted to RMB9,302,126.67, the net cash flow from investing activities amounted to RMB6,011,420.33 and net cash flow from financing activities amounted to RMB1,741,100.00. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Jingcheng Compressor from the operating activities amounted to RMB120,286,200.48 and RMB129,588,327.15 respectively, resulting a net cash flow of RMB-9,302,126.67 from the operating activities. The major cash inflow items from operating activities was the cash receipts from the sale of goods of RMB119,182,632.86. Moreover, the major cash outflow items from operating activities was the cash payments for goods acquired of RMB81,834,212.43.

(ii) Cash flow from investing activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Jingcheng Compressor from the investing activities amounted to RMB6,439,449.37 and RMB428,029.04 respectively, resulting a net cash flow of RMB6,011,420.33 from the investing activities. The major items of cash inflow from investing activities was the cash receipts from investment income of RMB6,320,864.37. Moreover, the cash outflow items from investing activities was solely from the cash payments to acquired fixed assets, intangible assets and other long-term assets of RMB428,029.04.

(iii) Cash flow from financing activities

For the year ended 31 December 2009, the cash inflow and cash outflow of Jingcheng Compressor from the financing activities amounted to RMB23,000,000.00 and RMB21,258,900.00 respectively, resulting a net cash flow of RMB1,741,100.00 from the financing activities. The major cash inflow items from financing activities was the cash receipts from borrowings and the major cash outflow items from financing activities was the cash repayments of amount borrowed.

Liquidity

As at 31 December 2009, the current ratio of Jingcheng Compressor was 1.33, debtors' turnover days were 114.39 and inventory turnover days were 228.87.

Employees and remuneration

As at 31 December 2009, Jingcheng Compressor had 264 employees. For the year ended 31 December 2009, the total staff cost (including retirement benefits scheme contributions) was RMB20,504,056.14.

Exchange rate risk

Management considered that Jingcheng Compressor was not exposed to significant foreign currency risks as at 31 December 2009.

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Pledge of assets

As at 31 December 2009, Jingcheng Compressor had not pledged any of its assets.

Contingent liabilities

Jingcheng Compressor had no significant contingent liabilities as at 31 December 2009.

Capital commitment

For the year ended 31 December 2009, Jingcheng Compressor has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 December 2009, Jingcheng Compressor did not have any concrete future plans in place with regard to its material investments or capital assets.

2. For the year ended 31 December 2010

Business review for the year

Turnover

Jingcheng Compressor recorded revenue of RMB105,488,456.80 for the year ended 31 December 2010 (RMB95,205,592.43 for the year ended 31 December 2009), of which RMB93,277,064.50 (2009: RMB94,550,891.57) was from its compressor business and Jingcheng Compressor sold 142 compressor machineries in 2010 (2009: 141 compressor machineries). The revenue derived from compressor business in 2010 had decreased by RMB1,273,827.07 (approximately 1.35%), which was deemed to be steady compared with the corresponding period in 2009.

Revenue segment:

The primary business of Jingcheng Compressor, which generated revenue of RMB104,687,354.92, accounted for approximately 99.24% of the total operating income in 2010, could be categorized into two different types of businesses, namely compressor business and environmental protection business. For the year ended 31 December 2010, the operating income and operating cost incurred from those business segments are set out as below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Compressor	92,475,962.62	71,014,524.70	23.21%	(1.56%)	13.97%
Environmental protection	12,211,392.30	7,409,779.01	39.32%	1,765.19%	2,573.23%

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The operating income derived from compressor business of RMB92,475,962.62, which accounted for approximately 87.66% of the total operating income of Jingcheng Compressor, was the major revenue segment of Jingcheng Compressor for the year ended 31 December 2010. The operating income derived from compressor business has decreased by approximately 1.56% over the previous year (2009: RMB93,941,644.25), which did not have significant changes over the previous year. Although the operating income derived from compressor business did not have significant changes, the respective operating cost of RMB71,014,524.70 has increased by approximately 13.97% (2009: RMB62,311,460.33), it was because the sales of the piston compressors was proportionally higher than the sales of other products within the compressor segment and the piston compressors has lower profit margin.

The operating income derived from environmental protection business of RMB12,211,392.30, which accounted for approximately 11.58% of the total operating income of Jingcheng Compressor for the year ended 31 December 2010, has increased by approximately 1,765.19% over the previous year (2009: RMB654,700.86) and mainly because Jingcheng Compressor has entered into several one-off sales contracts with customers this year.

Profit for the year

As for the financial performance of Jingcheng Compressor, the net profit after taxation and minority interest was RMB13,600,835.86 (RMB8,453,626.00 for the year ended 31 December 2009), of which RMB10,787,719.46 (2009: RMB10,922,009.46) was from its compressor business for the year ended 31 December 2010. The net profit after taxation and minority interest in 2010 derived from its compressor business has decreased by RMB134,290 (approximately 1.23%), which was deemed to be steady relative to the corresponding period in 2009.

Financial and liquidity position

As at 31 December 2010, the audited net assets and current assets of Jingcheng Compressor were approximately RMB129,787,092.14 and RMB137,088,085.89, respectively (RMB117,154,572.84 and RMB122,450,246.52 respectively as at 31 December 2009). Excluding its environmental protection business, the audited net assets and current assets of JingCheng Compressor were RMB132,702,605.66 and RMB133,287,597.90 respectively (RMB122,039,534.90 and RMB118,936,877.26 respectively as at 31 December 2009). As at 31 December 2010, the total cash and bank balances of Jingcheng Compressor were RMB26,615,708.13 (RMB19,216,710.76 as at 31 December 2009). As at 31 December 2010, Jingcheng Compressor had no bank borrowings.

Assets to liabilities ratio was 44.45% (2009: approximately 45.34%), the gearing ratio was 80.01% (2009: approximately 82.95%), and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 80.01\%$ as of 31 December 2010.

Total assets

As at 31 December 2010, Jingcheng Compressor recorded total assets of RMB233,635,690.90, representing an increase of approximately 9.00% over the previous year (2009: RMB214,339,123.09). Among the total assets, total current assets amounted to RMB137,088,085.89, representing an increase of approximately 11.95% over the previous year (2009: RMB122,450,246.52) and total non-current assets was amounted to

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RMB96,547,605.01, representing an increase of approximately 5.07% over the previous year (2009: RMB91,888,876.57). The major items which were attributable to the changes of the total assets of Jingcheng Compressor as at 31 December 2010 included the following:

(1) Cash and cash balances

Jingcheng Compressor recorded cash and cash balances of RMB26,615,708.13 as at 31 December 2010, representing an increase of approximately 38.50% over the previous year (2009: RMB19,216,710.76), mainly due to the increase in operating income.

(2) Notes receivable

Jingcheng Compressor recorded notes receivable of RMB5,130,921.80 as at 31 December 2010, representing a decrease of approximately 28.77% over the previous year (2009: RMB7,203,720.00), mainly due to more customers used telegraphic transfer for settlement rather than bank acceptance bill.

(3) Account receivables

Jingcheng Compressor recorded account receivables of RMB30,955,455.12 as at 31 December 2010, representing an increase of approximately 3.75% as compared with previous year (2009: RMB29,837,186.69). The increase in account receivables was deemed to have no significant as compared to the previous year.

(4) Prepayment

Jingcheng Compressor recorded prepayment of RMB6,240,245.26 as at 31 December 2010, representing an increase of approximately 32.75% as compared with previous year (2009: RMB4,700,625.52). The increase in prepayment was mainly due to the increase in purchasing components from suppliers.

(5) Inventory

Jingcheng Compressor recorded inventory of RMB65,649,531.99 as at 31 December 2010, representing an increase of approximately 9.97% as compared with previous year (2009: RMB59,696,848.70). The increase in inventory was mainly due to the increase in sales, which resulted to the increase in the materials purchased and level of work-in-progress.

(6) Long-term equity investments

Jingcheng Compressor recorded long-term equity investments of RMB53,852,351.79 as at 31 December 2010, representing an increase of approximately 16.10% as compared with previous year (2009: RMB46,385,025.66). The increase in long-term equity investments was mainly due to the increase in net profit of Fusheng Machine which was recorded into the long-term equity investments.

(7) Fixed assets

Jingcheng Compressor recorded fixed assets of RMB29,458,761.28 as at 31 December 2010, representing a decrease of approximately 7.46% as compared with previous year (2009: RMB31,832,658.17). The change in the amount of fixed assets was insignificant in 2010.

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(8) Construction in progress

Jingcheng Compressor had no construction in progress as at 31 December 2010.

(9) Intangible assets

Jingcheng Compressor recorded intangible assets of RMB9,828,162.74 as at 31 December 2010, representing a decrease of approximately 3.08% as compared with previous year (2009: RMB10,140,642.68). The decrease in intangible assets was deemed to have no significant changes as compared with previous year.

Total liabilities

As at 31 December 2010, Jingcheng Compressor recorded total liabilities of RMB103,848,598.76, representing an increase of approximately 6.86% over the previous year (2009: RMB97,184,550.25). Among the total liabilities, total current liabilities amounted to RMB103,434,459.74, representing an increase of approximately 6.82% over the previous year (2009: RMB96,828,198.07) and total non-current liabilities amounted to RMB414,139.02, representing an increase of approximately 16.22% over the previous year (2009: RMB356,352.18). The major items which were attributable to the changes of the total liabilities of Jingcheng Compressor as at 31 December 2010 including the following:

(1) Account payable

As at 31 December 2010, Jingcheng Compressor recorded account payable of RMB21,358,026.09, representing an increase of approximately 33.27% as compared with the previous year (2009: RMB16,026,535.58). The increase in account payable was mainly due to the relatively increase in the amount of material purchased.

(2) Receipts in advance

As at 31 December 2010, Jingcheng Compressor recorded receipts in advance of RMB46,069,520.29, representing a decrease of approximately 6.42% as compared with the previous year (2009: RMB49,228,498.20). The decrease in receipts in advance was mainly due to the settlement with one of the top five customers of RMB13,540,000.00.

(3) Other payables

As at 31 December 2010, Jingcheng Compressor recorded other payables of RMB33,501,159.38, representing an increase of approximately 291.11% as compared with the previous year (2009: RMB8,565,562.48). The composition of other payables was mainly the borrowing from Jingcheng Holding and the increase in other payables was mainly due to the increase in borrowing from Jingcheng Holding.

Shareholders' equity

As at 31 December 2010, the total shareholders' equity amounted to RMB129,787,092.14, representing an increase of approximately 10.78% as compared with the previous year (2009: RMB117,154,572.84). The shareholders' equity solely comprised of total shareholder's equity attributed to the parent of RMB129,787,092.14, representing a increase of approximately 10.78% as compared with the previous year (2009: RMB117,154,572.84) with no minority interest. The change in total shareholder's equity attributed to the parent was mainly due to the increase in net profit.

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The undistributed profit of RMB7,039,837.32, has increased by RMB11,707,520.60 from previous year, mainly because of the increase in net profit.

Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2010, the total operating cost of Jingcheng Compressor was amounted to RMB106,326,223.54, representing an increase of approximately 6.39% as compared with the previous year (2009: RMB99,943,468.04). The analysis of the factors affecting the changes in total operating cost and other income statements items were as follow:

1. Operating costs

For the year ended 31 December 2010, the operating cost of Jingcheng Compressor amounted to RMB78,979,928.89, representing an increase of approximately 25.16% over the previous year (2009: RMB63,105,315.04). Such increase was mainly due to the increase in prime operating cost, which mainly included costs of raw materials, labour, energy and depreciation, etc., of approximately RMB15,835,658.42. The relatively higher increase in operating cost than the increase in operating income was mainly due to the sales of the piston compressors, which was proportionally higher than the sales of other products within the compressor segment and the piston compressors has lower profit margin.

2. Business tax and surcharge

For the year ended 31 December 2010, Jingcheng Compressor recorded tax and additional expense of RMB593,770.39, representing a decrease of approximately 11.06% as compared with the previous year (2009: RMB667,600.49). The decrease in business tax and surcharge was mainly due to the decrease in the value-added tax and the related urban maintenance and construction tax and educational surcharge has also decreased.

3. Sales expenses

For the year ended 31 December 2010, Jingcheng Compressor recorded sales expense of RMB7,202,282.38, representing a decrease of approximately 13.88% as compared with the previous year (2009: RMB8,363,264.97). The decrease in sales expense was mainly due to the decrease in salaries of approximately RMB701,575.69 and transportation expense of approximately RMB562,859.07 as a result of the change in the sales staffs' performance appraisal program.

4. Administration expenses

For the year ended 31 December 2010, the administration expenses of Jingcheng Compressor was amounted to RMB23,841,681.89, representing an increase of approximately 19.61% as compared with the previous year. (2009: RMB19,932,398.35). The increase of administration expenses was mainly due to the increase in research and development expense of approximately RMB1,811,700.00 and the increase in employee compensation of approximately RMB1,711,211.29 as the results of the design fee for new model of compressor and performance-linked bonus in the year.

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5. Finance expenses

For the year ended 31 December 2010, the finance expenses of Jingcheng Compressor was amounted to RMB1,102,027.02, representing a decrease of approximately 9.88% over the previous year (2009: RMB1,222,834.33). The decrease in finance expenses was mainly due to decrease in interest expense as the borrowing rate decreased.

6. Assets impairment losses

For the year ended 31 December 2010, Jingcheng Compressor recorded assets impairment gains of RMB5,393,467.03 (2009: asset impairment losses of RMB6,652,054.86). The turn of asset impairment losses into gains was mainly due to the decrease in account receivable with age more than 1 year.

7. Income on investment

For the year ended 31 December 2010, the income on investment of Jingcheng Compressor was amounted to RMB14,482,031.33, representing an increase of approximately 24.32% over the previous year (2009: RMB11,648,552.81). The increase in income on investment was mainly due to the net profit attributed from the 30% equity interest in Fusheng Machine.

8. Non-operating income

For the year ended 31 December 2010, Jingcheng Compressor recorded non-operating income of RMB473,272.54, representing a decrease of approximately 49.71% over the previous year (2009: RMB941,116.38). The decrease in non-operating income was mainly due to Jingcheng Compressor recorded income from reimbursement.

Analysis of cash flow

For the year ended 31 December 2010, Jingcheng Compressor had a net cash flow of RMB7,398,997.37, representing an increase in net cash flow of RMB8,948,603.71 as compared with the previous year. Among which, the net cash flow from operating activities has increased by RMB7,903,064.97 as compared with the previous year, but due to the net cash flow from the operating activities of RMB-9,302,126.67 in the previous year, Jingcheng Compressor has recorded a net cash flow from operating activities of RMB-1,399,061.70 this year.

The net cash flow from investing activities has increased by RMB867,224.85 over the previous year, resulting a net cash flow from investing activities of RMB6,878,645.18 in 2010. The net cash flow from financing activities amounted to RMB1,919,413.89, which has increased by RMB178,313.89 as compared with the previous year. A further description of the cash flow composition was set up as below:

(i) Cash flow from operating activities

For the year ended 31 December 2010, the cash inflow from operating activities increased by RMB20,606,817.75, which was mainly attributable to the increase in cash inflow from the cash receipts from the sale of goods of RMB21,099,504.82 as compared with the previous year. On the other hand, cash outflow from operating activities also increased by RMB12,703,752.78, which was mainly attributable to the

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increase in cash payments for goods acquired of RMB12,602,276.38 as compared with the previous year. However, since Jingcheng Compressor recorded a net cash flow from operating activities of RMB-9,302,126.67 in the previous year, the increase in net cash flow of RMB7,903,064.97 from operating activities still resulted in Jingcheng Compressor making a net cash flow of RMB-1,399,061.70 from operating activities in this year.

(ii) Cash flow from investing activities

For the year ended 31 December 2010, the cash inflow from investing activities increased by RMB850,309.27, which was mainly attributable to the increase in cash receipts from investment income of RMB725,524.27 as compared with the previous year. On the other hand, cash outflow from investing activities decreased by RMB16,915.58 as compared with the previous year. As a result, the net cash flow from investing activities increased by RMB867,224.85 to a net cash flow RMB6,878,645.18 from the investing activities for the year ended 31 December 2010.

(iii) Cash flow from financing activities

For the year ended 31 December 2010, the cash inflow from financing activities increased by RMB1,000,000.00, which was mainly attributable to the increase in cash receipts from Jingcheng Holding's borrowings. On the other hand, cash outflow from financing activities also increased by RMB821,686.11 due to the increase in cash payments for distribution of dividends and interest expenses as compared with the previous year. As a result, Jingcheng Compressor had a net cash flow of RMB1,919,413.89 for the year ended 31 December 2010, which increased by RMB178,313.89 as compared with the previous year.

Liquidity

As at 31 December 2010, the current ratio of Jingcheng Compressor was 1.42 (2009: 1.33), debtors' turnover days were 107.11 (2009: 114.39) and inventory turnover days were 227.15 (2009: 228.87).

Employees and remuneration

As at 31 December 2010, Jingcheng Compressor had 263 employees (264 employees as at 31 December 2009). For the year ended 31 December 2010, the total staff costs (including retirement benefits scheme contributions) were RMB21,829,924.24 (2009: RMB20,504,056.14).

Exchange rate risk

Management considered that Jingcheng Compressor was not exposed to significant foreign currency risks as at 31 December 2010.

Pledge of assets

As at 31 December 2010, Jingcheng Compressor had not pledged any of its assets.

Contingent liabilities

Jingcheng Compressor had no significant contingent liabilities as at 31 December 2010.

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Capital commitment

For the year ended 31 December 2010, Jingcheng Compressor has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 December 2010, Jingcheng Compressor did not have any concrete future plans in place with regard to its material investments or capital assets.

3. For the year ended 31 December 2011

Business review for the year

Turnover

Jingcheng Compressor recorded revenue of RMB142,096,085.97 for the year ended 31 December 2011 (RMB105,488,456.80 for the year ended 31 December 2010), of which RMB124,797,385.09 (2010: RMB93,277,064.50) was from its compressor business. The revenue derived from compressor business in 2011 increased by RMB31,520,320.59 (approximately 33.79%) and Jingcheng Compressor sold 193 compressor machineries in 2011 (2010: 142 compressor machineries). The increase in sale for the year ended 2011 was mainly attributable to the reform of marketing strategy from the original divided regional marketing strategy into a non-regional restriction marketing strategy which the well-performed marketing team could obtain orders in a cross-regional basis. It resulted in a significant increase in sales orders and at the same time, Jingcheng Compressor focused on enhancing the sales of the product lines with high-profit margin and high value-added over its other product lines, thus further increased the profit of Jingcheng Compressor.

Revenue segment

The primary business of Jingcheng Compressor, which generated revenue of RMB141,297,523.93, accounted for approximately 99.44% of the total operating income in 2011, could be categorized into two different types of businesses, namely compressor business and environmental protection business. For the year ended 31 December 2011, the operating income and operating cost incurred from those business segments are set out below:

Principal operations by products

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Compressor	123,998,823.05	91,637,243.26	26.10%	34.09%	29.04%
Environmental protection	17,298,700.88	15,766,150.76	8.86%	41.66%	112.77%

The operating income derived from compressor business of RMB123,998,823.05, which accounted for approximately 87.26% of the total operating income of Jingcheng Compressor, was the major revenue segment of Jingcheng Compressor for the year ended

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31 December 2011. The operating income derived from compressor business has increased by approximately 34.09% over the previous year (2010: RMB92,475,962.62), which was mainly driven by the strong market demand.

The operating income derived from environmental protection business of RMB17,298,700.88, which accounted for approximately 12.17% of the total operating income of Jingcheng Compressor, has increased by approximately 41.66% over the previous year (2010: RMB12,211,392.30). On the other hand, the operating cost incurred from environmental business of RMB15,766,150.76 for the year ended 31 December 2011, has increased by approximately 112.77% over the previous year. The increase in operating income was mainly because of Jingcheng Compressor has realized sales income of RMB14,860,000.00 through a one-off sale contract with a customer. The increase in operating cost was mainly due to the overdue fine for the delayed payment of land-transferring fees of RMB990,000.00.

Profit for the year

As for the financial performance of Jingcheng Compressor, the net profit after taxation and minority interest was RMB13,313,832.70 (RMB13,600,835.86 for the year ended 31 December 2010). After excluding its environmental protection business, RMB14,927,062.17 (2010: RMB10,787,719.46) was generated from its compressor business for the year ended 31 December 2011, which had increased by RMB4,139,342.71 (approximately 38.37%) relative to the corresponding period in 2010. The increase in net profit after taxation and minority interest was mainly due to the increase in turnover in 2011.

Financial and liquidity position

As at 31 December 2011, the audited net assets and current assets of Jingcheng Compressor were RMB147,105,141.38 and RMB178,852,950.36 respectively (RMB129,787,092.14 and RMB137,088,085.59 respectively as at 31 December 2010). Excluding its environmental protection business, the audited net assets and current assets of Jingcheng Compressor were RMB147,788,921.40 and RMB147,777,871.28, respectively (RMB132,702,605.66 and RMB133,287,597.90 respectively as at 31 December 2010). As of 31 December 2011, the total cash and bank balances of Jingcheng Compressor were RMB42,316,611.27 (2010: RMB26,615,708.13). As at 31 December 2011, Jingcheng Compressor had no bank borrowings.

Assets to liabilities ratio was approximately 48.12% (2010: approximately 44.45%), the gearing ratio was approximately 96.03% (2010: approximately 80.01%), and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 96.03\%$ as of 31 December 2011.

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Total assets

As at 31 December 2011, Jingcheng Compressor recorded total assets of RMB283,574,665.29, representing an increase of approximately 21.37% over the previous year (2010: RMB233,635,690.90). Among the total assets, total current assets was amounted to RMB178,852,950.36, representing an increase of approximately 30.47% over the previous year (2010: RMB137,088,085.89) and total non-current assets was amounted to RMB104,721,714.93, representing an increase of approximately 8.47% over the previous year (2010: RMB96,547,605.01). The major items which were attributable to the changes of the total assets of Jingcheng Compressor as at 31 December 2011 included the following:

(1) Cash and cash balances

Jingcheng Compressor recorded cash and cash balances of RMB42,316,611.27 as at 31 December 2011, representing an increase of approximately 58.99% over the previous year (2010: RMB26,615,708.13). The increase of cash and cash balances was mainly due to the increase in borrowing from Jingcheng Holding for the purpose of the investment in Jingcheng Tianyi.

(2) Notes receivable

Jingcheng Compressor recorded notes receivable of RMB5,258,061.28 as at 31 December 2011, representing an increase of approximately 2.48% over the previous year (2010: RMB5,130,921.80). The increase in notes receivable was deemed to have no significant changes over the previous year.

(3) Account receivables

Jingcheng Compressor recorded account receivables of RMB34,045,054.66 as at 31 December 2011, representing an increase of approximately 9.98% as compared with previous year (2010: RMB30,955,455.12). The increase in account receivables was mainly due to the relatively increase in sales in 2011.

(4) Prepayment

Jingcheng Compressor recorded prepayment of RMB11,111,966.59 as at 31 December 2011, representing an increase of approximately 78.07% as compared with previous year (2010: RMB6,240,245.26). The increase in prepayment was mainly due to the relatively increase in materials purchased.

(5) Inventory

Jingcheng Compressor recorded inventory of RMB83,968,807.84 as at 31 December 2011, representing an increase of approximately 27.90% as compared with previous year (2010: RMB65,649,531.99). The increase in inventory level was mainly due to substantial increase in inventory of finished goods

(6) Long-term equity investments

Jingcheng Compressor recorded long-term equity investments of RMB63,697,926.09 as at 31 December 2011, representing an increase of approximately 18.28% as compared with previous year (2010: RMB53,852,351.79). The increase in long-term equity investments was mainly due to the increase in net profit of Fusheng Machine which was recorded to the long-term equity investments.

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(7) Fixed assets

Jingcheng Compressor recorded fixed assets of RMB27,725,778.19 as at 31 December 2011, representing a decrease of approximately 5.88% as compared with previous year (2010: RMB29,458,761.28). The decrease in fixed assets was deemed to have no significant changes over the previous year.

(8) Construction in progress

Jingcheng Compressor recorded construction in progress of RMB188,000 as at 31 December 2011, which was mainly due to the start of the production capacity expansion project of the production base.

(9) Intangible assets

Jingcheng Compressor recorded intangible assets of RMB9,651,922.80 as at 31 December 2011, representing a decrease of approximately 1.79% as compared with previous year (2010: RMB9,828,162.74). The decrease in intangible assets was deemed to have no significant changes over the previous year.

Total liabilities

As at 31 December 2011, Jingcheng Compressor recorded total liabilities of RMB136,469,523.91, representing an increase of approximately 31.41% over the previous year (2010: RMB103,848,598.76). Among the total liabilities, total current liabilities amounted to RMB135,997,598.05, representing an increase of approximately 31.48% over the previous year (2010: RMB103,434,459.74) and total non-current liabilities amounted to RMB471,925.86, which Jingcheng Compressor recorded non-current liabilities of RMB414,139.02 at the beginning of this year. The major items which were attributable to the changes of the total liabilities of Jingcheng Compressor as at 31 December 2011 included the following:

(1) Account payable

As at 31 December 2011, Jingcheng Compressor recorded account payable of RMB30,844,040.33, representing an increase of approximately 44.41% as compared with the previous year (2010: RMB21,358,026.09). The increase in account payable was mainly due to the relatively increase in material purchased.

(2) Receipts in advance

As at 31 December 2011, Jingcheng Compressor recorded receipts in advance of RMB54,371,483.45, representing an increase of approximately 18.02% as compared with the previous year (2010: RMB46,069,520.29). The increase in receipts in advance was mainly due to increase in the payment from customers in accordance to the payment schedule as stipulated in the sales contracts.

(3) Other payables

As at 31 December 2011, Jingcheng Compressor recorded other payables of RMB52,287,118.38, representing an increase of approximately 56.08% as compared with the previous year (2010: RMB33,501,159.38). The composition of other payables was mainly the borrowing from Jingcheng Holding and the increase in other payables was mainly due to increase in the borrowing from Jingcheng Holding.

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Shareholders' equity

As at 31 December 2011, the total shareholders' equity amounted to RMB147,105,141.38, representing an increase of approximately 13.34% as compared with the previous year (2010: RMB129,787,092.14). The shareholders' equity comprised of total shareholder's equity attributed to the parent of RMB142,105,141.38, representing a increase of approximately 9.49% as compared with the previous year (2010: RMB129,787,092.14) and minority shareholder's equity of RMB5,000,000.00 (2010: nil). The increase in total shareholder's equity attributed to the parent was mainly due to the increase in net profit.

The undistributed profit of RMB18,022,286.93, representing an increase of approximately 156.00% over the previous year (2010: RMB7,039,837.32), was mainly because of the increase in net profit.

Analysis of the changes in operating cost and the other income statement items

For the year ended 31 December 2011, the total operating cost of Jingcheng Compressor amounted to RMB146,133,886.31, representing an increase of approximately 37.44% as compared with the previous year (2010: RMB106,326,223.54). The analysis of the factors affecting the changes in total operating cost and other income statements items were as following:

1. Operating costs

For the year ended 31 December 2011, the operating cost of Jingcheng Compressor amounted to RMB108,003,395.41, representing an increase of approximately 36.75% over the previous year (2010: RMB78,979,928.89). The increase in operating cost was mainly due to the relative increase in prime operating cost, which mainly included costs of raw materials, labour, energy and depreciation, etc., of approximately RMB28,979,090.31 as a result of increase in sales and the corresponding production activities.

2. Business tax and surcharge

For the year ended 31 December 2011, Jingcheng Compressor recorded tax and additional expense of RMB466,357.61, representing a decrease of approximately 21.46% as compared with the previous year (2010: RMB593,770.39). The decrease in business tax and surcharge was mainly because of the decrease in value-added tax expense, thus the related urban maintenance and construction tax and educational surcharge has also decreased.

3. Sales expenses

For the year ended 31 December 2011, Jingcheng Compressor recorded sales expense of RMB10,124,531.81, representing an increase of approximately 40.57% as compared with the previous year (2010: RMB7,202,282.38). The increase in sales expense was mainly due to the increase in sales service fee of approximately RMB1,858,489.98, transportation and storage fee of approximately RMB563,830.18 and employee compensation of approximately RMB349,504.62 as a result of increase in sales, performance-linked bonus, fee for technical advisory service.

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4. Administration expenses

For the year ended 31 December 2011, the administration expenses of Jingcheng Compressor was amounted to RMB28,103,262.89, representing an increase of approximately 17.87% as compared with the previous year. (2010: RMB23,841,681.89). The increase of administration expenses was mainly due to the increase in research and development expense of approximately RMB3,571,627.68 and office expense of approximately RMB410,959.06 as the results of the design fee for new model of compressor and research done on large diaphragm compressor.

5. Finance expenses

For the year ended 31 December 2011, the finance expenses of Jingcheng Compressor was amounted to RMB1,024,390.37, representing a decrease of approximately 7.04% over the previous year (2010: RMB1,102,027.02). The decrease in finance expenses was mainly due to the decrease in bank charges.

6. Assets impairment losses

For the year ended 31 December 2011, Jingcheng Compressor recorded assets impairment gains of RMB1,588,051.78 (2010: RMB5,393,467.03). The increase in asset impairment gains was mainly due to the increase in the account receivable with age more than 1 year.

7. Income on investment

For the year ended 31 December 2011, the income on investment of Jingcheng Compressor was amounted to RMB18,010,724.42, representing an increase of approximately 24.37% over the previous year (2010: RMB14,482,031.33). The increase in income on investment was mainly due to the net profit attributed to Jingcheng Compressor from the 30% equity interest in Fusheng Machine.

8. Non-operating income

For the year ended 31 December 2011, Jingcheng Compressor recorded non-operating income of RMB365,508.85, representing a decrease of approximately 22.77% over the previous year (2010: RMB473,272.54). The decrease in non-operating income was mainly due to the decrease in government subsidies.

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Analysis of cash flow

For the year ended 31 December 2011, Jingcheng Compressor had a net cash flow of RMB15,700,903.14, representing an increase of the net cash flow of RMB8,301,905.77 as compared with the previous year. Among which, the cash flow from operating activities decreased by RMB12,934,832.28 over the previous year, resulting a net cash flow of RMB-14,333,893.98 from operating activities in 2011. Furthermore, the cash flow from investing activities decreased by RMB1,696,881.39 over the previous year, resulting a net cash flow of RMB5,181,763.79 in 2011 from investing activities. The net cash flow from financing activities amounted to RMB24,853,033.33, which has increased by RMB22,933,619.44 as compared with the previous year. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the year ended 31 December 2011, the cash inflow from operating activities increased by RMB32,505,085.47, which was mainly attributable to the increase in the cash receipts from the sale of goods of RMB32,581,419.61 as compared with the previous year. On the other hand, cash outflow from operating activities also increased by RMB45,439,917.75, which was mainly attributable to the increase in cash payments for goods acquired of RMB31,113,490.83 as compared with the previous year. Due to the increase in cash outflow from operating activities exceeded the cash inflow from operating activities, the cash flow from operating activities decreased by RMB12,934,832.28 and resulting in a net cash flow of RMB-14,333,893.98 from operating activities for the year ended 31 December 2011.

(ii) Cash flow from investing activities

For the year ended 31 December 2011, the cash inflow from investing activities increased by RMB994,607.82, which was mainly due to the increase in cash receipts from investment income of RMB1,122,977.82. On the other hand, cash outflow from investing activities also increased by RMB2,691,489.21, which was solely attributable to the increase in cash payments for land transferring fee and acquiring fixed assets.

As a result of the increase in cash outflow from investing activities exceeded the cash inflow from investing activities, the net cash flow from investing activities has decreased by RMB1,696,881.39 to a net cash flow of RMB5,181,763.79 from investing activities for the year ended 31 December 2011.

(iii) Cash flow from financing activities

For the year ended 31 December 2011, the cash inflow from financing activities increased by RMB43,000,000.00, which was mainly attributable to the increase in cash receipts from the Jingcheng Holding's borrowing. On the other hand, cash outflow from financing activities increased by RMB20,066,380.56, which was mainly attributable to the increase in repayment of Jingcheng Holding's borrowings. The net cash flow from the financing activities has increased by RMB22,933,619.44 to a net cash flow of RMB24,853,033.33 from financing activities for the year ended 31 December 2011.

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Liquidity

As at 31 December 2011, the current ratio of Jingcheng Compressor was 1.71 (2010: 1.42), debtors' turnover days were 87.45 (2010: 107.11) and inventory turnover days were 215.69 (2010: 227.15).

Employees and remuneration

As at 31 December 2011, Jingcheng Compressor had 255 employees (263 employees as at 31 December 2010). For the year ended 31 December 2011, the total staff costs (including retirement benefits scheme contributions) were RMB23,544,917.37 (2010: RMB21,829,924.24).

Exchange rate risk

Management considered that Jingcheng Compressor was not exposed to significant foreign currency risks as at 31 December 2011.

Pledge of assets

As at 31 December 2011, Jingcheng Compressor had not pledged any of its assets.

Contingent liabilities

Jingcheng Compressor had no significant contingent liabilities as at 31 December 2011.

Capital commitment

On 23 December 2011, Jingcheng Compressor entered into a compressor production technology advancement project, with a total budget of RMB29,990,000.00 and expected to be completed in May of 2013.

Future Plans for Material Investments or Capital Assets

As at 31 December 2011, Jingcheng Compressor did not have any concrete future plans in place with regard to its material investments or capital assets.

4. For the seven months ended 31 July 2012

Business review for the seven months

Turnover

Jingcheng Compressor recorded revenue of RMB29,772,589.31 for the seven months ended 31 July 2012 (an unaudited revenue of RMB32,642,322.36 for the seven months ended 31 July 2011). After excluding its environmental protection business, a revenue of RMB30,147,760.25 was recorded from its compressor business. The decrease in total

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revenue by RMB2,869,733.05 (approximately 8.79%) for the seven months ended 2012 relative to the corresponding period in 2011 was mainly attributable to (i) the shrinkage of photovoltaic market starting from the fourth quarter of 2011 due to the European debt crisis and (ii) the reassessment of nuclear power safety by the PRC government after the arisen of Japan nuclear crisis, following which sales order decreased, thus lowering the revenue of Jingcheng Compressor for the seven months ended 2012.

Revenue segment

The primary business of Jingcheng Compressor, which generated revenue of RMB29,087,858.42, accounted for approximately 97.70% of the total operating income for the seven months ended 2012, could be categorized into two different types of businesses, namely compressor business and environmental protection business. For the seven months ended 31 July 2012, the operating income and operating cost incurred from those business segments are set out as below:

Principal operations by businesses

Unit: RMB

Types of product	Operating income	Operating cost	Gross Profit margin	Increase/ (decrease) in operating income from the previous year	Increase/ (decrease) in operating cost from the previous year
Compressor	28,913,029.36	21,394,834.16	26.00%	(3.04%)	(0.86%)
Environmental protection	174,829.06	184,095.00	-5.30%	(92.82%)	(86.13%)

The operating income derived from compressor business of RMB28,913,029.36, which accounted for approximately 97.11% of the total operating income of Jingcheng Compressor, was the major revenue segment of Jingcheng Compressor for the seven months ended 31 July 2012. The operating income derived from compressor business decreased by approximately 3.04% over the corresponding period in the previous year (RMB29,818,371.17 for the seven months ended 31 July 2012), which was deemed to have no significant changes over the corresponding period in the previous year.

The operating income derived from environmental protection business of RMB174,829.06, which accounted for approximately 0.59% of the total operating income of Jingcheng Compressor for the seven months ended 31 July 2012, decreased by approximately 92.82% over the corresponding period in the previous year (RMB2,434,188.03 for the seven months ended 31 July 2011). On the other hand, the operating cost incurred from environmental business of RMB184,095.00 for the year ended 31 July 2012, decreased by approximately 86.13% over the corresponding period in the previous year. The decrease in operating income was mainly because of Jingcheng Compressor has realized sales income of RMB14,860,000.00 through a one-off sale contract with a customer in 2011, and it did not recur in this reporting period. The decrease in operating income was mainly due to Jingcheng Compressor had an overdue fine for the delayed payment of land-transferring fees of RMB990,000.00 in 2011, and it did not have in this reporting period.

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Profit for the seven months

As for the financial performance of Jingcheng Compressor, the net loss after taxation and minority interest was RMB6,377,614.22 (an unaudited net profit after taxation and minority interest was RMB3,903,669.24 for the seven months ended 31 July 2011), of which the loss of RMB3,740,914.40 was from its compressor business for the seven months ended 31 July 2012. The net loss after taxation and minority interest had decreased by RMB10,281,283.46 relative to the corresponding period in 2011.

Financial and liquidity position

As at 31 July 2012, the audited net assets and current assets of Jingcheng Compressor were RMB145,547,379.70 and RMB241,708,642.17, respectively (RMB147,105,131.38 and RMB178,852,950.36 respectively as at 31 December 2011). Excluding its environmental protection business, the audited net assets and current assets of Jingcheng Compressor were approximately RMB145,325,192.38 and RMB195,251,118.41 respectively (RMB147,788,921.40 and RMB147,777,871.28 respectively as at 31 December 2011). As at 31 July 2012, the total cash and bank balances of Jingcheng Compressor were approximately RMB55,408,549.79 (2011: RMB42,316,611.27). As at 31 July 2012, the bank borrowings of Jingcheng Compressor were RMB300,000.00 and carry a fixed rate of 6.888%.

Assets to liabilities ratio was approximately 58.88% (2011: approximately 48.12%), the gearing ratio was approximately 153.56% (2011: approximately 96.03%), and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 153.56\%$ as of 31 July 2012. The increase in gearing ratio was because of the increase in borrowing from Jingcheng Holding of RMB40 million.

Total assets

As at 31 July 2012, Jingcheng Compressor recorded total assets of RMB353,970,326.37, representing an increase of approximately 24.82% as compared with previous year (2011: RMB283,574,665.29). Among the total assets, total current assets amounted to RMB241,708,642.17, representing an increase of approximately 35.14% as compared with 31 December 2011 (2011: RMB178,852,950.36) and total non-current assets amounted to RMB112,261,684.20, representing an increase of approximately 7.20% as compared with 31 December 2011 (2011: RMB104,721,714.93). The major items which were attributable to the changes of the total assets of Jingcheng Compressor as at 31 July 2012 including the following:

(1) Cash and cash balances

Jingcheng Compressor recorded cash and cash balances of RMB55,408,549.79 as at 31 July 2012, representing a increase of approximately 30.94% as compared with the beginning of this year of RMB42,316,611.27. The increase of cash and cash balances was mainly due to the increase in the borrowing from Jingcheng Holding.

(2) Notes receivable

Jingcheng Compressor recorded notes receivable of RMB11,375,697.79 as at 31 July 2012, representing an increase of approximately 116.35% as compared with the beginning of this year of RMB5,258,061.28. The increase in notes receivable was mainly due to more customers used notes for payment settlement.

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(3) Account receivables

Jingcheng Compressor recorded account receivables of RMB29,641,903.59 as at 31 July 2012, representing a decrease of approximately 12.93% as compared with the beginning of this year (2011: RMB34,045,054.66). The decrease in account receivables was mainly due to the decrease in sales in this period.

(4) Prepayment

Jingcheng Compressor recorded prepayment of RMB11,347,474.94 as at 31 July 2012, representing a increase of approximately 2.12% as compared with the beginning of this year (2011: RMB11,111,966.59). The increase in prepayment was deemed to have no significant changes as compared with the beginning of this year.

(5) Inventory

Jingcheng Compressor recorded inventory of RMB102,077,290.96 as at 31 July 2012, representing an increase of approximately 21.57% as compared with the beginning of this year (2011: RMB83,968,807.84). The increase in inventory was mainly due to the increase in products that were yet to be delivered to customers.

(6) Fixed assets

Jingcheng Compressor recorded fixed assets of RMB25,890,926.93 as at 31 July 2012, representing a decrease of approximately 6.62% as compared with the beginning of this year (2011: RMB27,725,778.19). The change in fixed assets was insignificant in this period.

(7) Long-term equity investments

Jingcheng Compressor recorded long-term equity investments of RMB72,303,855.86 as at 31 July 2012, representing an increase of approximately 13.51% as compared with the beginning of this year (2011: RMB63,697,926.09). The increase in long-term equity investment was mainly due to the increase in net profit of Fusheng Machine that was recorded into the long-term equity investments.

(8) Construction in progress

Jingcheng Compressor recorded construction in progress of RMB844,400 as at 31 July 2012, representing an increase of approximately 349.15% as compared with the beginning of this year (2011: RMB188,000). Such increase was mainly due to the project on production capacity expansion of the production base.

(9) Intangible assets

Jingcheng Compressor recorded intangible assets of RMB9,451,302.84 as at 31 July 2012, representing a decrease of approximately 2.08% as compared with the beginning of this year (2011: RMB9,651,922.80). The decrease in intangible assets was deemed to have no significant changes as compared with the beginning of this year.

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Total liabilities

As at 31 July 2012, Jingcheng Compressor recorded total liabilities of RMB208,422,946.67, representing an increase of approximately 52.72% as compared with the beginning of this year (2011: RMB136,469,523.91). Among the total liabilities, total current liabilities amounted to RMB206,137,311.82 (representing an increase of approximately 51.57% as compared with the beginning of this year of RMB135,997,598.05) and total non-current liabilities amounted to RMB2,285,634.85, which has increased by approximately 384.32% as compared with the beginning of this year. The major items which were attributable to the changes of the total liabilities of Jingcheng Compressor as at 31 July 2012 including the following:

(1) Account payable

As at 31 July 2012, Jingcheng Compressor recorded account payable of RMB23,580,808.13, representing a decrease of approximately 23.55% as compared with the beginning of this year (2011: RMB30,844,040.33). The decrease in account payable was mainly due to relatively decrease in material purchased resulted from the decline of sales for the seven months ended 31 July 2012.

(2) Receipts in advance

As at 31 July 2012, Jingcheng Compressor recorded receipts in advance of RMB71,964,301.45, representing an increase of approximately 32.36% as compared with the beginning of this year (2011: RMB54,371,483.45). The increase in receipts in advance was mainly due to the increase in the payment from customers in accordance to the payment schedule as stipulated in the sales contracts.

(3) Other payables

As at 31 July 2012, Jingcheng Compressor recorded other payables of RMB114,463,622.74, representing an increase of approximately 118.91% as compared with the beginning of this year (2011: RMB52,287,118.38). The composition of other payables was mainly the borrowing from Jingcheng Holding and the increase in other payables was mainly due to increase in the borrowings from Jingcheng Holding.

Shareholders' equity

As at 31 July 2012, the total shareholders' equity amounted to RMB145,547,379.70, representing an decrease of approximately 1.06% as compared with the beginning of this year (2011: RMB147,105,141.38). The shareholders' equity comprised of total shareholder's equity attributed to the parent of RMB135,727,527.16, representing a decrease of approximately 4.49% as compared with the beginning of this year (2011: RMB142,105,141.38) and minority shareholder's equity of RMB9,819,852.54, representing an increase of approximately 96.40% as compared with the beginning of this year (2011: RMB5,000,000.00). The increase in minority shareholder's equity was in accordance to the amount of the 20% equity interest of Jingcheng Tianyi that attributable to Jingcheng Compressor.

The undistributed profit of RMB11,644,672.71, representing an decrease of approximately 35.39% as compared with the beginning of this year (2011: RMB18,022,286.93), was mainly because of the net loss recorded for the seven months ended 31 July 2012.

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Analysis of the changes in operating cost and the other income statement items

For the seven months ended 31 July 2012, the total operating cost of Jingcheng Compressor amounted to RMB44,534,351.66, representing an increase of approximately 24.04% as compared with the corresponding period over the previous year (RMB35,904,316.94 for the seven months ended 31 July 2011 (unaudited)). The analysis of the factors affecting the changes in total operating cost and other income statements items were as follow:

1. Operating costs

For the seven months ended 31 July 2012, the operating cost of Jingcheng Compressor amounted to RMB22,216,282.02, representing a decrease of approximately 3.53% as compared with the corresponding period over previous year (RMB23,029,622.15 for the seven months ended 31 July 2011 (unaudited)). As the operating income decreased by approximately 8.79% as compared with the corresponding period over the previous year, the change in operating cost was deemed to insignificant.

2. Business tax and surcharge

For the seven months ended 31 July 2012, Jingcheng Compressor recorded tax and additional expense of RMB81,185.10, representing a decrease of approximately 48.88% as compared with the corresponding period over the previous year (RMB158,820.71 for the seven months ended 31 July 2011 (unaudited)). The decrease in tax and additional expense was mainly because of the decrease in value-added tax, thus the related urban maintenance and construction tax and educational surcharge has also decreased.

3. Sales expenses

For the seven months ended 31 July 2012, Jingcheng Compressor recorded sales expense of RMB5,510,971.04, representing an increase of approximately 13.04% as compared with the corresponding period over the previous year (RMB4,875,159.22 for the seven months ended 31 July 2011 (unaudited)). The increase in sales expense was mainly due to the increase in salary for sales staff of approximately RMB244,889.83, transportation expense of approximately RMB257,018.21 and the absence of technical or project advisory fee as in previous year.

4. Administration expenses

For the seven months ended 31 July 2012, the administration expenses of Jingcheng Compressor amounted to RMB14,855,311.21, representing an increase of approximately 22.19% as compared with the corresponding period over the previous year (RMB12,157,108.95 for the seven months ended 31 July 2011 (unaudited)). The increase of administration expenses was mainly due to the increase in research and development expense of approximately RMB1,626,831.17 as a result of the design fee for new model of compressor.

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5. Finance expenses

For the seven months ended 31 July 2012, the finance expenses of Jingcheng Compressor amounted to RMB530,706.37, representing a decrease of approximately 17.30% as compared with the corresponding period over the previous year (RMB641,740.83 for the seven months ended 31 July 2011 (unaudited)). The decrease in finance expenses was mainly due to decrease in interest expense.

6. Assets impairment losses

For the seven months ended 31 July 2012, Jingcheng Compressor recorded assets impairment losses of RMB1,339,895.92, as compared with the asset impairment gains of RMB4,958,134.92 for the seven months ended 31 July 2011 (unaudited), the assets impairment losses has increased by RMB6,298,030.84. The increase in asset impairment losses was mainly due to the increase in account receivable with age more than a year.

7. Income on investment

For the seven months ended 31 July 2012, Jingcheng Compressor recorded income on investment of RMB8,784,009.22, representing an increase of approximately 19.09% as compared with the corresponding period over the previous year (RMB7,375,739.66 for the seven months ended 31 July 2011 (unaudited)). The increase in income on investment was mainly due to the net profit attributed to Jingcheng Compressor from the 30% equity interest in Fusheng Machine.

Analysis of cash flow

For the seven months ended 31 July 2012, Jingcheng Compressor had a net cash flow of RMB13,091,938.52, representing a decrease of net cash flow of RMB25,895,103.44 as compared with the corresponding period over the previous year. Among which, the net cash flow from operating activities has decreased by RMB22,475,015.40 over the corresponding period in the previous year, resulting a net cash flow of RMB-22,424,294.27 from operating activities in January to July 2012. Furthermore, the net cash flow from investing activities has further decrease by RMB27,879,747.39 over the corresponding period in the previous year, resulting a net cash flow of RMB-28,375,554.34 from investing activities. The net cash flow from financing activities has increased by RMB24,459,659.35 as compared with the corresponding period in the previous year, resulting a net cash flow of RMB63,891,787.13 from financing activities. A further description of the cash flow composition is set out below:

(i) Cash flow from operating activities

For the seven months ended 31 July 2012, the cash inflow from operating activities decreased by RMB38,051,432.41, which was mainly attributable to the decrease in cash receipts from the sale of goods of RMB40,313,081.63 as compared with the corresponding period in the previous year. The cash outflow from operating activities also decreased by RMB15,576,417.01, which was mainly attributable to the decrease in cash payments for goods acquired of RMB13,687,223.23. As a result, the net cash flow from the operating activities decreased by RMB22,475,015.40 to a net cash flow of RMB-22,424,294.27 from the operating activities for the seven months ended 31 July 2012.

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(ii) Cash flow from investing activities

For the seven months ended 31 July 2012, the cash inflow from investing activities increased by RMB5,229,364.95, which was mainly due to the increase of cash receipts from return of investments of RMB5,000,000.00 as compared with the corresponding period over the previous year. On the other hand, cash outflow from investing activities increased by RMB33,109,112.34, which was mainly attributable to the increase in cash paid for acquiring financial products of RMB32,000,000.00.

As a result, the net cash flow from the investing activities decreased by RMB27,879,747.39 to recorded a net cash flow of RMB-28,375,554.34 from the investing activities for the seven months ended 31 July 2012.

(iii) Cash flow from financing activities

For the seven months ended 31 July 2012, the cash inflow from financing activities increased by RMB65,300,000.00, which was mainly attributable to the increase in cash receipts from Jingcheng Holding's borrowings. On the other hand, cash outflow from financing activities increased by RMB40,840,340.65, which was mainly attributable to the increase in repayment of Jingcheng Holding's borrowings. The net cash flow from financing activities increased by RMB24,459,659.35 as compared with the corresponding period in the previous year, resulting Jingcheng Compressor recorded a net cash flow of RMB63,891,787.13 from financing activities for the seven months ended 31 July 2012.

Liquidity

As at 31 July 2012, the current ratio of Jingcheng Compressor was 2.15 (31 December 2011: 1.71), debtors' turnover days were 363.40 (31 December 2011: 87.45) and inventory turnover days were 1,251.43 (31 December 2011: 215.69).

Employees and remuneration

As at 31 July 2012, Jingcheng Compressor had 262 employees (255 employees as at 31 December 2011). For the seven months ended 31 July 2012, the total staff costs (including retirement benefits scheme contributions) were RMB14,594,288.3 (RMB12,551,451.88 for the seven months ended 31 July 2011).

Exchange rate risk

Management considered that Jingcheng Compressor was not exposed to significant foreign currency risks as at 31 July 2012.

Pledge of assets

As at 31 July 2012, Jingcheng Compressor had not pledged any of its assets.

Contingent liabilities

Jingcheng Compressor had no significant contingent liabilities as at 31 July 2012.

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Capital commitment

For the seven months ended 31 July 2012, Jingcheng Compressor was undertaking the compressor production technology advancement project entered into on 23 December 2011, with a total budget of RMB29,990,000.00 and expected to be completed in May of 2013.

Future Plans for Material Investments or Capital Assets

It was proposed to carry out the production capacity expansion project of the production base. With a budget of approximately RMB61.48 million, the project was intended to be completed in 2013.

C. Management Discussion and Analysis of Jingcheng HK

Set out below is the management discussion and analysis of Jingcheng HK for the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and for the seven months ended 31 July 2012. The following information is based on the audit report of Jingcheng HK as set out in Appendix IV(3) to this circular.

Jingcheng HK is a company incorporated in Hong Kong wholly-owned by Jingcheng Holding as at the Latest Practicable Date and is principally engaged in investment holding business.

1. For the year ended 31 December 2009

Business review for the year

In 2009, Jingcheng HK was entitled to investment gains of RMB351,246.61 from Tianjin Tianhai, its associate, proportionate to its shareholding in Tianjin Tianhai, and entitled to investment gains of RMB8,735,555.06 from Tianhai Industrial (parent company), its associate, proportionate to its shareholding in Tianhai Industrial (parent company).

Turnover

Other than the investment gains totaling RMB9,086,801.67, Jingcheng HK recorded no other material revenue for the year ended 31 December 2009.

Profit for the year

As for the financial performance of Jingcheng HK, the net profit was approximately RMB9,015,569.58 for the year ended 31 December 2009.

Financial and liquidity position

As at 31 December 2009, the audited net assets and current assets of Jingcheng HK were approximately RMB126,501,607.53 and RMB562,882.74 respectively. As at 31 December 2009, the total cash and bank balances of Jingcheng HK were approximately RMB562,882.74. As at 31 December 2009, Jingcheng HK had no bank borrowings.

Assets to liabilities ratio was 1.07%, the gearing ratio was 1.08% and the calculation of gearing ratio was based on gearing ratio = liabilities/net assets *100% = 1.08%.

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Total assets

As at 31 December 2009, Jingcheng HK recorded total assets of RMB127,868,113.94, among which, total current assets was RMB562,882.74 and total non-current assets was RMB127,305,231.20. The major total assets items of Jingcheng HK as at 31 December 2009 including the following:

(1) Cash and cash balances

Jingcheng HK recorded cash and cash balances of RMB562,882.74, and cash and cash balances were the only current asset that Jingcheng HK had as at 31 December 2009.

(2) Dividends receivable

Jingcheng HK recorded no dividend receivable as at 31 December 2009.

(3) Long-term equity investments

Jingcheng HK recorded long-term equity investments of RMB127,305,231.20 as at 31 December 2009 and long-term equity investments were the non-only current asset that Jingcheng HK had as at 31 December 2009. The long-term equity investments included the equity interest in Tianjian Tianhai and Tianhai Industrial.

Total liabilities

As at 31 December 2009, Jingcheng HK recorded total liabilities of RMB1,366,443.41, which were all from the current assets of RMB1,366,443.41 with no non-current liabilities have recorded. The major current liabilities items of Jingcheng HK as at 31 December 2009 including the following:

(1) Accounts payable

As at 31 December 2009, Jingcheng HK recorded account payable of RMB1,342,470.76, representing approximately 98.25% of the total current liabilities. The accounts payable was mainly the outstanding loan repayment payable Tianhai Industrial.

(2) Other payables

As at 31 December 2009, Jingcheng HK recorded other payables of RMB23,972.65, representing approximately 1.75% of the total current liabilities.

Shareholders' equity

As at 31 December 2009, the total shareholders' equity was amounted to RMB126,501,670.53. The undistributed profit as at 31 December 2009 was RMB36,342,786.64.

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Cash flow analysis

For the year ended 31 December 2009, Jingcheng HK had a net cash flow of RMB-78,648.81 from operating activities. As Jingcheng HK had no cash flow in and out from either investing and financing activities and given the effect of exchange rate changes of RMB1,012.18, Jingcheng HK recorded a net cash flow of RMB-77,636.63 for the year ended 31 December 2009.

Current ratio

As at 31 December 2009, the current ratio of Jingcheng HK was amounted to 0.41.

Employees and remuneration

As at 31 December 2009, Jingcheng HK had no employees.

Exchange rate risk

In 2009, Jingcheng HK's exposure to exchange rate gains due to the changes in exchange rates was RMB1,575.87.

Pledge of assets

As at 31 December 2009, Jingcheng HK had not pledged any of its assets.

Contingent liabilities

Jingcheng HK had no significant contingent liabilities as at 31 December 2009.

Capital commitment

For the year ended 31 December 2009, Jingcheng HK has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 December 2009, Jingcheng HK did not have any concrete future plans in place with regard to its material investments or capital assets.

2. For the year ended 31 December 2010

Business review for the year

In 2010, Jingcheng HK was entitled to investment gains of RMB1,334,165.72 from Tianjin Tianhai (2009: RMB351,246.61), its associate, proportionate to its shareholding in Tianjin Tianhai, and entitled to investment gains of RMB4,208,568.16 from Tianhai Industrial (parent company) (2009: RMB8,735,555.06), its associate, proportionate to its shareholding in Tianhai Industrial (parent company).

Turnover

Other than the investment gains totaling RMB5,542,733.88 (2009: RMB9,086,801.67), Jingcheng HK recorded no other revenue for the year ended 31 December 2010.

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Profit for the year

As for the financial performance of Jingcheng HK, the net profit was approximately RMB5,467,213.87 for the year ended 31 December 2010 (RMB9,015,569.58 for the year ended 31 December 2009).

Financial and liquidity position

As at 31 December 2010, the audited net assets and current assets of Jingcheng HK were RMB130,530,647.66 and RMB504,689.61, respectively (RMB126,501,670.53 and RMB562,882.74 respectively as at 31 December 2009). As at 31 December 2010, the total cash and bank balances of Jingcheng HK were RMB504,689.61 (RMB562,882.74 as at 31 December 2009). As at 31 December 2010, Jingcheng HK had no bank borrowings.

Assets to liabilities ratio was 1.03% (2009: 1.07%), the gearing ratio was 1.04% (2009: 1.08%) and the calculation of gearing ratio was based on gearing ratio = liabilities/net assets attributable to the parent company *100% = 1.04%.

Total assets

As at 31 December 2010, Jingcheng HK recorded total assets of RMB131,889,080.38, representing an increase of approximately 3.14% over the previous year (2009: RMB127,868,113.94). Among the total assets, total current assets amounted to RMB504,689.61, representing a decrease of approximately 10.34% over the previous year (2009: RMB562,882.74) and total non-current assets amounted to RMB131,384,390.77, representing an increase of approximately 3.20% over the previous year (2009: RMB127,305,231.20). The major items which were attributable to the changes of the total assets of Jingcheng HK as at 31 December 2010 including the following:

(1) Cash and cash balances

Jingcheng HK recorded cash and cash balances of RMB504,689.61 as at 31 December 2010, representing a decrease of approximately 10.34% over the previous year (2009: RMB562,882.74).

(2) Dividends receivable

Jingcheng HK recorded no dividend receivable as at 31 December 2010.

(3) Long-term equity investments

Jingcheng HK recorded long-term equity investments of RMB131,384,390.77 as at 31 December 2010, representing an increase of approximately 3.20% as compared with previous year (2009: RMB127,305,231.20). The long-term equity investments included the equity interest in Tianjian Tianhai and Tianhai Industrial.

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Total liabilities

As at 31 December 2010, Jingcheng HK recorded total liabilities of RMB1,358,432.72, representing a decrease of approximately 0.59% over the previous year (2009: RMB1,366,443.41). Jingcheng HK has recorded no non-current liabilities as at 31 December 2010. The major items which were attributable to the changes of the total liabilities of Jingcheng HK as at 31 December 2010 including the following:

(1) Account payable

As at 31 December 2010, Jingcheng HK recorded account payable of RMB1,302,068.05, representing a decrease of approximately 3.01% as compared with the previous year (2009: RMB1,342,470.76). The accounts payable was mainly the outstanding loan repayment payable Tianhai Industrial.

(2) Other payables

As at 31 December 2010, Jingcheng HK recorded other payables of RMB56,364.67, which has increase by RMB32,392.02 as compared with the previous year (2009: RMB23,972.65).

Shareholders' equity

As at 31 December 2010, the total shareholders' equity amounted to RMB130,530,647.66, representing an increase of approximately 3.18% as compared with the previous year (2009: RMB126,501,670.53). The undistributed profit of RMB41,810,000.51 has increased by approximately 15.04% from previous year.

Analysis of cash flow

For the year ended 31 December 2010, Jingcheng HK had a net cash flow of RMB-41,854.36 from operating activities, representing an increase of RMB36,794.45 as compared with previous year. As Jingcheng HK had no cash flow in and out from either investing and financing activities and given the effect of exchange rate changes of RMB-16,338.77, Jingcheng HK recorded a net cash flow of RMB-58,193.13, representing an increase of net cash flow RMB19,443.50 as compared with the previous year.

Current ratio

As at 31 December 2010, the current ratio of Jingcheng HK was amounted to 0.37 (2009: 0.41).

Employees and remuneration

As at 31 December 2010, Jingcheng HK had no employees.

Exchange rate risk

In 2010, Jingcheng HK's exposure to exchange rate losses due to the changes in exchange rates was RMB38.40 (exchange rate gains of RMB1,575.87 in 2009).

Pledge of assets

As at 31 December 2010, Jingcheng HK had not pledged any of its assets.

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Contingent liabilities

Jingcheng HK had no significant contingent liabilities as at 31 December 2010.

Capital Commitment

For the year ended 31 December 2010, Jingcheng HK has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 December 2010, Jingcheng HK did not have any concrete future plans in place with regard to its material investments or capital assets.

3. For the year ended 31 December 2011

Business review for the year

In 2011, Jingcheng HK was entitled to investment gains of RMB153,855.01 from Tianjin Tianhai (2010: RMB1,334,165.72), its associate, proportionate to its shareholding in Tianjin Tianhai, and entitled to investment gains of RMB12,277,237.06 from Tianhai Industrial (parent company) (2010: RMB4,208,568.16), its associate, proportionate to its shareholding in Tianhai Industrial (parent company).

Turnover

Other than the investment gains totaling RMB12,431,092.07 (2010: RMB5,542,733.88), Jingcheng HK recorded no other revenue for the year ended 31 December 2011.

Profit for the year

As for the financial performance of Jingcheng HK, the net profit was RMB12,389,746.57 for the year ended 31 December 2011 (RMB5,467,213.87 for the year ended 31 December 2010).

Financial and liquidity position

As at 31 December 2011, the audited net assets and current assets of Jingcheng HK were RMB132,805,045.94 and RMB1,739,850.52, respectively (RMB130,530,647.66 and RMB504,689.61 respectively as at 31 December 2010). As at 31 December 2011, the total cash and bank balances of Jingcheng HK were RMB439,850.52 (RMB504,689.61 as at 31 December 2010). As at 31 December 2011, Jingcheng HK had no bank borrowings.

Assets to liabilities ratio was 0.96% (2010: 1.03%), the gearing ratio was 0.97% (2010: 1.04%) and the calculation of gearing ratio was based on gearing ratio = liabilities/net assets attributable to the parent company *100% = 0.97%.

Total assets

As at 31 December 2011, Jingcheng HK recorded total assets of RMB134,097,471.81, representing an increase of approximately 1.67% over the previous year (2010: RMB131,889,080.38). Among the total assets, total current assets amounted to RMB1,739,850.52, representing an increase of approximately 244.74% over the previous

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year (2010: RMB504,689.6) and total non-current assets amounted to RMB132,357,621.29, representing an increase of approximately 0.74% over the previous year (2010: RMB131,384,390.77). The major items which were attributable to the changes of the total assets of Jingcheng HK as at 31 December 2011 including the following:

(1) Cash and cash balances

Jingcheng HK recorded cash and cash balances of RMB439,850.52 as at 31 December 2011, representing a decrease of approximately 12.85% over the previous year (2010: RMB504,689.61).

(2) Dividends receivable

Jingcheng HK recorded dividend receivable of RMB1,300,000.00 as at 31 December 2011, which were all the dividends paid out from Tianjin Tianhai.

(3) Long-term equity investments

Jingcheng HK recorded long-term equity investments of RMB132,357,621.29 as at 31 December 2011, representing an increase of approximately 0.74% as compared with previous year (2010: RMB131,384,390.77). The long-term equity investments included the equity interest in Tianjian Tianhai and Tianhai Industrial.

Total liabilities

As at 31 December 2011, Jingcheng HK recorded total liabilities of RMB1,292,425.87, representing a decrease of approximately 4.86% over the previous year (2010: RMB1,358,432.72). Jingcheng HK recorded no non-current liabilities as at 31 December 2011. The major items which were attributable to the changes of the total liabilities of Jingcheng HK as at 31 December 2011 included the following:

(1) Account payable

As at 31 December 2011, Jingcheng HK recorded account payable of RMB1,238,799.98, representing a decrease of approximately 4.86% as compared with the previous year (2010: RMB1,302,068.05). The accounts payable was mainly the outstanding loan repayment payable to Tianhai Industrial.

(2) Other payables

As at 31 December 2011, Jingcheng HK recorded other payables of RMB53,625.89, representing a decrease of RMB2,738.78 as compared with the previous year (2010: RMB56,364.67).

Shareholders' equity

As at 31 December 2011, the total shareholders' equity amounted to RMB132,805,045.94, representing an increase of approximately 1.74% as compared with the previous year (2010: RMB130,530,647.66). The undistributed profit of RMB52,999,178.89 has increased by approximately 26.76% from previous year.

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Cash flow analysis

For the year ended 31 December 2011, Jingcheng HK had a net cash flow of RMB-41,230.74 from operating activities, representing an increase of cash flow of RMB623.62 as compared with previous year. As Jingcheng HK had no cash flow in and out from either investing and financing activities and given the effect of exchange rate changes of RMB-23,608.35, Jingcheng HK recorded a net cash flow of RMB-64,839.09, representing a decrease of net cash flow RMB6,645.96 as compared with the previous year.

Current Ratio

As at 31 December 2011, the current ratio of Jingcheng HK amounted to 1.35 (2010: 0.37).

Employees and remuneration

As at 31 December 2011, Jingcheng HK had no employees.

Exchange rate risk

In 2011, Jingcheng HK's exposure to exchange rate losses due to the changes in exchange rates was RMB114.76 (RMB38.40 in 2010).

Pledge of assets

As at 31 December 2011, Jingcheng HK had not pledged any of its assets.

Contingent liabilities

Jingcheng HK had no significant contingent liabilities as at 31 December 2011.

Capital commitment

For the year ended 31 December 2011, Jingcheng HK has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 December 2011, Jingcheng HK did not have any concrete future plans in place with regard to its material investments or capital assets.

4. For the seven months ended 31 July 2012

Business review for the seven months

From January to July of 2012, Jingcheng HK was entitled to investment gains of RMB8,752,747.34 solely from Tianhai Industrial (parent company) (an unaudited investment gains of RMB7,524,246.39 in which RMB494,198.46 from the shareholding of Tianjin Tinhai and RMB7,030,047.93 from the shareholding of Tianhai Industrial (parent company) for the seven months ended 31 July 2011), an associate, in the proportion of shareholding.

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Turnover

Other than the investment gains, Jingcheng HK recorded no other revenue as at 31 July 2012.

Profit for the seven months

As for the financial performance of Jingcheng HK, the net profit was RMB8,668,041.91 for the seven months ended 31 July 2012 (RMB7,524,235.87 for the seven months ended 31 July 2011 (unaudited)).

Financial and liquidity position

As at 31 July 2012, the audited net assets and current assets of Jingcheng HK were approximately RMB142,149,926.58 and RMB1,617,737.42, respectively (RMB132,805,045.94 and RMB1,739,850.52 respectively as at 31 December 2011). As at 31 July 2012, the total cash and bank balances of Jingcheng HK were approximately RMB311,320.88 (RMB439,880.52 as at 31 December 2011). As at 31 July 2012, Jingcheng HK had no bank borrowings.

Assets to liabilities ratio was 0.87% (0.96% as at December 2011), the gearing ratio was 0.88% (0.97% as at 31 December 2011) and the calculation of gearing ratio was based on $\text{gearing ratio} = \text{liabilities/net assets attributable to the parent company} \times 100\% = 0.88\%$.

Total assets

As at 31 July 2012, Jingcheng HK recorded total assets of RMB143,402,944.91, representing an increase of approximately 6.94% as compared with 31 December 2011 of RMB134,097,471.81. Among the total assets, total current assets was amounted to RMB1,617,737.42 (representing a decrease of approximately 7.02% as compared 31 December 2011 of RMB1,739,850.52) and total non-current assets was amounted to RMB141,785,207.49 (representing an increase of approximately 7.12% as compared 31 December 2011 of RMB132,357,621.29). The major items which were attributable to the changes of the total assets of Jingcheng HK as at 31 July 2012 including the following:

(1) Cash and cash balances

Jingcheng HK recorded cash and cash balances of RMB311,320.88 as at 31 July 2012, representing a decrease of approximately 29.22% as compared with 31 December 2011.

(2) Dividends receivable

Jingcheng HK recorded dividend receivable of RMB1,306,416.54 as at 31 July 2012 which, has increased by approximately 0.49% as compared with 31 December 2011, were all the dividends paid out from Tianjin Tianhai.

(3) Long-term equity investments

Jingcheng HK recorded long-term equity investments of RMB141,785,207.49 as at 31 July 2012, representing an increase of approximately 7.12% as compared 31 December 2011. The long-term equity investments included the equity interest in Tianjin Tianhai and Tianhai Industrial.

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Total liabilities

As at 31 July 2012, Jingcheng HK recorded total liabilities of RMB1,253,018.33, representing a decrease of approximately 3.05% as compared 31 December 2011. Jingcheng HK has recorded no non-current liabilities as at 31 July 2012. The major items which were attributable to the changes of the total liabilities of Jingcheng HK as at 31 July 2012 including the following:

(1) Account payable

As at 31 July 2012, Jingcheng HK recorded account payable of RMB1,244,914.45, representing an increase of approximately 0.49% as compared with 31 December 2011. The accounts payable was mainly the outstanding loan repayment payable Tianhai Industrial.

(2) Other payables

As at 31 July 2012, Jingcheng HK recorded other payables of RMB8,103.88, representing a decrease of RMB45,522.01 as compared with 31 December 2011.

Shareholders' equity

As at 31 July 2012, the total shareholders' equity amounted to RMB142,149,926.58, representing an increase of approximately 7.04% as compared with 31 December 2011. The undistributed profit of RMB61,667,220.80 has increased by approximately 16.36% as compared with 31 December 2011.

Cash flow analysis

For the seven months 31 July 2012, Jingcheng HK had a net cash flow of RMB-129,132.55 from operating activities, representing a decrease of RMB129,134.97 as compared with the corresponding period in the previous year. As Jingcheng HK had no cash flow in and out from either investing and financing activities and given the effect of exchange rate changes of RMB602.91, Jingcheng HK recorded a net cash flow of RMB-128,529.64, representing a decrease of RMB114,916.49 as compared with the corresponding period in the previous year.

Current Ratio

As at 31 July 2012, the current ratio of Jingcheng HK amounted to 1.29 (31 December 2011: 1.35).

Employees and remuneration

As at 31 July 2012, Jingcheng HK had no employees.

Exchange rate risk

From January to July of 2012, Jingcheng HK's exposure to exchange rate losses due to the changes in exchange rates was RMB1,247.12 (an unaudited exchange rate losses of RMB12.94 for the seven months ended 31 July 2011).

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Pledge of assets

As at 31 July 2012, Jingcheng HK had not pledged any of its assets.

Contingent liabilities

As at 31 July 2012, Jingcheng HK did not have external guarantee events and other material contingent events that need to be disclosed. The share capital, which the calculation was based on total shareholder's equity/total liabilities, was amounted to approximately RMB113.45.

Capital commitment

For the seven months ended 31 July 2012, Jingcheng HK has not entered into any capital commitment.

Future Plans for Material Investments or Capital Assets

As at 31 July 2012, Jingcheng HK had no future plans for material investments or capital assets.

FINANCIAL AND TRADING PROSPECTS

Prior to the Reorganisation, the Company is principally engaged in the manufacture and sales of printing facilities. In recent years, due to reasons including the global economic recession, the rapid development and increasing use of multi-media and network publishing technology, the downturn of the traditional printing machinery industry as a whole and continuous rise in the production costs, the Company has been operating in difficulties and its principal business has long been in a loss-making status. The Company had attempted to accelerate industrial adjustments, enhance its competitiveness and improve operating conditions through technological innovation, product mix adjustments, adjustments in marketing strategies and reforms in the remuneration system, but it was unsuccessful to effectively enhance the Company's profitability.

Upon the Completion, the principal business of the Company will be changed to the New Business, and the Company will specialise in the research and development, manufacture and sales of equipment for industrial gas storage and transportation and natural gas storage and transportation as well as gas compressor machinery. In the past, the industrial gas was mainly applied in the iron and steel and petrochemical industries. However, in recent years, the application of industrial gas has increased and demand from national defense construction, food, electronics, and medical health fields for industrial gases has also been increasing year by year. Accordingly, the Directors consider that the wide application of industrial gases brings good prospect of demand for gas storage and transportation equipment.

On the other hand, given that the PRC government has been attaching high importance to environmental protection and clean energy in recent years and natural gas, as clean energy, is also greatly supported by the energy policies of the PRC government, the Directors believe that natural gas exploitation, import and pipeline transmission as well as the new energy transportation equipment have ample room for development, and it is expected that demands for natural gas storage and transportation equipment, especially LNG storage and transportation equipment will have a good prospect.

LETTER FROM THE BOARD

In light of the above, and taking into consideration the audited pro forma financial information on the Reorganised Group as set out in Appendix V to this circular, the Directors believe that the Reorganisation will improve the overall financial performance of the Company.

The main future development plan of Tianhai Industrial is the project of production base of coaches (special purpose vehicles) and cryogenic equipment. The target of the project is to attain the production volume of 1,600 cryogenic equipment, 530 tube trailers and 320 bundle type containers, upon which the production volume of cryogenic equipment will be increased by 433% and that of tube trailers and bundle type containers respectively by 100%. The total investment cost is RMB837,000,000, among which 70% will be for construction and investment in the factory and equipment and the remaining for working capital. The investment cost of the project will be raised by Tianhai Industrial (including but not limited to the issue of shares and loans from banks). Tianhai Industrial shall execute the plan according to the investment management system and utilise the funds based on the plan. The said project will proceed based on the market demand and the current plan is to spend 5 years on attaining the designated ability. The construction works of the project will be designed and completed during the first year. The equipment for the project will, depending on the production arrangements, be invested in two phases during the end of the first year and the end of the second year and the project will commence production in the second year. The production ability should be attained in the fifth year.

The main future development plan of Jingcheng Compressor is the project to increase the production capacity of compressors. The total investment cost of the project (for building the factory and purchase of equipment) would be RMB29.99 million. The project has commenced in March 2012 and the construction of the factory and purchase of the relevant equipment are still ongoing. It is expected that the project production target can be attained in 2015, which will increase the current production capacity by 80% and the annual production volume by 124 compressors. As the investments amount required for the project is obtained by way of a capital injection of RMB29.99 million from Jingcheng Holding which has been received, it is expected that there would not be any significant effect on the liquidity.

EFFECTS OF THE REORGANISATION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

Upon Completion, the Target Companies will become wholly-owned subsidiaries of the Company. The assets, liabilities and the financial results of each of the Target Companies will be consolidated into the consolidated financial statements of the Group upon Completion.

Set out in Appendix V to this circular is the “Unaudited Pro Forma Financial Information of the Reorganised Group” and the basis of preparation thereon.

Pursuant to the requirements of Accounting Standards for Business Enterprises 20 – Business Combination, as for the assets and liabilities acquired from the acquiree in the merge, the acquirer (the Company) shall maintain their previous book value in the acquiree unchanged. If the acquirer conducts such merger by way of the payment of cash and non-cash assets, the difference between the cost of net assets recognised and the book value of the cash paid and of non-cash assets will adjust the capital reserve (capital premium or share capital premium) accordingly. If the capital reserve (capital premium or share capital premium) is insufficient for such adjustment, adjustments shall be made to retained earnings.

LETTER FROM THE BOARD

Effects on assets and liabilities

As the Target Companies are controlled by Jingcheng Holding prior to the Completion, the Acquisition amounts to a business combination under common control. Therefore, on the Completion Date, the Company will reduce the assets and liabilities according to their book value as at the Completion Date, and recognise the investment costs of long-term equity investments in each of the Target Companies according to the book value of net assets of each of the Target Companies in its books.

As at 31 July 2012, the audited consolidated total asset value and the audited consolidated total liabilities of the Existing Group amounted to approximately RMB1,301,283,926.21 and RMB523,693,942.42 respectively.

According to the unaudited pro forma financial information on the Reorganised Group as set out in Appendix V to this circular which assumes that the Reorganisation had been completed on 31 July 2012, the unaudited pro forma total assets of the Reorganised Group would be approximately RMB2,049,600,406.03 and the unaudited pro forma total liabilities of the Reorganised Group would be approximately RMB1,381,481,976.55.

Effects on earnings

For the seven months ended 31 July 2012, the audited consolidated net loss of the Existing Group amounted to approximately RMB48,541,325.44. According to the unaudited pro forma financial information on the Reorganised Group as set out in Appendix V to this circular, which assumes that the Reorganisation had been completed on 31 July 2012, the unaudited pro forma consolidated net profit of the Reorganised Group would be approximately RMB61,962,052.44 for the year ended 31 December 2011. Under the PRC accounting standards, since the Company is under the control of Jingcheng Holding, the difference between the book value of the Outgoing Assets and that of the Incoming Assets will be recorded as capital reserve and the Company does not expect to record any profit or loss as a result of the Disposal or the Reorganisation.

PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY, BEIREN GROUP AND JINGCHENG HOLDING

The Company is principally engaged in the manufacture and sales of printing facilities.

Beiren Group is principally engaged in the manufacture and sales of printing presses, packing machines, pressing machines and related products and components, technical development, technical consultancy, services, operation of the import and export businesses related to the production of own enterprises, subcontracting work for overseas printing machinery projects and domestic projects by international tendering.

Jingcheng Holding is principally engaged in state-owned assets operation and management within the scope of authorization, operation of title (ownership), external financing and investment.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS OF THE REORGANISATION

As (i) one or more of the applicable percentage ratios calculated pursuant to Chapter 14 of the Listing Rules in respect of the Disposal exceed 75% and (ii) Jingcheng Holding is the beneficial controlling Shareholder, the Disposal constitutes a very substantial disposal and connected transaction of the Company. As (i) one or more of the applicable percentage ratios calculated pursuant to Chapter 14 of the Listing Rules in respect of the Acquisition exceed 100% and (ii) Jingcheng Holding is the beneficial controlling Shareholder, the Acquisition constitutes a very substantial acquisition and connected transaction of the Company. So far as the Directors are aware, Jingcheng Holding proposed to transfer 47.78% interest in the Company held through Beiren Group to Jingcheng Holding at nil consideration, following which Jingcheng Holding shall directly hold 47.78% in the Company. This transfer is not inter-conditional upon the Reorganisation. Accordingly, the Reorganisation, comprising the Disposal and the Acquisition, is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

None of the Directors are materially interested in the Reorganisation but Mr. Zhang Peiwu, Mr. Teng Mingzhi, Ms. Wu Dongbo, Mr. Li Shenggao and Ms. Wei Li, being Directors nominated by Jingcheng Holding or Beiren Group, voluntarily abstained from voting at the Board meetings on the resolutions relevant to the Reorganisation.

The Company will seek approval from the Independent Shareholders in respect of the Reorganisation in the EGM to be convened on 18 December 2012. As at the Latest Practicable Date, Beiren Group is interested in 201,620,000 A Shares, representing approximately 47.78% of the total issued Shares. Beiren Group and its associates will abstain from voting on the relevant resolution(s) at the EGM.

As disclosed in the announcement of the Company dated 5 July 2012 in relation to the Reorganisation, the Listing Committee of the Stock Exchange had considered and resolved that the Reorganisation would not constitute a reserve takeover for the purposes of Rule 14.06(6) of the Listing Rules, subject to compliance with certain conditions. One of the conditions was that the Company shall conduct a search to determine whether there had been a recent change towards concentration of holdings of the Shares in the hands of one or more persons or a group of persons. The Company has conducted searches on both its A Shares and H Shares as at 29 June 2012 and as at 30 December 2011.

In respect of the holders of A Shares, the Company has found that as at 29 June 2012 and 30 December 2011, Beiren Group, the controlling Shareholder, held 47.78% interest of the Company while the second largest A Shares Shareholder held less than 1% of the total share capital of the Company and there was no change in its shareholding. The Company has also reviewed the list of its top 100 A Shares Shareholders as at 29 June 2012 and 30 December 2011 and except for Beiren Group, none of the A Shares Shareholders were connected persons of the Company.

In respect of the holders of H Shares, the Company used its best effort to look beyond the holdings of the Central Clearing and Settlement System and identify the ultimate beneficial owners of the H Shares. The Company has reviewed the list of its top 30 registered H Shares Shareholders as at 29 June 2012 and 30 December 2011. As at 29 June 2012 and 30 December 2011, the largest H Shares Shareholder held less than 1% of the total share capital of the Company and none of the H Shares Shareholders were connected persons of the Company.

Therefore, the Company confirmed that except for Beiren Group, the holders of A Shares and H Shares are considered independent Shareholders.

LETTER FROM THE BOARD

The Independent Board Committee has been formed to advise the Independent Shareholders on whether or not the Reorganisation, the Material Asset Reorganisation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Shareholders as a whole. Celestial Capital has been appointed by the Company as its independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Reorganisation, the Material Asset Reorganisation Agreement and the transactions contemplated thereunder.

(II) PROPOSED CHANGE OF NAME OF THE COMPANY

As announced by the Company in its announcement dated 2 November 2012, the Directors proposed to change the Chinese name of the Company from “北人印刷機械股份有限公司” to “北京京城機電股份有限公司” (provisional name only, the name specified in the relevant industrial and commercial registration shall prevail), and the English name of the Company from “Beiren Printing Machinery Holding Limited” to “Beijing Jingcheng Machinery Electric Company Limited” (the “**Change of Name**”).

Reasons for the Change of Name

Since Jingcheng Holding proposed to transfer its 47.78% interest in the Company held through Beiren Group to Jingcheng Holding at nil consideration so that Jingcheng Holding shall directly hold 47.78% interest in the Company, the Board believes that the Change of Name shall enable the Company to utilise Jingcheng Holdings’ various strengths such as its brand name and markets more directly and conveniently, so as to improve the operations of the Company.

Conditions for the Change of Name

The Change of Name is subject to the following conditions:

- (i) the passing of an ordinary resolution by the Shareholders at a general meeting of the Company approving the Change of Name; and
- (ii) the Material Asset Reorganisation Agreement becoming effective and the completion of the Reorganisation; and
- (iii) the grant of approval of the Beijing Municipality State Administration for Industry and Commerce and the relevant Change of Name registration being attended to.

The Change of Name shall become effective from the date when the new business licence bearing the new name of the Company is issued. Thereafter, the Company shall carry out all necessary filing procedures with the Companies Registry in Hong Kong.

A further announcement will be made upon the change of name has become effective.

Status of the existing certificates for securities of the Company

The proposed change of the name of the Company will not affect any of the rights of the Shareholders. All existing share certificates of the Company in issue bearing the existing name of the Company will continue to be evidence of title to the H Shares and will continue to be valid for trading, settlement and registration purposes. Accordingly, there will not be any arrangement for free exchange of existing share certificates for new

LETTER FROM THE BOARD

share certificates under the new name. Once the proposed change of the name of the Company becomes effective, any issue of share certificates thereafter will be in the new name of the Company.

(III) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

To enhance the transparency of dividend distribution in cash so as to provide a steady expectation of return for the investors, and in combination with the actual situation of the Company pursuant to the requirement of the “Notice Regarding Further Improvement of Cash Dividends Distribution of Listed Companies” of Beijing Securities Regulatory Bureau, the Board has in the seventh meeting of the seventh session of the Board passed the “Resolution in relation to the amendment of the Articles of Association of the Company”.

The proposed amendments to the Articles of Association are subject to the approval of the Shareholders by way of special resolution at the EGM. Details of the proposed amendments are set out below.

Original Article of Association:

Article 230 The Company may distribute dividends in the form of:

- (1) cash;
- (2) shares.

is now amended as:

Article 230 The basic principles of profit distribution policy of the Company are:

Taking full account of return to investors and distributing dividend to shareholders per annum in proportion to realized distributable profits (consolidated statement) for the year concerned;

Maintaining the continuity and stability of the Company’s dividend distribution policy, in the interest of the Company in the long term and that of all shareholders as a whole, and in line with the sustainable development of the Company;

Giving priority to distribute dividends in cash as the method of profits distribution.

Profits distribution policies of the Company are to be specified as follows:

Profits shall be distributed in the following manner: the Company may distribute dividends in cash, in shares or in a combination of both cash and shares. Subject to conditions, interim profits distribution may be made by the Company.

Specific circumstances for and proportions of cash dividend of the Company:

Save as special circumstances, if the Company’s profits for the year and its undistributed profits (consolidated statement) are positive, the Company may distribute dividends in cash and the profits to be distributed in cash per annum will not be less than 5% of the realized distributable profits (consolidated statement) for that year, and that the total profit to be distributed in cash in the last three years will not be less than 30% of the average annual realized distributable profits (consolidated statement) in the last three years.

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The “special circumstance” above refers to the aggregate expenditure amount of major investment plan or significant cash expenditure in the next 12 months of the Company reaches or exceeds 25% of the Company’s latest audited net assets. “Major investment plan” or “significant cash expenditure” includes foreign investment, payment of foreign debt, or major assets acquisition etc.

Conditions for distributing dividends in shares by the Company:

Where the Company’s business is in a sound situation, and the Board considers that the stock price of the Company does not match with the share capital size and distributing dividends in shares will be favorable to all shareholders of the Company as a whole, provided that the above conditions of cash dividend are fully met, the Company may propose dividends distribution in shares.

Original Articles of Association:

Article 231 The Company’s profit distributions shall take into account proper returns to the investors. The profit distribution plan prepared by the board of directors shall specify that cash distribution shall not be less than 30% of the distributable profit of the current year.

When no such cash distribution plan is prepared, the board of directors shall disclose reasons in a regular report, and independent non-executive directors shall provide an independent opinion on this matter.

When any shareholder violates relevant provisions and misappropriates the funds of the Company, the Company shall withhold his cash dividends to pay off the misappropriated amount.

is now amended as:

Article 231 Procedures for considering the profit distribution plan of the Company:

The profit distribution plan of the Company shall be drawn up by the board of directors. The board of directors shall thoroughly discuss the rationality of the profit distribution plan and form a special resolution which shall be approved and considered by the board of directors and the Supervisory Committee before submitting to the general meeting for consideration. In considering the profit distribution plan, the Company shall make network voting method accessible to shareholders.

Where the Company has no cash dividends in particular cases as provided for in the foregoing Article 230, the board of directors shall explain the specific reasons for not distributing cash dividends, the exact purpose for the retained profit and the estimated investment return, submit such to the general meeting for consideration after independent non-executive directors express their opinions thereon and disclose the same in the designated media of the Company.

Alteration of the Company’s profit distribution policy:

In case of war, natural disasters and other force majeure, or changes to the Company’s external operational environment resulting in material impact on its production and operation, or relatively significant changes to the Company’s operational position, the Company may adjust its profit distribution policy.

LETTER FROM THE BOARD

The board of directors shall conduct specific discussion over adjustment to the Company's profit distribution policy, provide detailed reasons for such adjustment, provide a written report to be considered by independent non-executive directors, and then submit to the general meeting for approval by way of a special resolution. In considering alterations to the profit distribution policy, the Company shall make network voting method accessible to shareholders.

THE EGM

A notice convening the EGM to be held at Conference Room of the Company, Room 6206, No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing on 18 December 2012 (Tuesday) at 9 a.m. is set out on pages EGM-1 to EGM-9 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. The form of proxy should be returned to the Company's branch share registrar, Hong Kong Registrars Limited at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or at any adjournment thereof) should you so wish.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee dated 3 December 2012 set out on page 109 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Material Asset Reorganisation Agreement; and (ii) the letter from Celestial Capital dated 3 December 2012 as set out on pages 110 to 153 of this circular which contains the recommendation from Celestial Capital to the Independent Board Committee and the Independent Shareholders in relation to the Material Asset Reorganisation Agreement and the principal factors and reasons considered by Celestial Capital in arriving at its recommendation.

The Directors (including members of the Independent Board Committee after taking into account the factors and reasons considered by, and the opinion of Celestial Capital as stated in its letter, consider that the Material Asset Reorganisation Agreement and the transactions Contemplated thereunder are fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Material Asset Reorganisation Agreement and the transactions contemplated thereunder.

The Board also considers that the proposed change of name of the Company and the proposed amendments to the Articles of Association of the Company are in the best interests of the Company and its Shareholders as a whole and accordingly recommends the Shareholders to vote in favour of the relevant resolutions proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices I to X to this circular.

Yours faithfully,
By order of the Board
BEIREN PRINTING MACHINERY HOLDINGS LIMITED
Jiao Rui Feng
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



北人印刷機械股份有限公司

BEIREN PRINTING MACHINERY HOLDINGS LIMITED

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

(Stock Code: 0187)

3 December 2012

To the Independent Shareholders

Dear Sir or Madam,

MATERIAL ASSET REORGANISATION

VERY SUBSTANTIAL ACQUISITION, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 3 December 2012 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter will have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of Material Asset Reorganisation Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Celestial Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from Celestial Capital as set out on pages 110 to 153 of the Circular and the letter from the Board as set out on pages 7 to 108 of the Circular.

Having considered the terms of the Material Asset Reorganisation Agreement and taken into account the advice of Celestial Capital as stated in its letter, we consider that the Material Asset Reorganisation Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Material Asset Reorganisation Agreement and the transactions contemplated thereunder.

Yours faithfully,
The Independent Board Committee

Zhang Shuangru
Independent non-executive Director

Wang Hui
Independent non-executive Director

Xie Bingguang
Independent non-executive Director

Wang Deyu
Independent non-executive Director

LETTER FROM CELESTIAL CAPITAL

The following is the full text of the letter of advice from Celestial Capital to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Disposal, and is prepared for the inclusion in this circular.



Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

3 December 2012

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MATERIAL ASSET REORGANISATION

POSSIBLE VERY SUBSTANTIAL ACQUISITION, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Disposal, which together constitute the Reorganisation and details of which are set out in the announcements of the Company dated 5 July 2012, 2 November 2012 and 30 November 2012 (the “**Announcements**”) and the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 3 December 2012 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

On 5 July 2012, the Company and Jingcheng Holding entered into the conditional Reorganisation Framework Agreement for the purpose of setting out the framework of the Reorganisation. On 2 November 2012, following the second meeting of the Board, the Company, Jingcheng Holding and Beiren Group entered into the conditional Material Asset Reorganisation Agreement (which supersedes and replaces the Reorganisation Framework Agreement and which was subsequently supplemented by the Supplemental Agreement), pursuant to which the Company shall transfer or procure the transfer of the Outgoing Assets (representing all the assets and liabilities of the Company) to Beiren Group on the instructions of Jingcheng Holding under the Disposal, and in consideration thereof, Jingcheng Holding shall transfer or procure (a) the transfer of the Incoming Assets (being 71.56% equity interest in Tianhai Industrial (so far as the Directors are aware, Jingcheng Holding has taken steps to increase the registered capital of Tianhai Industrial by RMB230,000,000, and upon completion of such capital increase (“**Tianhai Industrial Capital Increase**”), Jingcheng Holding’s equity interests in Tianhai Industrial will increase to approximately 88.51% and it will transfer all such 88.51% equity interest in Tianhai Industrial to the Company pursuant to the Reorganisation), 100% interest in Jingcheng HK, and 100% interest in Jingcheng Compressor (after disposal of its environmental protection business in October 2012)) to the Company under the Acquisition, and (b) the payment of a cash consideration in the amount of RMB5,522,900, being the difference between the respective considerations for the Disposal and the Acquisition, to the Company. The Acquisition and the Disposal contemplated under the Reorganisation constitutes a very substantial acquisition and a

LETTER FROM CELESTIAL CAPITAL

very substantial disposal of the Company respectively under the Listing Rules. Jingcheng Holding is the ultimate beneficial controlling Shareholder, therefore a connected person of the Company. Accordingly, the Acquisition and the Disposal also constitute connected transactions for the Company under the Listing Rules and require the approval of the Independent Shareholders at the EGM by vote to be taken by way of poll.

As the Acquisition and the Disposal are part and parcel and inter-conditional to each other, we have considered the Acquisition and the Disposal as one overall transaction and their effect on the Group in aggregate. The Independent Board Committee comprising all the four independent non-executive Directors, namely Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu, has been established to advise the Independent Shareholders whether or not to vote in favour of the Acquisition and the Disposal. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Material Asset Reorganisation Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and whether the Acquisition and the Disposal are in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied, and the opinions and representations expressed, by the Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of EGM. We have also assumed that all statements of belief, opinion and intention contained or referred to in the Circular, or otherwise expressed, made or given by the Company, its Directors and management, including but not limited to those set out in the Circular, were reasonably made after due enquiries and considerations by the relevant parties. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information and facts, or the reasonableness of the opinions and representations provided or expressed to us. We have not, however, conducted any independent investigation into the business, operations, or financial condition of the Target Companies or the Outgoing Assets (representing all the assets and liabilities of the Company to be disposed of which collectively refers to the Group containing, among others, the Sale Subsidiaries and the other investments of the Company, including 49% equity interests in Beijing Monigraf, 20% equity interests in Beijing Beiyong and 49% equity interests in Mitsubishi Beiren (the “**Long Term Equity Investments**”) being the assets to be disposed of (collectively, with the Sale Subsidiaries, known as the “**Disposal Group**”)), nor have we carried out any independent verification of the information supplied. We have also assumed that all information, facts, opinion and representations contained or referred to in the Circular or those separately expressed to us were true at the time they were made and will continue to be true up to and including the date of the EGM.

This letter is issued for the information of the Independent Board Committee and Independent Shareholders solely in connection with their consideration of the Acquisition and the Disposal. Except for its inclusion in the Circular, this letter must not be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM CELESTIAL CAPITAL

THE ACQUISITION AND THE DISPOSAL

In arriving at our opinion on the Acquisition and the Disposal, we have taken into consideration the following principal factors and reasons:

Background to and reason for the Acquisition and the Disposal

The Group is principally engaged in the manufacture and sales of printing facilities. It was further elaborated in the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”) that the Group is principally engaged in developing, manufacturing and selling a variety of printing press and related spare parts, as well as the technical consultation and services related to the operating business. The Group comprises the Company and three major operating subsidiaries. The Company is a joint stock company established by the Beiren Group as the sole promoter. The H Shares of the Company were listed on the Stock Exchange in 1993 and its A Shares were listed on the Shanghai Stock Exchange (the “**SSE**”) in 1994. The three major subsidiaries of the Company, namely Shaanxi Beiren, Beiren Fuji and Beiren Jingyan, are limited liabilities companies established in the PRC and are currently owned by the Company as to approximately 86.24%, 70.00% and 100.00%, respectively. Shaanxi Beiren is principally engaged in the manufacturing, sale and maintenance of printing machines, copying machines, packing machines, engineering machines, electrical equipments and relevant fittings, and the manufacturing and sale of typesetting machines and printing equipment. Beiren Fuji is principally engaged in the manufacturing of printing machines and the sale of self-manufactured products. Beiren Jingyan is principally engaged in the manufacturing of printing machines and relevant components and the provision of relevant technical consulting services.

Set out below is a summary of the consolidated financial results and position of the Group (prepared under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the “**PRC Accounting Standards**”)) for the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2011 and 2012. Details of the financial information on the Group are set out in the audit report on the Group set out in Appendix III to the Circular.

	Year ended/ As at 31 December			Seven months ended/ As at 31 July	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Total assets	1,737,783	1,457,361	1,485,442	N/A	1,474,520
Total liabilities	994,474	696,248	710,699	N/A	748,368
Net current (liabilities)/assets	(28,756)	84,873	139,037	N/A	107,350
Net assets	743,309	761,113	774,743	N/A	726,152
Operating income	767,669	821,358	803,874	464,881	431,599
Operating (loss)/ profit	(190,596)	9,331	(29,435)	(3,026)	(50,376)
Net (loss)/ profit	(179,518)	19,471	13,630	(2,546)	(48,541)
Net (loss)/ profit attributable to the Shareholders	(174,005)	22,279	11,383	(4,390)	(47,245)

As detailed in Appendix III to the Circular, as at 31 July 2012, the Group had total assets of approximately RMB1,474,520,000, comprising mainly fixed assets of approximately RMB510,537,000, inventory of approximately RMB433,463,000, accounts receivable of approximately RMB212,655,000, intangible assets of approximately of RMB102,371,000 and cash of approximately RMB110,791,000.

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As at 31 July 2012, the Group had total liabilities of approximately RMB748,368,000, comprising mainly short term loan amounted to approximately RMB219,000,000, of which RMB8,000,000 was guaranteed by the Company. The Group had also recorded accounts payable of approximately RMB325,008,000, advances from customers of approximately RMB78,459,000, other payables of approximately RMB48,296,000, employee benefit payable of approximately RMB29,106,000 and special payable of approximately RMB31,068,000 in relation to the financial support provided by the ultimate Shareholder, Beijing National Capital Mechanical and Electrical Holding Company Limited, to finance development of commercial products and support some industry projects on behalf of the Company. As set out in the indebtedness statement in Appendix II to the Circular, as at the close of business on 31 October 2012, the Reorganised Group had outstanding borrowings of approximately RMB539,100,000, of which RMB532,100,000 is short-term borrowings and RMB7,000,000 is long-term borrowings.

As set out in the Letter from the Board, the Company had difficulty in operating its printing machineries business due to the downturn of the printing industry as a whole. According to the summary of the audited consolidated operating results of the Company for each of the five years ended 31 December 2011 (prepared under the PRC Accounting Standards) as stated in the 2011 Annual Report, the Group recorded net losses attributable to the Shareholders of approximately RMB263,142,000 and RMB174,005,000 for the years ended 31 December 2008 and 2009 respectively, and net profits attributable to Shareholders of approximately RMB22,279,000 and RMB11,383,000 for the years ended 31 December 2010 and 2011 respectively. It was further explained in the 2011 Annual Report that (a) the Group recorded an operating profit of approximately RMB9,331,000 for the year ended 31 December 2010 after taking into account, amongst other things, an investment income of disposal of long-term equity investment and a long-term equity investment income accounted for under the equity method of approximately RMB172,506,000, and the net profit attributable to Shareholders of approximately RMB22,279,000 for that year was primarily attributable to the non-operating income of approximately RMB16,766,000; and (b) the Group recorded an operating loss of approximately RMB29,435,000 for the year ended 31 December 2011, and the net profit attributable to Shareholders of approximately RMB11,383,000 for that year was primarily attributable to the non-operating income of approximately RMB44,402,000. According to the statement from the Chairman of the Company (the “**Chairman’s Statement**”) contained in the 2011 Annual Report, in the year of 2011, on one hand, the printing industry was affected by factors, such as the increase in raw materials prices, electricity shortage, credit tightening, slow down in trading and the rise in labour cost, the package printing was still the largest and fastest-growing market; on the other hand, due to the fast development in digital printing and digital transmission technologies, the traditional books and periodicals printing was dragged down with the intensifying industry competition. With regard to the outlook for the year of 2012, it was stated in the Chairman’s Statement that (i) the transformation and upgrade of the printing market towards green printing, digital printing and printing digitization process would be accelerated due to the fast development in the emerging mass media (including digital printing and digital transmission technologies) and the requirements for green, environmental protection and energy conservation formed in the national “Twelfth Five-Year Plan” (the “**12th Five-Year Plan**”) in relation to the printing industry; (ii) the trend in the strategic adjustment and transformation of the printing industry in the PRC would continue; (iii) the development in the books and periodicals printing market are expected to be relatively stable; (iv) printing and package printing would maintain a double-digit growth; and (v) green and environmental friendly printing would become the mainstream. In addition, it was expected that the Group would continue to face those factors such as rises in the costs of energy, raw materials and labour, as well as intense competition of printing price; hence the competition in the printing industry would be more intense. For the purpose of confronting with the challenging environment, the Group then proposed a number of key areas for development in 2012, such as the adjustment of product mix and enhancement of product competitiveness, market expansion, strengthening of quality and improvement in product quality, strengthening of the capital management and lowering of

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production and management costs. Notwithstanding such working plans of the Group, according to its unaudited financial statements (prepared under the PRC Accounting Standards) contained in the interim report of the Company for the six months ended 30 June 2012 (the “**2012 Interim Report**”), the Group recorded an unaudited operating income of approximately RMB377,942,000 during the first half of 2012, representing a decrease of approximately 11.08% from the corresponding period in 2011. Furthermore, the Group recorded an unaudited operating loss of approximately RMB33,083,000 and an unaudited net loss attributable to the Shareholders of approximately RMB31,969,000 for the six months ended 30 June 2012, as compared to an unaudited operating profit of approximately RMB15,013,000 and an unaudited net profit attributable to Shareholders of approximately RMB14,071,000 for the six months ended 30 June 2011. As stated in the Letter from the Board, the Directors believe that the difficulties currently confronting the printing machinery manufacturing industry in the PRC are not expected to be alleviated in the near future, it would be in the interest of the Company and its Shareholders to implement the Reorganisation, which involves the disposal of its existing business and an acquisition of new profitable business, to improve the profitability and prospects of the Company.

As advised by the Directors, the Company has put effort to consider the respective performance, the growth potential, the market condition, the prospect and the competitiveness of the Disposal Group and the Target Companies. The Directors believe that the industry in which the Target Companies are running is relatively less competitive and has greater growth potential than the fiercely competitive printing machinery manufacturing industry, particularly for development and sales of printing press, including printing machines, packing machines and parts and components for the aforesaid machines, in which the Disposal Group is currently principally operating.

In accordance with the notice of issuing the “Scheme of Perfecting Delisting System of Shanghai Stock Exchange Listed Companies” (《關於完善上海證券交易所上市公司退市制度的方案》) published on 28 June 2012 by the SSE, the relevant provisions of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (the “**SSE Listing Rules**”) had been revised on 7 July 2012. Pursuant to the relevant provisions of the SSE Listing Rules (revised 2012), (i) the SSE will issue a delisting risk warning on the stocks of a company, the securities of which are listed on the SSE, upon the company recording audited net loss for each of the most recent two consecutive financial years; (ii) if the company continues to record audited net loss in the following financial year (i.e. the third financial year), the SSE will then suspend the listing of the stocks of the company on the SSE; and (iii) the SSE will terminate the listing of the stocks of the company on the SSE if the company records audited net loss in the fourth financial year. In other words, if a company records audited net losses for four consecutive financial years, its listing status of the SSE will be terminated. In the event that the stocks of a listed company are suspended from listing on the SSE in the third financial year of consecutive loss-making as abovementioned, if it records audited net profits before and after excluding extraordinary profit and loss in the fourth financial year, the company can apply to the SSE for resumption of listing of its stocks on the SSE; otherwise, as abovementioned, the stocks of that company will then be delisted from the SSE.

As set out in the announcement of the Company dated 25 May 2011, as the Company recorded audited annual net losses for the two consecutive financial years in 2008 and 2009, the SSE imposed delisting warning special treatment on the trading of A Shares on the SSE on 22 March 2010. Following the issue of a standard unqualified audit report by the auditors of the Company which confirmed that the Company recorded net profits attributable to Shareholders for the financial year 2010 and upon the Company’s application, the Company received approval from the SSE for the withdrawal of the delisting risk warning imposed on the trading of A Shares on 27 May 2011, while other special treatments would continue to be implemented on the A Shares. As further set out in the announcement of the Company dated 21 August 2012, the

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other risk warnings imposed on the trading of A Shares was removed on 23 August 2012. However, it was also highlighted in the announcement dated 21 August 2012 that (i) although the Company recorded audited net profit attributable to Shareholders for the year ended 31 December 2011 (amounted to approximately RMB11,383,000), it turned to net loss attributable to Shareholders (amounted to approximately RMB30,853,000) after the extraordinary items; and (ii) for the first half of 2012, the Company recorded unaudited net losses attributable to Shareholders (amounted to approximately RMB31,969,000 or, after deducting the extraordinary items, amounted to approximately RMB33,398,000). Though the Company has been taking various measures to improve the profitability of its main operation (which is the manufacture and sales of printing facilities before completion of the Reorganisation), the Directors believe that the difficulties currently confronting the printing machinery manufacturing industry in the PRC are not expected to be alleviated in the near future. A warning statement in respect of the risk associated with the investors' investment in the Shares was contained in the announcement dated 21 August 2012. We have been advised by the Directors that in case the Company cannot turnaround to net profits (both before and after deducting the extraordinary items) in the coming future, the A Shares is still subject to risks of imposition of any delisting warning special treatment and/or being suspended from listing on, or even delisted from, the SSE, in any case the value of the Shareholders' investment in the Shares will be adversely affected.

As stated in the Letter from the Board, the Target Companies are currently principally engaged in manufacturing and sale of gas storage and transportation equipments and gas compressor products. The Target Companies have three major products, (i) industrial gas storage and transportation equipment (including products such as industrial gas cylinder, industrial gas cryogenic gas cylinders, industrial gas cryogenic storage tank) (which are produced by Tianhai Industrial), (ii) liquefied natural gas storage and transportation equipment (including products such as hoop-wrapped compressed natural gas cylinders for vehicles, liquefied natural gas cryogenic gas cylinders and liquefied natural gas cryogenic storage tank) (which are produced by Tianhai Industrial), and (iii) gas compressor machinery (which are produced by Jingcheng Compressor).

As set out in Appendix I to the Circular, according to the statistics with regard to the above-designated-size enterprises in China's metallic pressured vessel industry released by China Machinery Industry Federation (中國機械工業聯合會)¹, (i) the total industrial output value increased from approximately RMB46,112 million in 2009 to approximately RMB71,647 million in 2011; (ii) the total industrial sales increased from approximately RMB44,640 million in 2009 to RMB69,846 million in 2011; and (iii) the total assets increased from RMB35,997 million in 2009 to RMB51,489 million in 2011. Besides, being supported by the China's gas-boost plan under the 12th Five-Year Plan, the National Energy Administration (國家能源局) (the "NEA") intends to propel the share of natural gas in primary energy consumption mix from the current level of approximately 4.5% in 2011 to approximately 8%, with a total consumption of approximately 260 billion cubic meters ("bcm"), by 2015, among which approximately 170 bcm and 90 bcm are expected to be produced domestically and imported respectively, according to the information released by the NEA in a news conference in July 2010 in relation to the introduction of the energy economic trends in 2010 and the energy development under the 12th Five-Year Plan and National Bureau of Statistics as set out in Appendix I to the circular. With regard to demand of the industrial gas storage and transportation equipment industry, it is stated in Appendix I to the Circular that it mainly depends on (i) the growth of the total gas supply of downstream industrial gases companies, where the China's industrial gas market is expected to be maintained at 8% in the next five years, and (ii) the replacement rate of existing old gas cylinders and cryogenic storage tanks of the downstream industry, which is estimated to be 4% to

¹ China Machinery Industry Federation (中國機械工業聯合會) was commissioned by the State Economic and Trade Commission (國家經濟貿易委員會) to organise, coordinate and host over 50 national professional associations and 17 institutional units in the machinery industry, currently possess more than 260 units as its direct member and over 30 enterprises as its indirect member, covering the whole machinery industry in the PRC.

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5% annually. The Directors, on the basis of the abovementioned factors, consider that the industrial gas and natural gas market, and in turn the gas container and related markets, in the PRC will have a positive development in the coming future; hence, the acquisition of the Target Companies which are currently principally engaged in, among others, manufacturing and sale of gas storage and transportation equipments offer a suitable opportunities to enter into the growing gas container and related markets in the PRC.

As set out in the Letter from the Board, according to statistics of China Machinery Industry Federation (中國機械工業聯合會), among the PRC industrial gas cylinders manufacturers with an annual turnover above RMB50 million, Tianhai Industrial ranked first with a market share of approximately 45% in the year of 2011. As advised by the Directors, they consider that Tianhai Industrial has the capacity and potential to further increase the industrial gas container market share in the PRC by extending its customer base from gas companies, gas distributors, medical treatment companies and security companies to energy generators, war industry and supermarkets, and to develop new market, for instance, for aluminum cylinder whereas the Directors also consider that the industrial gas container market in the PRC is relatively less competitive due to entry barriers of the industry which includes, inter alia, the need in possessing certain technical levels including new products research and exploitation skills and capability, superior industry qualifications, sound track record and the end-products have to be tailor-made to address the specific needs and requirements of the individual market user. The Directors have further advised that the overseas industrial gas container market is well developed, the overseas manufacturers already possessed advanced technology and have long track record in the industrial gas container market, and are capable of producing high quality products; while the industrial gas container market in the PRC is still in the developing stage, there is limited number of manufacturers in the PRC which possess the high-end technologies, qualifications, and capacity to become a major market player. Resulting from the policies of the PRC government released in June 2012 and August 2012 in relation to increase the awareness of the use of clean energy during the 12th Five-Year Plan, the natural gas has been heavily promoted for use in vehicles by the PRC government for years, and numerous measures have been taken to increase the use of natural gas vehicles, for instance, introducing compressed nature gas (“CNG”) and liquefied natural gas (“LNG”) buses and taxis on the road. The business of manufacturing and sales of gas cylinders for CNG and LNG for automobiles by the Target Companies is thus expected to benefit from the more popularized and promoted use of CNG and LNG as fuel for automobiles. Therefore, the Directors are of the view that the Acquisition allows the Group to capture the growth of the gas containers markets in the PRC, as well as to enjoy the benefit from being able to enter a relatively less competitive but more profitable market segment. As further set out in the Letter from the Board, the Target Companies have successfully obtained state certification for use in the nuclear industry for some of its compressor machinery. It should benefit from the rapid development of the third generation of nuclear energy plants in the PRC. Having considered the above factors, the Directors believe that the Acquisition will provide an opportunity for the Group to transform to a new business with a proven track record of profitability and expected growth in the future.

Notwithstanding the favorable factors relating to the gas storage and transportation equipment industry and compressor machinery industry as mentioned above, we notice that the Target Companies also face risk factors and adverse factors as set out in Appendix I to the Circular, in particular, (i) the weaker foundation for innovative research and development which inhibited the development of the technology of the gas storage and transportation equipment industry in the PRC; (ii) increased foreign trade risk including the anti-dumping and countervailing duty investigation against manufacturing enterprises in the PRC, trade barriers set up by governments of foreign countries in form of various technical regulations, quality requirements and safety standards for imported products; (iii) absence of an industry investment and financing system which has restricted the development and expansion of compressor manufacturing industry. The Directors, after taking into account such risk factors and adverse

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factors set out in the Circular and after due and careful consideration, forecast that each of the Target Companies will generate net profits for the years ending 31 December 2012 and 2013 (discussion with regard to the profit forecasts of the Target Companies is set out in the paragraph headed “Profit forecasts” under the section headed “The Target Companies” below). In view of the intense competition and negative phenomenon of the printing machinery manufacturing industry, the unsatisfactory financial performance of the Group in recent years, and the track record and competitiveness of the Target Companies as discussed in the section headed “The Target Companies” below, we consider it is logical and commercially justifiable for the Company to dispose of the printing machinery business currently carried by the Group with unsatisfactory financial performance, which performance may not be improved in the coming future due to the difficulties faced by the industries as mentioned above, and acquire the Target Companies with track record of profitability and expected net profits in the future.

The Acquisition

Assets being acquired

The Acquisition involves the sales by Jingcheng Holding and the purchase by the Company of the equity interests in the Target Companies, namely Jingcheng HK, Tianhai Industrial and Jingcheng Compressor. As set out in the Letter from the Board, (1) Jingcheng HK is an investment holding company which, other than the holding of 28.44% interest (or 11.49% upon completion of the Tianhai Industrial Capital Increase) in Tianhai Industrial and 9.48% interests in Tianjin Tianhai, has no other business operations; (2) Tianhai Industrial is principally engaged in the research and development, manufacturing and sale of gas storage and transportation equipment and holds equity interests in seven companies, including 51% interest in America Fortune, 50% interest in Tianhai Xigang, 100% interest in Panni Gaokong, 75% interest in Tianhai Cryogenic, 89.32% interest in Shanghai Tianhai, 70% interest in Langfang Tianhai and 45.52% interest in Tianjin Tianhai; and (3) Jingcheng Compressor is currently principally engaged in gas compress machinery business after the disposal of its environmental protection business in October 2012, and holds 30% equity interest in Fusheng Machine. Upon Completion, the Target Companies, America Fortune, Panni Gakong, Tianhai Cryogenic, Shanghai Tianhai, Langfang Tianhai and Tianjin Tianhai will become subsidiaries of the Company. Tianhai Xigang will become a joint controlled entity of the Company and Fusheng Machine will become an associate company of the Company.

The Target Companies

(a) Business, past performance and financial position of the Target Companies

Business

Jingcheng HK

The principal business of Jingcheng HK is investment holding. As set out in the Letter from the Board, other than the holding of 28.44% equity interest (or 11.49% upon completion of the Tianhai Industrial Capital Increase) in Tianhai Industrial (the remaining 71.56% equity interest (or 88.51% upon completion of the Tianhai Industrial Capital Increase) in which is held by Jingcheng Holding, the sole shareholder of Jingcheng HK) and approximately 9.48% equity interest in Tianjin Tianhai (45.52% equity interest in which is held by Tianhai Industrial), Jingcheng HK has no other business operations. Accordingly, please refer to the relevant paragraphs under this section headed “Business, past performance and financial position of the Target Companies – Tianhai Industrial” for the analysis of the financial information on Tianhai Industrial.

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Tianhai Industrial

As mentioned in the Letter from the Board, Tianhai Industrial, together with its subsidiaries (“**Tianhai Industrial Group**”), is, according to the statistics of China Machinery Industry Federation, one of the market leaders among the PRC industrial gas cylinders manufacturers with an annual turnover above RMB50 million in terms of market share during the year of 2011. The major products of the Tianhai Industrial Group include seamless steel gas cylinders, hoop-wrapped gas cylinders, gas cylinders with seams, low temperature gas cylinders and large low-temperature storage and transportation equipment which in aggregate accounted for approximately 94.09%, 94.18%, 93.63% and 93.70% of the main operating income of the Tianhai Industrial Group for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012 respectively.

As advised by the Directors, the Tianhai Industrial Group currently operates 5 manufacturing bases in the PRC, namely, Beijing, Tianjin, Shanghai, Langfeng and Mulin. As stated in the Letter from the Board and/or Appendix I to the Circular, Tianhai Industrial, together with various subsidiaries, possess various qualifications relating to the design of class A1, A2, C2, C3 pressured cylinders and the manufacture class A1, A2, B1, B2, B3, C3, D1 D2 pressured cylinders. In addition, Tianhai Industrial has been accredited various certifications, for instances (i) the Certificate of High New Technology Enterprise (高新技術企業) jointly issued by, among others, the Beijing Municipal Science & Technology Commission (北京市科學技術委員會) in December 2010 for a valid period of 3 years; (ii) ISO 9001:2008 and ISO/TS 16949:2009 international quality management system certification, ISO14001:2004 environmental management system, GB/T28001-2001 occupational health and safety management system and product certification accredited by governments and third professional institutions in certain countries.

Jingcheng Compressor

The major products of Jingcheng Compressor are gas compressor products, mainly piston compressor and diaphragm compressor, which accounted for approximately 99.31%, 88.34%, 87.76% and 99.40% of the total operating income of Jingcheng Compressor (including the operating income contributed by the then environmental protection business of Jingcheng Compressor) for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012. It was highlighted in the Appendix I to the Circular that Jingcheng Compressor is in the leading position in the field of diaphragm compressor as it was recognized as the largest brand of diaphragm compressor in China. As set out in the Letter from the Board, Jingcheng Compressor has disposed off its environmental protection business in October 2012.

We have been advised by the Directors that Jingcheng Compressor currently operates a manufacturing base in Beijing in the PRC. As further advised by the management of the Company, Jingcheng Compressor possesses various qualifications accredited by the authorities and/or organizations. As set out in Appendix I to the Circular, Jingcheng Compressor has passed the GB/T 19001-2008/ISO9001:2008 quality management system certification. Jingcheng Compressor is the only supplier of nuclear compressors in China. The industry standard JB/T6905-200 Daiphragm Compressors in China is formulated and revised by Jingcheng Compressor, and it is also the only industry standard for diaphragm compressors in the world.

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As aforesaid, Jingcheng Compressor has disposed of its environmental protection business including, among others, its entire interest in the then subsidiary, namely Jingcheng Tianyi, in October 2012 to avoid competition between the Company and other subsidiaries of Jingcheng Holding with regard to the environmental protection business after the Reorganisation.

Given the Company will not acquire the then environmental protection business of Jingcheng Compressor under the Reorganisation, in the following sections, the analysis will be focus on the financial information on and the relevant market comparables of the compressor manufacturing and sales business of Jingcheng Compressor, as well as the evaluation of the consideration of acquiring the compressor manufacturing and sales business of Jingcheng Compressor, and will not take into account the financial results of the environmental protection business, if the relevant segment information is available.

Past financial performance

Set out below is a summary of the respective audited income statements of Jingcheng HK and the audited consolidated income statements of Jingcheng Tianhai and Jingcheng Compressor for each of the three years ended 31 December 2009, 2010 and 2011, and the seven months ended 31 July 2011 and 2012 prepared in accordance with the PRC Accounting Standards as extracted from the audit report of the Target Companies contained in Appendix IV to the Circular.

Jingcheng HK

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Operating income	-	-	-	-	-
Less: Operating cost	-	-	-	-	-
Less: Operating expense – net	(71)	(76)	(41)	-	(85)
Income on investment	<u>9,087</u>	<u>5,543</u>	<u>12,431</u>	<u>7,524</u>	<u>8,753</u>
Operating profit	<u>9,016</u>	<u>5,467</u>	<u>12,390</u>	<u>7,524</u>	<u>8,668</u>
Total profit	9,016	5,467	12,390	7,524	8,668
Less: Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net profit	<u><u>9,016</u></u>	<u><u>5,467</u></u>	<u><u>12,390</u></u>	<u><u>7,524</u></u>	<u><u>8,668</u></u>

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Tianhai Industrial

	Year ended 31 December			Seven months ended 31 July	
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	2011 <i>RMB'000</i> <i>(unaudited)</i>	2012 <i>RMB'000</i>
Total operating income	1,684,293	1,894,788	2,331,544	1,379,785	1,398,823
Less: Total operating cost	(1,682,462)	(1,902,613)	(2,275,127)	(1,346,298)	(1,355,001)
Less: Investment loss	<u>(770)</u>	<u>(1,082)</u>	<u>(468)</u>	<u>(421)</u>	<u>(112)</u>
Operating profit/ (loss)	1,061	(8,907)	55,949	33,066	43,710
Non-operating income/(expense) – net	<u>3,035</u>	<u>(614)</u>	<u>1,016</u>	<u>384</u>	<u>609</u>
Total profit	4,096	(9,521)	56,965	33,450	44,319
Less: Income tax expense	<u>(13,192)</u>	<u>(2,892)</u>	<u>(9,889)</u>	<u>(5,433)</u>	<u>(8,568)</u>
Net profit/ (loss)	<u><u>(9,096)</u></u>	<u><u>(12,413)</u></u>	<u><u>47,076</u></u>	<u><u>28,017</u></u>	<u><u>35,751</u></u>
Net profit/ (loss) attributed to:					
The parent's shareholders	2,251	(8,156)	44,745	25,443	30,776
Minority shareholders equity	<u>(11,347)</u>	<u>(4,257)</u>	<u>2,331</u>	<u>2,574</u>	<u>4,975</u>
	<u><u>(9,096)</u></u>	<u><u>(12,413)</u></u>	<u><u>47,076</u></u>	<u><u>28,017</u></u>	<u><u>35,751</u></u>

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Jingcheng Compressor *(Note)*

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Total operating income	95,206	105,488	142,096	32,642	29,773
Less: Total operating cost	(99,943)	(106,326)	(146,134)	(35,904)	(44,534)
Income on investment	11,649	14,482	18,011	7,376	8,784
Operating profit/(loss)	6,911	13,644	13,973	4,114	(5,978)
Non-operating income/(expense) – net	842	309	(733)	26	(893)
Total profit/(loss)	7,753	13,953	13,240	4,140	(6,871)
Less: Income tax expense	701	(352)	74	(236)	313
Net profit/(loss)	<u>8,454</u>	<u>13,601</u>	<u>13,314</u>	<u>3,904</u>	<u>(6,558)</u>
Net profit/ (loss) attributable to:					
The parent's shareholders	8,454	13,601	13,314	3,904	(6,378)
Minority interest income	-	-	-	-	(180)
	<u>8,454</u>	<u>13,601</u>	<u>13,314</u>	<u>3,904</u>	<u>(6,558)</u>

Note: Included the historical financial results of the environmental protection business of Jingcheng Compressor which were disposed of by Jingcheng Compressor in October 2012.

(i) Operating income

Tianhai Industrial Group

The operating income of the Tianhai Industrial Group recorded continuous growth during the three years ended 31 December 2011. Its consolidated total operating income increased from approximately RMB1,684,293,000 for the year ended 31 December 2009 to approximately RMB2,331,544,000 for the year ended 31 December 2011. As set out in the Letter from the Board, the improvement in the operating income of the Tianhai Industrial Group was mainly attributable to the increase in sales of seamless steel gas cylinders and hoop-wrapped gas cylinders over the Track Record Period. In addition, for the year ended 31 December 2011, the operating income derived from the sales of various gas storage and transportation equipments amounted to approximately RMB2,260,378,000, representing approximately 96.95% of the total operating income of the Tianhai Industrial Group of approximately RMB2,331,544,000 during the year. For the seven months ended 31 July 2012, the operating income derived from the sales of various gas storage and transportation equipments amounted to approximately RMB1,353,418,000, representing a slight increase by approximately 2.47% from approximately RMB1,320,854,000 for the seven-month period ended 31 July 2011.

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Jingcheng Compressor

The following table sets out the analysis of the operating income of Jingcheng Compressor by business segments, including the compressor machinery business and the environmental protection business which has been disposed off by Jingcheng Compressor in October 2012, for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2011 and 2012 as extracted from the audit report of Jingcheng Compressor contained in Appendix IV(2) to the Circular:

	Year ended 31 December						Seven months ended			
	2009	2010		2011			2011	31 July		2012
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Business segments										
Compressor machinery	93,942	98.67	92,476	87.66	123,999	87.26	29,818	91.35	28,913	97.11
Environmental protection	655	0.69	12,211	11.58	17,299	12.17	2,434	7.46	175	0.59
Others	609	0.64	801	0.76	798	0.57	390	1.19	685	2.30
Total	95,206	100.00	105,488	100.00	142,096	100.00	32,642	100.00	29,773	100.00

The total operating income of Jingcheng Compressor recorded continuous growth during the three years ended 31 December 2011. The total operating income of Jingcheng Compressor for the year ended 31 December 2009 was approximately RMB95,206,000 and increased to approximately RMB142,096,000 for the year ended 31 December 2011. During the years ended 31 December 2009, 2010 and 2011, the operating income derived from the gas compressor machinery segment represented approximately 98.67%, 87.66% and 87.26% respectively of the total operating income of Jingcheng Compressor. As advised by the management of the Company, it understands from the management of Jingcheng Compressor that the improvement in the total operating income, in particular the operating income derived from the compressor machinery segment in 2011, of the Jingcheng Compressor was mainly attributable to the increase in sales volume of the compressor machinery, and such increase in sales volume was due to the rapid development of the downstream industry which speeded up the demand of air compressor products and Jingcheng Compressor's response to such market development by reforming its sales and marketing strategy from a regional marketing mode to a non-regional restriction marketing mode for the purpose of obtaining orders on cross-regional basis which allows, in the opinion of the management of Jingcheng Compressor, a better allocation of internal resources. Subsequent to 2011, the total operating income of Jingcheng Compressor decreased by approximately 8.79% from the seven months ended 31 July 2011 of RMB32,642,000 to RMB29,773,000 for the seven months ended 31 July 2012 (among which approximately 91.35% and 97.11% were contributed by the operating income derived from the compressor machinery segment during the first seven months of 2011 and 2012 respectively). In particular, the operating income from the compressor machinery segment decreased by approximately 3.04% from approximately RMB29,818,000 for the seven months ended 31 July 2011 to approximately RMB28,913,000 for the seven months ended 31 July 2012. Such decline, according to Letter from the Board was primarily due to (i) the shrinkage of photovoltaic market starting from the fourth quarter of 2011 resulting from the European debt crisis and (ii) the reassessment of the safety of nuclear power by the Chinese government after the arisen of nuclear crisis in Japan, which, as advised by

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the Company, lowered the demand of the compressor products since late 2011 and also resulted in delay in the delivery of the sales orders or eventually cancellation of the sales orders at the request of certain customers, and finally caused a decrease in the sales volume of the compressor machinery of Jingcheng Compressor and thus a decrease in its revenue for the seven months ended 2012.

(ii) Operating costs

Tianhai Industrial Group

During the Track Record Period, the total operating costs of Tianhai Industrial mainly comprised the main and other operating costs, the administrative expenses as well as the sales expenses. These expenses in general increased alongside with the increase in operating income over the periods. In addition, as advised by the Company after its discussion with the management of Tianhai Industrial and/or as mentioned in the Letter from the Board, (i) the increase in the main and other operating costs during the three years ended 31 December 2011 also resulted from surge in the prices of key raw materials during the period; (ii) the increase in sales expenses during the Track Record Period also mainly driven by the increase in transportation fee, salary, maintenance expenses and after-sales services expenses; (iii) during the Track Record Period, due to the devotement of increased amount of research and development costs for technology innovation and enhancement of product competitiveness, the substantial increase in staff costs resulting from the increases in employee salaries and headcount for business expansion plan, as well as the increase in professional fees for seeking legal and other professional advices in relation to the investigation of various tariffs on the PRC-made gas storage and transportation equipments proposed or imposed by the government of the United States, there was a remarkably increase in administrative expenses; and (iv) the increase in finance costs resulting from the increase in interest payment for a long term loan drew in 2010 and the foreign exchange loss resulting from the appreciation of RMB to USD.

Jingcheng Compressor

The following table, which sets out the analysis of the prime and other operating costs of Jingcheng Compressor by business segments, including the gas compressor machinery business and the environmental protection business (which has been disposed off by Jingcheng Compressor in October 2012), for the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2011 and 2012 as extracted from the audit report of Jingcheng Compressor contained in Appendix IV(2) to the Circular:

	Year ended 31 December						Seven months ended			
	2009	2010		2011			2011	31 July		2012
	RMB'000	%	RMB'000	%	RMB'000		% RMB'000	%	RMB'000	%
							(unaudited)			
Business segments										
Compressor machinery	62,311	98.74	71,014	89.91	91,637	84.85	21,581	93.71	21,395	96.30
Environmental protection	277	0.44	7,410	9.38	15,766	14.60	1,328	5.77	184	0.83
Others	517	0.82	556	0.71	600	0.55	121	0.52	637	2.87
Total	63,105	100.00	78,980	100.00	108,003	100.00	23,030	100.00	22,216	100.00

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It is aware that during the Track Record Period, the total operating costs of Jingcheng Compressor were principally comprised of the prime costs of the compressor machinery business, the administrative expenses as well as sales expenses, and in general increased alongside with the increase in total operating income over the periods. As advised by the Company after its discussion with the management of Jingcheng Compressor and/or as mentioned in the Letter from the Board, (i) the increase in the prime operating costs of the gas compressor machinery business during the three years ended 31 December 2011 mainly resulted from surge in the prices of key raw materials during the period; (ii) the increase in the sales expenses in 2011 was driven by the increase in the marketing fees, the freight charges and storage fees which increased along with the total operating income; and (iii) due to the devotement of increased amount of research and development costs for technology innovation and enhancement of product competitiveness, the substantial increase in staff costs resulting from the increases in employee salaries and headcount for business expansion plan, there was a notably increase in administrative expenses during the Track Record Period.

(iii) Operating profit and net profit

Tianhai Industrial Group

Tianhai Industrial (i) recorded an operating profit of approximately RMB1,061,000 but suffered from a net loss of approximately RMB9,096,000 for the year ended 31 December 2009; (ii) recorded an operating loss and a net loss of approximately RMB8,907,000 and approximately RMB12,413,000 respectively for the year ended 31 December 2010; and (iii) recorded an operating profit of approximately RMB55,949,000 and a net profit of approximately RMB47,076,000 for the year ended 31 December 2011. Tianhai Industrial also recorded an operating profit of approximately RMB43,710,000 and a net profit of approximately RMB35,751,000 for the seven months ended 31 July 2012. As advised by the Company after its discussion with the management of Tianhai Industrial, like many other enterprises, Tianhai Industrial's business and financial performance were adversely affected by the financial crisis in late 2008, and it recorded net loss for the year ended 31 December 2009 and both operating loss and net loss for the year ended 31 December 2010. Furthermore, Langfang Tianhai, a 70% owned subsidiary of Tianhai Industrial commenced its production since 2009, hence its production scale had not been fully utilized in 2009 and 2010 and the fixed costs of the products were relatively high in these two years, which adversely affected the consolidated financial results of Tianhai Industrial to a certain extent. However, the situation has been improved since 2011, where the gas storage and transportation equipment market has been recovering along with the economy. The financial performance of Tianhai Industrial therefore improved and it recorded both operating profit and net profit during the year ended 31 December 2011 and the seven months ended 31 July 2012.

Jingcheng Compressor

The following table provided by the Company sets out the analysis of the operating profit and net profit of Jingcheng Compressor by business segments, the gas compressor machinery and the environmental protection business (which has been

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disposed of by Jingcheng Compressor in October 2012), for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2011 and 2012:

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
Operating profit/(loss)					
Compressor machinery	9,379	10,831	15,586	4,233	(3,182)
Environmental protection	(2,468)	2,813	(1,613)	(119)	(2,796)
Total	<u>6,911</u>	<u>13,644</u>	<u>13,973</u>	<u>4,114</u>	<u>(5,978)</u>
Net profit/(loss)					
Compressor machinery	10,922	10,788	14,927	4,023	(3,741)
Environmental protection	(2,468)	2,813	(1,613)	(119)	(2,817)
Total	<u>8,454</u>	<u>13,601</u>	<u>13,314</u>	<u>3,904</u>	<u>(6,558)</u>

Jingcheng Compressor (i) recorded an operating profit and net profit of approximately RMB6,911,000 and RMB8,454,000 respectively for the year ended 31 December 2009 (where the operating profit and net profit of the gas compressor machinery business segment amounted to approximately RMB9,379,000 and RMB10,922,000 respectively for the year ended 31 December 2009); (ii) recorded an operating profit and net profit of approximately RMB13,644,000 and RMB13,601,000 respectively for the year ended 31 December 2010 (where the operating profit and net profit of the gas compressor machinery business segment amounted to approximately RMB10,831,000 and RMB10,788,000 respectively for the year ended 31 December 2010); (iii) recorded an operating profit and net profit of approximately RMB13,973,000 and RMB13,314,000 for the year ended 31 December 2011 (where the operating profit and net profit of the gas compressor machinery business segment amounted to approximately RMB15,586,000 and RMB14,927,000 respectively for the year ended 31 December 2011). Jingcheng Compressor recorded an operating loss and net loss of approximately RMB5,978,000 and RMB6,558,000 for the seven months ended 31 July 2012 (where the operating loss and net loss of the gas compressor machinery business segment amounted to approximately RMB3,182,000 and RMB3,741,000 respectively for the seven months ended 31 July 2012). As advised by the Company after its discussion with the management of Jingcheng Compressor, the increases in operating profits and net profits during the three years ended 31 December 2011 were mainly attributable to the increase in income from investments in associates and joint venture during the three years ended 31 December 2011 (in fact, Jingcheng Compressor would record operating losses during each of the three years ended 31 December 2011 without taking into account such income from investments). We also noticed that Jincheng Compressor recorded both operating loss and net loss for the seven months ended 31 July 2012 (in particular, its gas compressor machinery business recorded operating loss and net loss of approximately RMB3,182,000 and RMB3,741,000 respectively during the period), while operating profit and net profit were generated by it during the corresponding period in 2011 (in particular, its gas compressor machinery business recorded operating profit and net profit of approximately RMB4,233,000 and RMB4,023,000 respectively during the seven months ended 31 July 2011). As advised by the Company after its discussion

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with the management of Jingcheng Compressor, the loss recorded by Jingcheng Compressor during the seven months ended 31 July 2011 was primarily due to (i) the shrinkage of photovoltaic market starting from the fourth quarter of 2011 resulting from the European debt crisis and (ii) the reassessment of the safety of nuclear power by the Chinese government after the arisen of nuclear electricity leakage disaster in Japan, which lowered the operating income substantially when comparing to the same period in 2011.

(iv) Profit forecast

Jingcheng HK

As set out in Appendix VI(4) to the Circular, the Directors, after due and careful enquiry, forecast that the net profit of Jingcheng HK for the years ending 31 December 2012 and 2013 would be approximately RMB12,484,000 (representing an increase of approximately 0.76% from the audited net profit of approximately RMB12,390,000 for the year ended 31 December 2011) and approximately RMB14,216,000 respectively.

Tianhai Industrial

As set out in Appendix VI(2) to the Circular, the Directors, after due and careful enquiry, forecast that the consolidated net profit attributable to the shareholders of Tianhai Industrial for the years ending 31 December 2012 and 2013 would be approximately RMB44,261,000 (representing a decrease of approximately 1.08% from the audited net profit attributable to the shareholders of Tianhai Industrial of approximately RMB44,745,000 for the year ended 31 December 2011) and approximately RMB50,391,000 respectively.

Jingcheng Compressor

As set out in Appendix VI(3) to the Circular, the Directors, after due and careful enquiry, forecast that the net profit of Jingcheng Compressor for the years ending 31 December 2012 and 2013 would be approximately RMB3,011,000 (representing a decrease of approximately 79.83% from the audited net profit of approximately RMB14,927,000 for the year ended 31 December 2011) and approximately RMB3,575,000 respectively.

Reorganised Group

As set out in Appendix VI(1) to the Circular, the Directors, after due and careful enquiry, forecast that the net profit of the Reorganised Group for the years ending 31 December 2012 and 2013 would be approximately RMB52,180,000 (representing a decrease of approximately 15.79% from the realised net profit of the Reorganised Group of approximately RMB61,962,000 for the year ended 31 December 2011 ("**Realised Profit of the Reorganised Group**", which, according to the confirmation of the Company, has not taken into account the financial results of the environmental protection business disposed off by Jingcheng Compressor in October 2012 and was arrived based on the audited results of the Target Companies for the year ended 31 December 2011) and approximately RMB59,601,000 (representing an increase of approximately 14.22% from the forecasted profit of 2012) respectively. We have been advised by the Company that the forecasted net profit for the year ending 31 December 2012 is lower than the Realised Profit of the Reorganised Group for the financial year of 2011 mainly due to (1) adjustment in domestic economy in 2012, (2)

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price cut of the products of Tianhai Industrial in 2012 in order to stay competitive, (3) the imposition of countervailing and anti-dumping duties of approximately 22% in total by the authorities of the United States of America on the products of Tianhai Industrial in May 2012; (4) the reassessment of the safety of nuclear power by the Chinese government after the arisen of nuclear crisis in Japan, which lowered the demand of the compressor products of Jingcheng Compressor since late 2011 and also resulted in delay in the delivery of the sales orders or eventually cancellation of the sales orders at the request of certain customers of Jingcheng Compressor; and (5) decrease in orders received by Jingcheng Compressor from the PRC manufacturers of polysilicon products, which are customers of Jingcheng Compressor, following the anti-dumping investigations on them by the authorities of the United States of America and the European Union since late 2011. We have been further advise by the Company that the forecasted net profit of the Reorganised Group for the year ended 31 December 2013 is higher than that for the financial year of 2012 mainly due to the expected increases in the sales quantities of the products of the group companies of Tianhai Industrial and in turn in the operating income in 2013 as a result of (i) the plan of expansion of the customer base of the Tianhai Industrial Group, and (ii) the new sales contracts expected to be entered with overseas customers by Tianhai Industrial upon its group company(ies) obtaining new UN certificate(s) for export to the United States of America.

Financial position of the Target Companies

Set out below is a summary of the audited balance sheet of Jingcheng HK and the respective audited consolidated balance sheets of the Tianhai Industrial and Jingcheng Compressor as at 31 December 2009, 2010, 2011 and 31 July 2012 prepared in accordance with the PRC Accounting Standards as extracted from the respective audit reports of the Target Companies contained in Appendix IV to the Circular.

Jingcheng HK

	As at 31 December			As at 31
	2009	2010	2011	July
	RMB'000	RMB'000	RMB'000	2012
				RMB'000
Non-current assets	127,305	131,384	132,358	141,785
Current assets	<u>563</u>	<u>505</u>	<u>1,740</u>	<u>1,618</u>
Total assets	<u>127,868</u>	<u>131,889</u>	<u>134,098</u>	<u>143,403</u>
Current liabilities	<u>1,366</u>	<u>1,358</u>	<u>1,292</u>	<u>1,253</u>
Total liabilities	<u>1,366</u>	<u>1,358</u>	<u>1,292</u>	<u>1,253</u>
Current assets minus current liabilities	<u>(803)</u>	<u>(853)</u>	<u>448</u>	<u>365</u>
Total assets minus total liabilities	<u>126,502</u>	<u>130,531</u>	<u>132,806</u>	<u>142,150</u>

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Tianhai Industrial

	As at 31 December			As at 31
	2009	2010	2011	July
	RMB'000	RMB'000	RMB'000	2012
				RMB'000
Non-current assets	655,347	665,810	818,875	854,278
Current assets	494,703	595,063	837,089	888,822
Total assets	<u>1,150,050</u>	<u>1,260,873</u>	<u>1,655,964</u>	<u>1,743,100</u>
Non-current liabilities	-	50,000	2,700	2,619
Current liabilities	640,592	697,658	1,166,787	1,218,128
Total liabilities	<u>640,592</u>	<u>747,658</u>	<u>1,169,487</u>	<u>1,220,747</u>
Current assets minus current liabilities	<u>(145,889)</u>	<u>(102,595)</u>	<u>(329,698)</u>	<u>(329,306)</u>
Total assets minus total liabilities	<u>509,458</u>	<u>513,215</u>	<u>486,477</u>	<u>522,353</u>

Jingcheng Compressor

	As at 31 December			As at 31
	2009	2010	2011	July
	RMB'000	RMB'000	RMB'000	2012
				RMB'000
Non-current assets	91,889	96,548	104,722	112,262
Current assets	122,450	137,088	178,853	241,708
Total assets	<u>214,339</u>	<u>233,636</u>	<u>283,575</u>	<u>353,970</u>
Non-current liabilities	356	414	472	2,286
Current liabilities	96,828	103,434	135,998	206,137
Total liabilities	<u>97,184</u>	<u>103,848</u>	<u>136,470</u>	<u>208,423</u>
Current assets minus current liabilities	<u>25,622</u>	<u>33,654</u>	<u>42,855</u>	<u>35,571</u>
Total assets minus total liabilities	<u>117,155</u>	<u>129,788</u>	<u>147,105</u>	<u>145,547</u>

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(i) *Assets*

Tianhai Industrial

The fixed assets accounted for the largest asset item of Tianhai Industrial. The fixed assets are primarily the buildings, machineries and equipments used in the production of gas cylinder and low-temperature storage and transportation equipment products. As set out in the Letter from the Board, the significant increase of fixed assets as at 31 July 2012 was primarily due to transfer of machineries and equipments from construction in progress during the seven months in 2012 upon completion of the 200,000 CNG gas cylinders project. We also noted that the accounts receivable of Tianhai Industrial generally increased along with the operating income during 2009 to 2011, and the sharp increase during the seven months ended 31 July 2012, according to the Company, was mainly due to the extended credit terms granted to certain customers with favourable credit history with the Tianhai Industrial Group.

Jingcheng Compressor

As set out in the Letter from the Board, as at 31 July 2012, the net asset value of Jingcheng Compressor before and after excluding the environmental protection business segment were approximately RMB145,547,000 and approximately RMB145,325,000 respectively. The long-term equity investment accounted for one of the largest asset items of Jingcheng Compressor. The long-term equity investment was primarily the 30% equity interest in Fusheng Machine, an associate company of Jingcheng Compressor which principally engaged in manufacturing of air compressor machinery and parts. The continuous increase in the amount of long-term equity investment of Jingcheng Compressor during the Track Record Period was due to the share of profits of Fusheng Machine under equity method. Furthermore, we noticed that there was continuous increase in inventory balance during the Track Record Period. As advised by the management of the Company, the increase in inventory during the Track Record Period was due to the expansion of Jingcheng Compressor's production capacity, hence increases in production volume and inventory level of financed goods following the expectation of the management of Jingcheng Compressor about a positive market situation and the increase in demand of gas compressor products. However, we noted that the inventory level of the finished goods increased substantially by approximately 43.27% from approximately RMB47,818,000 as at 31 December 2011 to approximately RMB68,508,000 as at 31 July 2012, while the operating income decreased by approximately 8.79% to approximately RMB29,773,000 for the seven months ended 31 July 2012 as compared with the corresponding period in 2011. We have been advised by the Company that the unstable macro-economy and the uncertain market condition of polysilicon and photovoltaic industry in 2011 resulted in decreases in the demand of gas compressor as well as sales of Jingcheng Compressor during the seven months ended 31 July 2012, which in turn stocked up the gas compressor products. Furthermore, we have been advised by the Company that the business of Jingcheng Compressor normally encounters seasonal fluctuation as its customers usually make their purchases near the year end (by which time sales would be recognised by Jingcheng Compressor), and such seasonal fluctuation in business also caused a relatively high inventory level as at 31 July 2012.

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(ii) Liabilities

Tianhai Industrial

The accounts payable and other payables accounted for two of the largest liability items of Tianhai Industrial. As advised by the Company, the accounts payable of approximately RMB371,733,000 as at 31 July 2012 were mainly the amounts payables to suppliers for the costs of materials, and the other payables of approximately RMB413,971,000 as at 31 July 2012 were mainly the amount due to the beneficial controlling equity holder of Tianhai Industrial, Jingcheng Holding, of approximately RMB396,700,000 as at 31 July 2012. It was noted that the short-term borrowings of approximately RMB305,000,000 as at 31 July 2012 also accounted for a major liability item of Tianhai Industrial. The short-term borrowings were primarily the short-term pledged or guaranteed loans borrowed by Tianhai Industrial or by a subsidiary of Tianhai Industrial, Tianjin Tianhai (where the pledged loans were secured by the pledge of certain buildings and properties, as well as certain machineries and equipment of the Tianjin Tianhai Group during the Track Record Period).

Jingcheng Compressor

As at 31 July 2012, the receipt in advance accounted for one of the major liability item of Jingcheng Compressor and amounted to approximately RMB71,964,000 as at 31 July 2012, which, as advised by the Company, was mainly the amounts prepaid by the customers upon signing the sales contracts with Jingcheng Compressor for their subsequent purchases. As advised by the management of the Company, a large amount of receipt in advances would generally be received in the middle of the year, the customers would usually made their purchases near the year end and according to their records, the receipts in advance would be transferred to and recognised as operating income in the last three months of a year, as a result, there was substantial increase in receipt in advance as at 31 July 2012. We also noted that other payables and accounts payable also accounted for major liability items of Jingcheng Compressor. The other payables of approximately RMB114,464,000 as at 31 July 2012 were mainly the amount due to the beneficial controlling equity holder of Jingcheng Compressor, Jingcheng Holding, of approximately RMB109,000,000 as at 31 July 2012. Accounts payable of approximately RMB23,581,000 as at 31 July 2012 was mainly the accounts payable to suppliers for the compressor machinery business. There was outstanding short-term borrowing of approximately RMB300,000 guaranteed by Jingcheng Holding as at 31 July 2012 for the compressor machinery business, and the guarantee will expire on 28 February 2013.

(iii) Net assets

Tianhai Industrial

As at 31 July 2012, Tianhai Industrial had net assets of approximately RMB522,353,000, representing an increase of approximately RMB35,876,000 from that of approximately RMB486,477,000 as of 31 December 2011.

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Jingcheng Compressor

As at 31 July 2012, Jingcheng Compressor had net assets of approximately RMB145,547,000, representing a decrease of approximately RMB1,558,000 from that of approximately RMB147,105,000 as of 31 December 2011. By not taking into account the environmental protection business segment, Jingcheng Compressor had net assets of approximately RMB145,325,000 as of 31 July 2012.

(b) Future intentions regarding the Company upon Completion

As advised by the Directors they expect that upon Completion, in future, the Company's resources will be focused on the Target Companies for their continuation of the existing businesses of the manufacturing and sales of (i) industrial gas storage and transportation equipment; (ii) liquefied natural gas storage and transportation equipment; and (iii) gas compressor machinery. The businesses conducted by the Target Companies will form the entire operations of the Group upon Completion.

(c) Future development plans of the Target Companies

It was set out in the Letter from the Board that the major future development plan of Tianhai Industrial is the project of production base of coaches and cryogenic equipment for the target of increasing production volume of cryogenic equipment by 433% and that of tube trailers and bundle type containers by 100%. The total investment cost of the project in the amount of RMB837 million will be raised by Tianhai Industrial (including but not limited to the issue of Shares and loans from banks). The project will proceed based on the market demand and the current plan is to spend 5 years on attaining the designated ability.

It was also set out in the Letter from the Board that the major future development plan of Jingcheng Compressor is the project to increase its current production capacity of compressors by 80% by 2015. The project has commenced in March 2012. The total investment cost of the project in the amount of RMB29.99 million will be financed by the increased registered capital of Jingcheng Compressor fully contributed and paid-up by Jingcheng Holding by August 2012.

Evaluation of the Consideration for the Acquisition

The aggregate consideration for the Acquisition is approximately RMB1,179,346,700, being the aggregate of (i) the total valuation amount of the Incoming Assets as at 31 March 2012 of approximately RMB919,356,700, being the aggregate of the respective valuation amounts for 71.56% equity interests in Tianhai Industrial of approximately RMB471,959,700, 100% equity interests in Jingcheng Compressor of approximately RMB224,932,500 (not taking into account the environmental protection business of Jingcheng Compressor which has been disposed off in October 2012) and 100% equity interests in Jingcheng HK of approximately RMB222,464,500, which were determined with references to the respective valuation of each of the Target Companies as at 31 March 2012 as set out in the valuation reports prepared by the Valuer and approved by the BSCOMC (all such valuation reports are set out as Appendix VIII to the Circular); (ii) the total increase in the registered capital of Jingcheng Compressor in the amount of RMB29,990,000 after the abovementioned valuation date on 31 March 2012, which amount has been fully contributed and paid-up by Jingcheng Holding; and (iii) the proposed increase in the registered capital of Tianhai Industrial in the amount of RMB230,000,000, which amount shall be fully contributed and paid up by Jingcheng Holding and, upon approval by the relevant government authorities of such capital increase which is expected to take place prior to the EGM as undertaken by Jingcheng Holding, be transferred to the Company pursuant to the Acquisition.

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As stated in the paragraphs under the section headed “The Target Companies” above, the principal business of Jingcheng HK is investment holding and the major assets of Jingcheng HK are approximately 28.44% equity interest in Tianhai Industrial (the remaining 71.56% equity interest in which is owned by Jingcheng Holding) and approximately 9.48% equity interest in Tianjin Tianhai, a subsidiary of Tianhai Industrial. Other than such investments in Tianhai Industrial and Tianjin Tianhai, Jingcheng HK has no other business operation. As Tianjin Tianhai is owned as to 45.52% by Tianjin Industrial and having taking into account the 9.48% equity interest in Tianjin Tianhai held by Jingcheng HK, the financial information on Tianjin Tianhai for the three years ended 31 December 2011 and the seven months ended 31 July 2012 had been consolidated into the financial information on Tianhai Industrial. In other words, (i) the financial performance and values of Jingcheng HK’s investments are reflected in the consolidated financial results and positions of Tianhai Industrial; and (ii) upon completion of the Acquisition and the transfer of the interest in the increased capital of Tianhai Industrial by Jingcheng Holding to the Company as mentioned above, the Company will beneficially own the entire equity interest in Tianhai Industrial either directly or through its 100% shareholding interest in Jingcheng HK. Accordingly, for the evaluation of the consideration for the acquisition of Jingcheng HK, please refer to the paragraphs under the sub-section headed “Tianhai Industrial” under each of the sections headed “Comparison of the consideration with profit” and “Comparison with the net assets”.

The respective considerations for the Acquisition and the Disposal were determined by the parties by making reference to the respective valuations of the Incoming Assets and the Outgoing Assets as at the Valuation Date on 31 March 2012 as conducted by the Valuer. The valuation report of the Valuer with regard to the Outgoing Assets (the “**Outgoing Assets Valuation Report**”) has been set out in Appendix VII to the Circular, and the valuation reports on Tianhai Industrial, Jingcheng Compressor and Jingcheng HK (altogether referred to as the “**Incoming Assets Valuation Reports**”) have been set out in Appendix VIII to the Circular.

With regard to the appointment of the Valuer by the Company and Jingcheng Holding in preparing the Outgoing Assets Valuation Report and the Incoming Assets Valuation Report respectively,

- (a) we have discussed with the Valuer and have been provided with copies of the following documents and information by the Valuer with regard to its expertise:
 - business licence of the Valuer;
 - the professional certificates granted by China Appraisal Society (中國資產評估協會) to the officers-in-charge of the Valuer;
 - list of experience of the Valuer in handling similar valuation;
- (b) we have been confirmed by the Company, Jingcheng Holding and the Valuer that save for the relationship as clients and valuer, there is no other relationship between the Valuer and the Company, other parties to the Acquisition and the Disposal, or their respective connected persons; and
- (c) we have reviewed the engagement mandates entered into between (i) the Valuer and the Company with regard to the valuation of all assets and liabilities of the Company for the purpose of the Disposal by complying with the applicable rules, regulations and asset valuation principles in the PRC; and (ii) the Valuer and Jingcheng Holding with regard to the valuation of the respective shareholders’ equities of the Target Companies for the purpose of the Acquisition by complying with the applicable rules, regulations and asset valuation principles in the PRC (we have also reviewed the

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supplemental agreement entered into among Jingcheng Holding, Beiren Group and the Valuer to confirm the engagement of the Valuer by Beiren Group (instead of Jingcheng Holding according to the original mandate) in respect of the valuation of the Outgoing Assets). In addition, we noticed from each mandate that if the Valuer encounters any limitations during its terms of engagement which may affect the reasonableness of the final valuation, the Valuer has the right to terminate the mandate.

It was set out in the Letter from the Board that (i) the Material Asset Reorganisation Agreement shall become effective upon the satisfaction of certain conditions, among other things, the approval by BSCOMC of the valuation results of the valuation reports in respect of the Incoming Assets and the Outgoing Assets; and (ii) the Outgoing Assets Valuation Report and the Incoming Assets Valuation Reports have been approved by BSCOMC.

It has been set out in each of the Outgoing Assets Valuation Report and the Incoming Valuation Reports that the valuations have been prepared in accordance with the relevant PRC laws and regulations. In addition, we noticed that the Valuation Date is 31 March 2012, and as set out in the reports, there has been no material change to the market conditions and the assets since the Valuation Date to the date of the reports on 17 August 2012, and the Outgoing Assets Valuation Report and the Incoming Assets Valuation Reports are valid for an one-year period from the Valuation Date to 30 March 2013. We have been further confirmed by the Valuer that it has not noticed any event which would affect the final valuation of the Outgoing Assets and that of the Incoming Assets respectively set out in the Outgoing Assets Valuation Report and the Incoming Valuation Reports. We have also been confirmed by the Company that there is no material change to the Outgoing Assets and (according to the confirmation from Jingcheng Holding to the Company) to the Incoming Assets which would affect the respective valuations of the Outgoing Assets and the Incoming Assets since the Valuation Date up to and including the Latest Practicable Date.

We have discussed with the Valuer and reviewed the Outgoing Assets Valuation Report. As set out in the Outgoing Assets Valuation Report, the Valuer (i) has complied with the applicable rules and regulations in the PRC with regard to valuation of assets; and (ii) has maintained the principles of independence, objectivity and fairness during the course of valuing the Outgoing Assets. The Valuer has adopted the replacement cost approach (重置成本法) in determining the final valuation of the Outgoing Assets based on the prerequisites that the enterprises holding the assets would continue their operation on a going concern basis and the assets would continue to be used for continuing operation, and the relevant economic technical parameters involved are supported by sufficient information and data (and, as detailed in the Outgoing Assets Valuation Report, the Valuer has further evaluated the respective market value of the assets of the Group through the proper appraisal methods as at the valuation benchmark date). In addition, the Valuer, in determining the final valuation of the Outgoing Assets, (i) has not employed the market approach as it considered that it would be difficult to obtain relevant market comparables, and (ii) has not engaged the income approach as the Group has recorded operating losses and the situation may be deteriorated in the future given the relevant operating environment is unstable.

We also noticed that the Valuer has highlighted in its report that there are defects in the titles of certain Outgoing Assets, in particular, a number of land and properties held by the Group, and the valuation of the Outgoing Assets has been made on the assumption that there would be no such defects and not taking into account any relevant costs to be incurred upon rectification of the defects. We have been confirmed by the Company that Jingcheng Holding and Beiren Group have respectively undertaken to the Company that (i) they have noted the existence of the legal defects in respect of the Outgoing Assets (which shall include the Disposal Properties) and (ii) they will bear, and will not require the Company to bear, any legal liabilities or losses incurred due to such legal defects relating to the Outgoing Assets.

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Based on the above analysis, we consider that it is appropriate for the Company and Jingcheng Holding to determine the consideration for the Disposal by making reference to the final valuation of the Outgoing Assets set out in the Outgoing Assets Valuation Report, and the abovementioned methodology adopted by the Valuer is fair and reasonable.

We have discussed with the Valuer and reviewed the Incoming Assets Valuation Reports. As set out in the Incoming Assets Valuation Reports, the Valuer (i) has complied with the applicable rules and regulations in the PRC with regard to valuation of assets; and (ii) has maintained the principles of independence, objectivity and fairness during the course of valuing the Incoming Assets. The Valuer has adopted the asset-based approach (資產基礎法) in determining the final valuation of the Incoming Assets based on the prerequisites that the enterprises holding the assets would continue their operation on a going concern basis and the assets would continue to be used for continuing operation, and the relevant economic technical parameters involved are supported by sufficient information and data (and, as detailed in the Incoming Assets Valuation Reports, the Valuer has further evaluated the respective market value of the assets through the proper appraisal methods as at the valuation benchmark date). In addition, the Valuer, in determining the final valuation of the Incoming Assets, (i) has not employed the market approach as it considered that it would be difficult to obtain relevant market comparables, and (ii) has not selected the income approach involving the calculation of present value of, or capitalization of, expected income which are considered to be uncertain and not reliable.

We also noticed that the Valuer has highlighted in its reports that there are defects in the titles of certain assets, in particular land and properties, which form part of the Incoming Assets and, as advised by the Valuer, the valuation of the Incoming Assets are made on the assumption that there would be no such defects and by not taking into account any relevant costs to be incurred upon rectification of the defects. It has been set out in Appendix I to the Circular that Tianhai Industrial and Jingcheng Compressors have undertaken to ratify, or procure the ratification of, the defects before 31 December 2012, and Jingcheng Holding has undertaken that “any loss incurred by the Company after the Reorganisation arising from the ownership defect not resolved as scheduled will be fully compensated in cash by Jingcheng Holding in a timely manner” (please refer to the sub-paragraph headed “Defects in ownership of properties to be acquired” under the section headed “Risk Factors” of Appendix I to the Circular for details).

Based on the above analysis, we consider that it is appropriate for the Company and Jingcheng Holding to determine the consideration for the Acquisition by making reference to the final valuation of the Incoming Assets set out in the Incoming Assets Valuation Reports, and the abovementioned methodology adopted by the Valuer is fair and reasonable.

(a) Comparison of the consideration with profit

Tianhai Industrial

On the basis that the entire equity interest in Tianhai Industrial will be beneficially owned by the Company either directly or through its acquisition of 100% shareholding interest in Jingcheng HK, we consider that it is appropriate to evaluate the fairness and reasonable of the aggregate consideration in the amount of approximately RMB924,424,200 (the “**Consideration for 100% Tianhai Industrial**”) payable in relation to the acquisition of the respective interests in Tianhai Industrial (being the sum of approximately RMB471,959,700 and RMB230,000,000) and in Jingcheng HK (being approximately RMB222,464,500) by comparing with the consolidated financial performance and position of Tianhai Industrial. The Consideration for 100% Tianhai Industrial represents a historical price to earnings

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multiple of approximately 19.64 times on the audited consolidated net profit of Tianhai Industrial which amounted to approximately RMB47,076,000 for the year ended 31 December 2011.

Jingcheng Compressor

The aggregate consideration payable for the acquisition of the entire interest in Jingcheng Compressor amounted to approximately RMB254,922,500 (the “**Consideration for 100% Jingcheng Compressor**”) (being the sum of (i) approximately RMB224,932,500 for the valuation amount of the entire equity interest in Jingcheng Compressor as at 31 March 2012, and (ii) approximately of RMB29,990,000 for the increased in the registered capital of Jingcheng Compressor which has been contributed and fully paid-up by Jingcheng Holding after 31 March 2012), which represents a historical price to earnings multiple of approximately 19.15 times on the audited consolidated net profit of Jingcheng Compressor of approximately RMB13,314,000 for the year ended 31 December 2011.

(b) Comparison with the net assets

Tianhai Industrial

Under the Acquisition, the Company will acquire 100% equity interests in Tianhai Industrial either directly or through its acquisition of Jingcheng HK at an aggregate consideration of approximately RMB924,424,200. Based on the audited consolidated financial statements of Tianhai Industrial as at 31 July 2012, the audited consolidated net asset value (being total assets less total liabilities) of Tianhai Industrial amounted to approximately HK\$522,353,000 as at 31 July 2012. Accordingly, the Consideration for 100% Tianhai Industrial represents a price to book multiple of 1.77 times on the audited consolidated net asset value of Tianhai Industrial as at 31 July 2012.

Jingcheng Compressor

As set out in the Letter from the Board, based on the audited consolidated financial statements of Jingcheng Compressor as at 31 July 2012, the audited net asset value (being total assets less total liabilities) of Jingcheng Compressor, after excluding its environmental protection business, as at 31 July 2012 was approximately RMB145,325,000. Accordingly, the Consideration for 100% of Jingcheng Compressor represents a price to book multiple of 1.75 times on the audited net asset value as at 31 July 2012.

(c) Comparison against market comparables

In assessing the fairness and reasonableness of the considerations for the Acquisition, comprising the acquisition of the entire equity interest in Tianhai Industrial either directly or through the acquisition of Jingcheng HK (the “**Acquisition I**”) and the acquisition of the entire equity interest in Jingcheng Compressor (the “**Acquisition II**”) we have conducted two separate comparable company analyses using price to earnings and price to book multiples. The first analysis refers to the study of comparable companies principally engaged in the manufacturing and sale of gas storage and transportation equipment, including, among others, gas cylinder and low-temperature storage and transportation equipment, which are comparable to Tianhai Industrial (the “**Acquisition Analysis I**”), and the second analysis refers to the study of comparable companies principally engaged in the manufacturing and sale of compressor machinery, which are comparable to Jingcheng

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Compressor (the “**Acquisition Analysis II**”). We have researched all listed companies in Hong Kong and the PRC which are engaged in the manufacturing and sale of (i) gas storage and transportation equipment, including, among others, industrial gas storage and transportation equipment and liquefied natural gas storage and transportation equipment (the “**Acquisition I Comparables**”); and (ii) compressor machinery (the “**Acquisition II Comparables**”). We have used the following selection criteria as our basis. The comparable companies should (1) be principally engaged in the manufacturing and sales of gas storage and transportation equipment, including, among others, industrial gas storage and transportation equipment and liquefied natural gas storage and transportation equipment (or similar business) for Acquisition Analysis I, or compressor machinery (or similar business) for Acquisition Analysis II, with primary market in the PRC; and (2) bear positive in both price to earnings as well as positive price to book multiples.

In identifying suitable listed companies in Hong Kong and the PRC as market comparables in our Acquisition Analysis I, we noted that the following listed companies are engaged in the manufacturing and sales of gas containers and equipments for gas storage and transportation with primary market in the PRC. Set out below are the key parameters of each Acquisition I Comparable based on (i) its share closing price as at the Latest Practicable Date and (ii) its audited net profit and unaudited net asset value as shown in its latest published annual report and latest published interim/quarterly report respectively:

Stock exchange listed	Company	Stock code	Share closing price as at Latest Practicable Date (A)	Latest published number of ordinary shares (B) <i>Million (approx.)</i>	Market Capitalisation (A)x(B) <i>Million (approx.)</i>	Latest published audited total annual net profit <i>Million (approx.)</i>	Latest published unaudited total net assets value <i>Million (approx.)</i>	Historical price – earnings multiples <i>(Times)</i>	Price to book value <i>(Times)</i>	
<i>Listed in Hong Kong</i>										
Hong Kong	CIMC Enric Holdings Limited	3899	HK\$6.34	1,380.34	HK\$8,751.36 (or RMB7,026.47)	RMB574.59	RMB3,639.75	12.23	1.93	
<i>Listed in the PRC</i>										
Shenzhen	Sinoma Science & Technology Co., Ltd.	002080	RMB6.82	400.00	RMB2,728.00	RMB134.87	RMB2,604.21	20.23	1.05	
Shenzhen	Zhangjiang Furui Special Equipment Co., Ltd.	300228	RMB28.03	134.00	RMB3,756.02	RMB76.53	RMB701.35	49.08	5.36	
								<i>Average</i>	27.18	2.78
								<i>Medium</i>	20.23	1.93
								<i>Maximum</i>	49.08	5.36
								<i>Minimum</i>	12.23	1.05
					<i>RMB</i>					
<i>The Acquisition I:</i>					<i>924.42</i>				<i>19.64</i>	<i>1.77</i>

Notes: Based on the exchange rates of HK\$1 = RMB0.8029.

Sources of share closing prices – the respective websites of the Stock Exchange and Bloomberg

Source of net profit and net asset value figures -the latest published annual report of the relevant company for the audited annual net profit, and the latest published interim/quarterly report of the relevant company for the unaudited net asset value.

Market capitalisation of the Acquisition I refers to the Consideration for 100% Tianhai Industrial

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The selected Acquisition I Comparables principally manufacture and sell gas storage and transportation equipments, including but not limited to industrial gas storage and transportation equipment and liquefied natural gas storage and transportation equipment. Being supported by the market comparables information contained in the research report commissioned by Jingcheng Holding in relation to the “Twelfth Five-Year Strategic Planning Consultation Project” (《“十二五”戰略規劃諮詢項目》) published in November 2010 by IBM Global Business Services and an investment research report published by an international investment bank in August 2012, we believe the above Acquisition I Comparables are relevant and similar in nature to that of the business of Tianhai Industrial, as they are all gas storage and transportation equipments manufacturers but in different stream of business under the business chain, and all of the Acquisition I Comparables and Tianhai Industrial operate in similar industry environment despite the fact that the companies have different market positioning for different market segments.

As set out in the above table, there is substantial difference in the respective sizes of the Consideration for 100% Tianhai Industrial, being approximately RMB923.80 million, and the respective market capitalizations of the Acquisition I Comparables, ranging from approximately RMB2,728.00 million to approximately RMB8,751.36 million as at the Latest Practicable Date. However, we noticed no relationship between market capitalisations and valuation in terms of price to earnings and price to book ratios from the above table relating to the Acquisition I Comparables. On that basis, we consider that the difference in the respective sizes of the market capitalisation of each Acquisition I Comparable and the Consideration for the 100% Tianhai will not affect our analysis with regard to price to earnings and price to book ratios.

As noted from the table above, the Acquisition I Comparables have price to earnings ratios between approximately 12.23 times and approximately 49.08 times, with an average price to earnings ratio of approximately 27.18 times. The historical price to earnings ratio represented by the Consideration for the Acquisition of 100% Tianhai Industrial of approximately 19.64 times is lower than the average of the price to earnings ratios of the Acquisition I Comparables of approximately 27.18 times, and is within the abovementioned range of approximately 12.23 times and approximately 49.08 times. In addition, the above table shows that the Acquisition I Comparables have price to book ratios between approximately 1.05 and approximately 5.36 times, with an average price to book ratio of approximately 2.78 times. The historical price to book ratio represented by the Consideration for the Acquisition of 100% Tianhai Industrial of 1.77 times is within the range of the price to book ratios, and is lower than the average price to book ratio of the Acquisition I Comparables. Based on the above analysis, as the price to earnings ratio and the price to book ratio of the Acquisition I (i) are respectively lower than the average price to earnings ratio and the average price to book ratio of the Acquisition I Comparables, and (ii) lie within the respective ratio ranges of the Acquisition I Comparables, we are of view that the Consideration for 100% of Tianhai Industrial is fair and reasonable.

In identifying suitable listed companies in Hong Kong and the PRC as the market comparables in our Acquisition Analysis II, we noted that Zhejiang Kaishan Compressor Co., Ltd. (stock code: 300257) (“**Zhejiang Kaishan**”), a company whose stocks are listed on the Shenzhen Stock Exchange, is the only comparable company engaged in the manufacturing and sales of air compressors, including piston compressors (活塞式壓縮機) with principal assets and operation located in the PRC. Set out below are the key

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parameters of Zhejiang Kaishan based on (i) its share closing price as at the Latest Practicable Date and (ii) its audited net profits and unaudited net asset value as shown in its latest published annual report and latest published quarterly report respectively:

Stock exchange listed	Company	Stock code	Share closing price as at Latest Practicable Date (A)	Latest published number of shares (B) <i>Million (approx.)</i>	Market Capitalisation (A)x(B) <i>Million (approx.)</i>	Latest published audited total annual net profit <i>Million (approx.)</i>	Latest published unaudited total net assets value <i>Million (approx.)</i>	Historical price – earnings multiples (Times)	Price to book value (Times)
Listed in the PRC									
Shenzhen	Zhejiang Kaishan Compressor Co., Ltd.	300257	RMB27.4	286.00	7,836.4	RMB310.11	RMB2,971.91	25.27	2.64
				<i>The Acquisition II</i>	<i>254.92</i>			<i>19.15</i>	<i>1.75</i>

Note: Source of share closing price – Bloomberg.

Source of net profit and net asset value figures -the latest published annual report of the company for the audited annual net profit, and the latest published quarterly report of the relevant company for the unaudited net asset value.

Market capitalisation of the Acquisition II refers to the Consideration for 100% Jingcheng Compressor.

We have also extended our research to companies listed in other stock markets which manufacture and sell compressor machinery with primary market in the PRC to be included in our Acquisition II Comparables. However, save as Zhejiang Kaishan, no other market comparables which are directly comparable to or engaged in similar line of business of Jingcheng Compressor can be identified.

As noted from the table above, the only Acquisition II Comparable has price to earnings ratio of approximately 25.27 times, which is higher than the historical price to earnings ratio represented by the Consideration for Acquisition of 100% Jingcheng Compressor of approximately 19.15. In addition, the historical price to book ratio represented by the Consideration for Acquisition of 100% Jingcheng Compressor of 1.75 times is also below that of the Acquisition II Comparable of 2.64 times. Based on such comparison of price to earnings ratios and price to book ratios, we are of the view that the Consideration for 100% of Jingcheng Compressor is fair and reasonable.

(d) Settlement method

The aggregate consideration for the Acquisition in the amount of approximately RMB1,179,346,000 shall be settled by setting off the consideration of approximately RMB1,184,869,600 for the transfer to Jingcheng Holding by the Company of its entire interests in the Outgoing Assets, with the difference in the aggregate consideration for the Acquisition and the aggregate consideration for the Disposal shall be settled by the payment of a cash consideration in the amount of RMB5,522,900 by Jingcheng Holding to the Company. Given no other cash payment is necessary to be made by the Company relating to the Acquisition pursuant to such settlement arrangement, the settlement arrangement is considered to be favourable to the Company as there is no cash outlay required upon the Completion of Reorganisation and it will not incur any cashflow pressure to the Group.

On individual company basis, we notice that there will be a substantial drop in profit level of Jingcheng Compressor according to the forecast of the Directors, given the forecasted profit of Jingcheng Compressor for the year ending 31 December 2012 of approximately RMB3,011,000

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represents a decrease of approximately 79.83% from the audited net profit of approximately RMB14,927,000 for the year ended 31 December 2011 (after excluding the environmental protection business), and the forecasted profit for the year ending 31 December 2013 is forecasted to be RMB3,575,000. We have been confirmed by the Directors that pursuant to the Reorganisation, the Acquisition shall involve the acquisition of all of the three Target Companies, in other words, no individual Target Company shall be excluded from the Acquisition. Accordingly, we consider that it is appropriate to take into account the profit forecast relating to the Reorganised Group in assessing the reasonableness of the Acquisition as a whole. We notice that although the forecasted net profit of the Reorganised Group for the year ending 2012 is lower than the Realised Net Profit of the Reorganised Group of approximately RMB61,962,000 for the year ended 31 December 2011, the profit level forecasted by the Company will be improved in 2013 as the forecasted net profits of the Reorganised Group for the years ending 31 December 2012 and 2013 are approximately RMB52,180,000 and approximately RMB59,601,000 respectively. Having considered the factors relating to the Acquisition and the Target Companies mentioned above (the “**Acquisition Factors**”), in particular, (i) the outlook of the gas storage and transportation equipment industry and the compressor machinery industry are expected to be positive on one hand, and such industries also face certain risk factors and adverse factors as highlighted in Appendix I to the Circular on the other hand; (ii) the financial performance of the Target Companies during the Track Record Period, in particular, (a) the audited consolidated net profits of Tianhai Industrial in the amounts of approximately RMB47,076,000 and RMB35,751,000 for the year ended 31 December 2011 and the seven months ended 31 July 2012 respectively; (b) the audited consolidated net profit of Jingcheng Compressor of approximately RMB13,314,000 for the year ended 31 December 2011 and the audited consolidated net loss of approximately RMB6,558,000 for the seven months ended 31 July 2012; and (c) the Realised Profit of the Reorganised Group of approximately RMB61,962,000 for the year ended 31 December 2012; (iii) the forecasted profits of the Target Companies for the years ending 31 December 2012 and 2013 mentioned above, in particular the net profits of the Reorganised Group for the year ending 31 December 2012 and 2013 are forecasted to be approximately RMB52,180,000 and approximately RMB59,601,000 respectively; (iv) the Company’s plan to transform from its currently loss making printing press business to a new business with a proven track record of profitability with forecasted profits in the coming years ending 31 December 2012 and 2013; (v) the price to earning and price to book ratios for the acquisition of 100% equity interest in Tianhai Industrial lie within the respective ranges of price to earning ratio and price to book ratio of the Acquisition I Comparables, and the price to earnings and price to book ratios for the acquisition of 100% equity interest in Jingcheng Compressor are respectively lower than the price to earnings ratio and price to book ratio of the only Acquisition II Comparable; (vi) the other terms of the Acquisition, in particular the arrangement to settle the consideration for the Acquisition, we consider that the Acquisition under the Reorganisation is in the interest of the Company and the Shareholders as a whole, and the terms of the Acquisition are fair and reasonable insofar as the Company and the Shareholders are concerned as a whole.

The Disposal

(a) Assets being disposed of

Under the Disposal, the Company has agreed to dispose of all its assets and liabilities to the wholly-owned subsidiary of Jingcheng Holding, namely Beiren Group. The Disposal Group to be disposed of by the Group to Beiren Group is principally engaged in developing, manufacturing and selling a variety of printing press and related spare parts, as well as the technical consultation and services related to the operating business.

The Disposal Group consists of three Sale Subsidiaries of the Company, three long-term equity investments and the Disposal Properties. As set out in the Letter from the Board, the three Sale Subsidiaries are in net asset position as at 31 December 2011.

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(b) Transfer of creditors' rights or liabilities

As set out in the Letter from the Board, upon Completion, all creditors' rights, debts and/or liabilities in respect of the Outgoing Assets shall be borne by Beiren Group.

The Company shall in accordance with the relevant laws notify its creditors and debtors about the aforesaid transfer and obtain consent from the relevant creditors. In the event that creditors assert their rights against the Company, Beiren Group shall, upon written notice by the Company, be responsible for all the liabilities and costs arising in connection therewith and forfeit their right to seek compensation from the Company. Beiren Group shall further indemnify the Company of all liabilities or loss incurred in connection with the aforesaid.

(c) Arrangements in respect of staff of the Outgoing Assets

As set out in the Letter from the Board, in accordance with the principle of "people move with the assets" (人隨資產走), it is expected that upon completion of the Reorganisation, all the staff in respect of the Outgoing Assets will be transferred to and settle in Beiren Group, whereupon Beiren Group shall continue to provide such staff with all the benefits enjoyed by them during their tenure at the Company.

The Disposal Group

(a) Business, past performance and financial position of the Disposal Group

Business

As present, the Disposal Group carries out the entire business of the Group, being the manufacturing and sale of printing press as mentioned above. In addition, the Outgoing Assets refer to all assets and liabilities of the Company. Accordingly, analysis with regard to the Disposal will be made by making reference to the consolidated financial results and position of the Group during the Track Record Period.

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Past performance

Set out below is a summary of the audited consolidated income statements of the Group for the years ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2011 and 2012 as extracted from the audit report of the Group set out in Appendix III to the Circular:

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Total operating income	767,669	821,358	803,874	464,881	431,599
Less: Total operating cost	(959,518)	(984,532)	(833,516)	(467,955)	(481,715)
Investment income/ (loss)	1,253	172,506	207	47	(260)
Operating (loss)/ profit	(190,596)	9,332	(29,435)	(3,027)	(50,376)
Non-operating income – net	10,606	15,638	43,095	624	1,699
Total (loss)/ profit	(179,990)	24,970	13,660	(2,403)	(48,677)
Less: Income tax expense	472	(5,499)	(30)	(143)	136
Net profit/ (loss)	<u>(179,518)</u>	<u>19,471</u>	<u>13,630</u>	<u>(2,546)</u>	<u>(48,541)</u>
Net profit/(loss) attributed to:					
The Shareholders	(174,005)	22,279	11,383	(4,390)	(47,244)
Minority shareholder's equity	<u>(5,513)</u>	<u>(2,808)</u>	<u>2,247</u>	<u>1,844</u>	<u>(1,297)</u>
	<u>(179,518)</u>	<u>19,471</u>	<u>13,630</u>	<u>(2,546)</u>	<u>(48,541)</u>

For the year ended 31 December 2009

The Group recorded an operating income of approximately RMB767,669,000, of which approximately 92.31% was derived from the sale of printing press, including offset press, gravure press, and business form machine, and approximately 5.81% was from the sale of spare parts, provision of printing services and others. As stated in the annual report for the year ended 31 December 2009, during the year, the negative impact of the financial crisis had yet to be mitigated, the international economy still awaited full recovery, in particular, the printing industry was situated at the lower end of the value chain of the national economy and had shown a contracting trend, leading to a downturn in the printing machinery industry. Consequently, the demand of the printing machinery market dropped and the Company reduced its production volume, which led to the amortization of fixed cost per unit of product was relatively high, resulting in a decrease in gross profit margin. Furthermore, due to various factors such as insufficient workload and increased costs that exerted pressure on the operation, the Company continued to record a loss for the operating results since 2008, where the loss attributable to equity holders of the Company amounted to approximately RMB174,005,000 during the year ended 31 December 2009.

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For the year ended 31 December 2010

The Group recorded an operating income of approximately RMB821,358,000 for the year ended 31 December 2010, representing an increase of approximately 6.99% against the year ended 31 December 2009, and the total operating cost increased to approximately RMB984,532,000, representing an increase of approximately 2.60% as compared with the year ended 31 December 2009. Although the operating income was lower than total operating cost by an amount of approximately RMB163,174,000 during the year ended 31 December 2010, the Group recorded an investment income of approximately RMB172,506,000, which was mainly derived from disposal of long-term equity investment during the year, and it therefore recorded an operating profit of approximately RMB9,331,000 in the financial year 2010. Furthermore, given non-operating income of approximately RMB16,766,000 was recorded, the Group made a net profit attributed to Shareholders of approximately RMB22,279,000 in 2010, as compared with a net loss attributed to the Shareholders of approximately RMB174,005,000 in 2009.

For the year ended 31 December 2011

As advised by the management of the Company, in 2011, the world economy was affected by both the global economic crisis and the European debt crisis, while domestically, the printing industry was affected by factors, such as the increase in raw materials prices and labour cost, credit tightening, slow down in trading, as well as the fast development in digital printing and transmission technologies, the traditional printing was dragged down and therefore, the competition was intensified, which affected the development of the Group. As a result, the Company further deepened the reform, insisted on technologies innovation and implemented a series of other measures to resist the critical situations and in order to minimise the impact on the Group. Notwithstanding such effort of the Group for the purpose of enhancing its operational performance, it recorded operating loss of approximately RMB29,435,000 for the year ended 31 December 2011, as compared with an operating profit in 2010. In addition, the net profit attributable to the Shareholders of approximately RMB11,383,000 for the year ended 31 December 2011 represented a decrease of approximately 48.91% from that in 2010, and the net profit were substantially contributed by the non-operating income of approximately RMB44,402,000, including the compensation received by the Group for relocation and resettlement upon mandatory removal and relocation of certain properties of the Group according to the housing reform policy in Beijing in the amount of approximately RMB37,930,000 (among which approximately RMB16,080,000 was recognized as gains from disposal of non-current assets and of approximately RMB21,850,000 was recognized as compensation for suspending production).

For the seven months ended 31 July 2012

As advised by the Directors, the Group continued to suffer from the weak growth of the global economy and the potential threat to the world economy by the European debt crisis. Domestically, being affected by the macro-economic control of the central government which focused on economic restructuring and proactively controlled the growth rate, the growth of GDP was slowdown. For that reason, the competition of the printing machinery manufacturing industry remained to be intensified. The renowned international manufacturers were facing with restructuring and consolidation, while in China, the manufacturers in the industry was insufficient at the high-end and more than needed at the lower end. Consequently, the operating income during the seven months ended 31 July 2012 declined to approximately RMB431,599,000, representing a decrease of approximately 7.16% over the corresponding period in 2011, while the total operating cost increased by 2.94% to RMB481,715,000 for the seven months ended 31 July 2012 as compared with the

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corresponding period in 2011; hence the Group's financial performance deteriorated as it recorded operating loss of approximately RMB50,376,000 and net loss attributed to the Shareholders of approximately RMB47,244,000 during the seven months ended 31 July 2012, representing increases in the respective losses by over 1,564.77% and 976.17% as compared with the corresponding period in 2011.

Financial position

Set out below is a summary of the audited consolidated balance sheets of the Group as at 31 December 2009, 2010 and 2011 and 31 July 2012 as extracted from the accountants' report of the Group set out in Appendix III to the Circular:

	As at 31 December			As at 31
	2009	2010	2011	July
	RMB'000	RMB'000	RMB'000	2012
				RMB'000
Non-current assets	808,236	712,110	668,675	651,012
Current assets	929,547	745,250	816,767	823,507
Total assets	1,737,783	1,457,360	1,485,442	1,474,519
Non-current liabilities	36,171	35,871	32,969	32,211
Current liabilities	958,303	660,377	677,730	716,157
Total liabilities	994,474	696,248	710,699	748,368
Current assets minus current liabilities	(28,756)	84,873	139,037	107,350
Total assets minus total liabilities	743,309	761,112	774,743	726,151

(i) Assets

As at 31 July 2012, the fixed assets and inventories accounted for two of the largest asset items of the Disposal Group. The fixed assets as at 31 July 2012 amounted at approximately RMB510,537,000 are primarily the production plants and facilities for the production of printing machinery products and there were no major additions or disposals noted for the seven months ended 31 July 2012. The inventories as at 31 July 2012 amounted at approximately RMB433,463,000 are mainly the work in progress printing machineries and finished printing machinery products. The accounts receivable and cash are also the major asset items. The majority of the accounts receivable is derived from the sales of printing presses and aged within three years. We have been advised by the Directors that the customers were normally required to pay certain amounts in advance as down payment for their subsequent purchases, and the Group allowed average credit period of 360 days to its trade customers with retention payment to be paid one year after sale. As at 31 July 2012, the accounts receivable amounted at approximately RMB212,655,000, representing an increase of approximately 29.69% from approximately RMB163,970,000 as at 31 December 2011. The increase, as advised by the Company, was primarily induced by the slowdown of macro economy, the publishing and printing industry was in poor

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condition in 2012 and industry players, including the customers of the Company, tightened their capital outflow and spending which resulted in the slow settlement of outstanding sale contract balances and numerous customers even deferred the payment of the contract balances, and therefore leading to the increase in accounts receivable. Accounts receivable from related parties amounted to approximately RMB1,040,000, representing approximately 0.48% of the accounts receivable balance of approximately RMB212,655,000, as at 31 July 2012. The cash as at 31 July 2012 amounted at approximately RMB110,791,000, among which RMB106,287,000 are denominated in RMB, representing a decrease of approximately 31.55% from approximately RMB161,866,000 as at 31 December 2011. The decrease was, as advised by the Directors, principally due to the slow accounts receivable turnover which tightened the cash flows for working capital expenditure, as a result, the cash balance reduced by approximately RMB51,075,000 during the seven months ended 31 July 2012.

(ii) Liabilities

As at 31 July 2012, the accounts payable and short-term loan accounted for the major liability items of the Group. The accounts payable as at 31 July 2012 amounted to approximately RMB325,008,000, representing an increase of approximately 19.05% from approximately RMB272,998,000 as at 31 December 2011. As advised by the Company, the negative sentiment in the publishing and printing industry as abovementioned slowed down the settlement of outstanding balances of sale contracts, as a result, the cash flows of the Company were tightened. The Company negotiated and agreed with the suppliers to defer the settlements in order to maintain the then existing production capacity and meet the sales orders from customers, as well as sustain a required level of reserves, therefore the accounts payable increased consequently. The short-term loans as at 31 July 2012 amounted at RMB219,000,000, comprising the guaranteed loans of RMB9,000,000 and the unsecured credit loans of RMB210,000,000 all of which are due within one year. The guaranteed loans were borrowed by the Company's subsidiary, namely Beiren Fuji, among which a six-month loan of RMB1,000,000 was guaranteed by Fuji Co., Ltd which, as confirmed by the management of the Company, is an independent third party and a one-year loan of RMB8,000,000 was guaranteed by the Company. The unsecured credit loans included a one-year loan of RMB210,000,000 borrowed by the Company from the bank entrusted by Beijing National Capital Mechanical And Electrical Holding Company Limited.

(iii) Net assets and capital structure

We noticed that as at 31 December 2009, the net current liabilities amounted to approximately RMB28,756,000 was mainly due to the large balance of short-term borrowings, as confirmed by the Company, over half of which had been repaid during 2010. As at the end of the other financial years and period of the Track Record Period, the Group did not experience net current liabilities position. In addition, as at the end of each financial year and period during the Track Record Period, the Group maintained positive net asset value. However, we also noticed that the net asset value of the Group as at 31 July 2012 amounted to approximately RMB726,151,000, representing a decrease by approximately 6.27% from approximately RMB774,743,000 as at 31 December 2011 and such decrease is mainly caused by the net loss of approximately RMB48,541,000 recorded by the Group during the seven months ended 31 July 2012.

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As stated above, the Group/the Disposal Group has been suffered from significant net loss in 2009, recorded net profits over 2010 and 2011, and suffered from net loss again in the seven months end 31 July 2012. Taking account of the competitive industry landscape, the Disposal Group's future industry trend, increasing production costs and the financial performance of the Disposal Group, the performance of the Disposal Group's major businesses remain to be uncertain in a longer term. In addition, the net profits recorded in 2010 and 2011 were principally contributed by disposal of long-term equity investment and the compensation from the Beijing Municipal People's Government for relocation and resettlement, as well as suspension of production under the housing reform policy, and it is considered that this non-operating incomes are unlikely to be recurring in the coming years. As a result, the profitability and prospects of the Disposal Group are not expected by the Directors to be significantly improved in the near future, which, if continue to be operated by the Group, is not in the interests of the Company and the Shareholders as a whole.

(b) Industry overview of the Disposal Group

Further to our discussion with the management of the Company, we noted that the traditional printing industry in the PRC was greatly affected by the emerge of new printing technologies including the fast development in digital printing and digital transmission technologies, as well as the green and environmental friendly printing, therefore the traditional printing machinery industry was also be influenced. According to a passage titled 《印刷制造企業要盡快完成轉型升級》(“The Transformation and Upgrading of the Printing and Manufacturing Enterprises Have to be Completed Shortly”) contained in a magazine 《印刷經理人》(Printing Manager) published on a website, keyin.cn (科印網) in 13 August 2012, the printing machinery enterprises in the PRC confronted difficulties in 2011, and if these printing machinery enterprises are not going to innovate and upgrade shortly, they will have to grapple more and more difficulties in the industry. As set out in the passage, (i) both the traditional printing industry and traditional printing machinery industry pose challenges resulting from the rapid development of new media, for instances, due to the popularity of digital technology and internet changed the lives of human being which enhanced the paperless reading and diminished the trend of paper-related media. Thus, the traditional printing machinery enterprises have to transform along with or in advance to the market; (ii) due to the great difference in the technical involvement among the domestic and the foreign printing facilities, the market will not contend with the high-end international brands, the products of which provided a relatively higher technical level and quality when comparing to the domestic brands' products, as a result, the sales of domestic printing machinery dropped; (iii) the traditional printing machinery industry in the PRC had already been saturated, the supply of printing machineries exceed the demand, enterprises have to develop new markets and seek new directions for devoting capitals and building synergies; (iv) the production costs, including the labour costs and raw material prices were rising in recent years, however, there was no room to push up the selling prices of the finished goods, which then lower the gross profit margins of the printing machinery; and (v) due to the lack of capitals, capacities and expertise for the research and development in the domestic printing machinery industry, the enhancement of the printing machinery products' quality depended on the import of the advanced technologies from foreign countries. As set out in keyin.cn (科印網), it is managed by 科印傳媒(Keyin Media), which is subordinated to

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中國印刷集團公司² (China Printing (Group) Corporation) and 中國印刷科學技術研究所³ (China Academy of Printing Technology), and is a media and service provider in the printing and packaging industry in China. Keyin Media (科印傳媒) publishes professional journals such as Printing Technology, Digital Printing, Printing Manager, Packaging Wealth & Wisdom, as well as the Annual Report on China Printing and the China Printing Blue Book.

In view of the above factors, the difficulties currently confronting the printing machinery industry in the PRC are not expected by the Directors to be lightened in the foreseeable future. As such, the Directors consider that the outlook of the printing machinery industry is cautious. Given the Disposal which is part of the Reorganisation providing an opportunity for the Company to dispose the existing business which incurred losses or diminishing profits from operations in exchange for profitable businesses, we consider that the Disposal is in the interests of the Company and the Independent Shareholders as a whole.

Evaluation of the Consideration for the Disposal

The aggregate consideration for the Disposal is approximately RMB1,184,869,600 and was determined with reference to the aggregate valuation of the Outgoing Assets as at 31 March 2012 as set out in the valuation report prepared by the Valuer and approved by BSCOMC.

(a) Comparison of the consideration with profit

The aggregate consideration of the Disposal Group of approximately RMB1,184,869,600 represents a historical price to earnings multiple of approximately 86.93 times on the audited consolidated net profit of the Group of approximately RMB13,630,000 for the year ended 31 December 2011.

(b) Comparison with the net assets

Based on the audited consolidated financial statements of the Group as at 31 July 2012, the audited consolidated net asset values of the Group as at 31 July 2012 was approximately RMB726,151,000. Accordingly, the aggregate consideration for the Disposal of approximately RMB1,184,869,600 represents a price to book multiple of 1.63 times on the audited consolidated net assets value of the Group as at 31 July 2012.

² China Printing (Group) Corporation (中國印刷集團公司) was found in 2003 with the approval of the State Council of the PRC (中華人民共和國國務院) and was a large-scaled State-owned enterprise managed by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). It was engaged in printing and allied industries in China. It was formed on the foundation of China Printing Corporation (中國印刷總公司) which was formerly owned by the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署), China National Printing Materials Corporation (中國印刷物資總公司), China Academy of Printing Technology (中國印刷科學技術研究所), and other units.

³ China Academy of Printing Technology (中國印刷科學技術研究所) was found in 1956 and was formerly subordinated to the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署). In 2002, the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Finance of the PRC (中華人民共和國財政部) and the State Commission Office for Public Sector Reform (中央機構編製委員會辦公室) jointly issued an approval for formally converting to China Printing (Group) Corporation (中國印刷集團公司), an enterprise engaged in science and technology, with the approval of the State Council of the PRC (中華人民共和國國務院).

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(c) Comparison against market comparables

In assessing the consideration for the Disposal, we have conducted a comparable company analysis using price to earnings and price to book multiples. We have researched all listed companies in Hong Kong and the PRC which are principally engaged in the manufacturing and sales of printing press with the major operating segment in the PRC, including but not limited to printing machines, packing machines and parts for the aforesaid machines (the “**Disposal Comparables**”). However, given the limited number of listed companies in Hong Kong or the PRC business nature and scale of operation of which are directly comparable to that of the Disposal Group, we have extended our research to companies which have, among other businesses, a line of business to manufacture and sell printing press (including printing machines and/or packing machines and/or parts for the aforesaid machines) with primary market in the PRC to be included as our Disposal Comparables. We have studied all listed companies in Hong Kong and the PRC and have used the following selection criteria as our basis. The selection criteria of such Disposal Comparables are based on the business nature and the fulfillment of the following conditions: (i) a company principally engaged in the manufacturing and sales of printing press, including but not limited to printing machines, packing machines and parts for the aforesaid machines and, if the company operated more than one principal business, revenue generated from the printing press business was more than 50% of the total revenue of the company according to its latest published annual report; and (ii) the primary market of the company’s operating segment in manufacturing and selling of printing press, including but not limited to printing machines, packing machines and parts for the aforesaid machines, is in the PRC. In addition, both price to earnings and price to book multiples of the Disposal Comparables should also be positive. Accordingly, the following companies have been selected as the Disposal Comparables and the key parameters of the comparables are set out below:

Stock exchange listed	Company	Stock code	Share closing price as at Latest Practicable Date (A)	Latest published number of shares (B) <i>Million (approx.)</i>	Market Capitalisation (A)x(B) <i>Million (approx.)</i>	Latest published audited total annual net profit <i>Million (approx.)</i>	Latest published unaudited total net assets value <i>Million (approx.)</i>	Historical price – earnings multiples <i>(Times)</i>	Price to book value <i>(Times)</i>
Listed in the PRC									
Shenzhen	Hubei Jingshan Corrugating Machinery Co., Ltd.	000821	RMB3.44	345.24	RMB1,187.63	RMB4.30	RMB1,114.40	276.19	1.07
Shenzhen	Sotech Machinery Co., Ltd.	300173	RMB6.46	113.23	RMB731.47	RMB39.28	RMB574.94	18.62	1.27
Shenzhen	Masterwork Machinery Co., Ltd.	300195	RMB17.5	140.00	RMB2,450.00	RMB161.12	RMB1,265.97	15.21	1.94

Notes: Sources of share closing prices – the website of the Bloomberg.

Source of net profit and net asset value figures -the latest published annual report of the relevant company for the audited annual net profit, and the latest published quarterly report of the relevant company for the unaudited net asset value.

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Further to our discussion with the management of the Company and based on the information published on a website, chinaprint.org (中國印刷行業網) (which is one of the market-leading website media for the printing industry in the PRC, sponsored by the 中國印刷技術協會⁴ (Printing Technology Association of China) and China Print Press (中國印刷雜誌社)⁵, and supported by two China printing magazines, China Print (中國印刷) and China Graphic Arts Annual (中國印刷年鑒)⁶), it is noted that the printing equipment industry can be divided into three sectors according to the usage, including (1) pre-print apparatus (印前設備), (2) printing apparatus (印中設備) and (3) post-print apparatus (印後設備). For pre-print apparatus (印前設備), the major printing machineries are, including but not limited to, text typesetting equipment (文字排版設備), letterpress platemaking equipment (凸版製版設備), gravure platemaking equipment (凹版製版設備); For printing apparatus (印中設備), the major printing machineries are, including but not limited to, letterpress machine (凸版印刷機), lithographic printing press (平版印刷機), gravure printing machine (凹版印刷機); and for post-print apparatus (印後設備), the major printing machineries are, including but not limited to, mold ironers (模燙機), die-cutting machine (模切機), folder gluer (糊盒機). As set out in the listing documents of Masterwork Machinery Co., Ltd. (天津長榮印刷設備股份有限公司) (“**Masterwork Machinery**”) (stock code: 300195), a company whose shares are listed in Shenzhen Stock Exchange, which was published in early 2011, the major products of Masterwork Machinery were, including but not limited to, mold ironers (模燙機), die-cutting machine (模切機), folder gluer (糊盒機). As stated in the company website of Hubei Jingshan Corrugating Machinery Co., Ltd. (湖北京山輕工機械股份有限公司) (“**Hubei Jingshan**”) (stock code: 000821), a company whose shares are listed in Shenzhen Stock Exchange, the major printing machine product of Hubei Jingshan is die-cutting machine (模切機). These two companies, products are both in the sector of post-print apparatus (印後設備). The major products of Sotech Machinery Co., Ltd. (松德機械股份有限公司) (“**Sotech**” or the “**Relevant Disposal Comparable**”) (stock code: 300173), a company whose shares are listed in Shenzhen Stock Exchange, are gravure printing machine (凹版印刷機), flexographic printing presses (柔版印刷機), which are in the sector of printing apparatus (印中設備). As advised by the management of the Company and according to the Company website, the main products of the Group include gravure printing machine (凹版印刷機), flexographic printing presses (柔版印刷機), offset press (紙膠印機), roll-fed offset printing press (捲筒紙膠印機), which are in the sector of printing apparatus (印中設備) and in the same sector as the products of Sotech. According to the financial performance and market news of the above Disposal Comparables, it is believed that the products’ growth rate, market positioning and the market environment are various among different product sectors despite the fact that the three Disposal Comparables are in the printing press industry. Therefore, we have excluded Masterwork Machinery and Hubei Jingshan as the Disposal Comparables for our analysis as we believe the Relevant Disposal Comparable and the Disposal Group

⁴ China Printing Technology Association (中國印刷技術協會) was found in 1980 and operated under the business guidance and supervision of the China Association for Science and Technology (中國科學技術協會) and the Ministry of Civil Affairs of the PRC (中華人民共和國民政部). It was affiliated to the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署).

⁵ China Print Press (中國印刷雜誌社) was found in 1983, subordinated to the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署) and managed by China Printing Technology Association (中國印刷技術協會).

⁶ China Print (中國印刷) and China Graphic Arts Annual (中國印刷年鑒) are the publications of China Print Press (中國印刷雜誌社).

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operate in the same market environment. Set out below are the closing price of the Relevant Disposal Comparable and the comparison of such price against historical earnings and book value of the Relevant Disposal Comparable:

Stock exchange listed	Company	Stock code	Share closing price as at Latest Practicable Date (A)	Latest published number of shares (B) <i>Million (approx.)</i>	Market Capitalisation (A)x(B) <i>Million (approx.)</i>	Latest published audited total annual net profit <i>Million (approx.)</i>	Latest published unaudited total net assets value <i>Million (approx.)</i>	Historical price – earnings multiples <i>(Times)</i>	Price to book value <i>(Times)</i>
<i>Listed in the PRC</i>									
Shenzhen	Sotech Machinery Co., Ltd.	300173	RMB6.46	113.23	RMB731.47	RMB39.28	RMB574.94	18.62	1.27
<i>The Disposal:</i>								<i>86.93</i>	<i>1.63</i>

Notes: Market capitalisation of the Disposal refers to the consideration therefor.

Sources of share closing price – the website of Bloomberg.

Source of net profit and net asset value figures -the latest published annual report of the relevant company for the audited annual net profit, and the latest published annual report/interim report of the relevant company for the audited/unaudited net asset value.

We noticed that the market capitalisation of the Relevant Disposal Comparable, the only available comparable in respect of the Disposal based on the reasons mentioned above, of RMB731.47 million is lower than the consideration for the Disposal of approximately RMB1,184.87 million by approximately 38.27%. By referring to the table relating to the three Disposal Comparables set out above of this section headed “Comparison against market comparables”, we noticed no relationship between market capitalisations and valuation in terms of price to earnings and price to book ratios. On that basis, we consider that the difference in the size of the market capitalisation of the Relevant Disposal Comparable and the Consideration for the Disposal will not affect our analysis with regard to price to earnings and price to book ratios.

The historical price to earnings ratio represented by the Consideration for the Disposal of 86.93 times is far above the price to earnings of the Relevant Disposal Comparable of 18.62 times. We notice that the historical price to earnings ratio of approximately 86.93 times implied by the Disposal, as mentioned above, is derived based on the Group’s audited net profit of approximately RMB13,630,000 for the year ended 31 December 2011, which was attributable from, among others, the net of non-operating income of approximately RMB43,095,000. By not taking into account the net non-operating income, the Group incurred an operating loss of approximately RMB29,435,000 for the year ended 31 December 2011. Having considered the relatively high historical price to earnings ratio represented by the Consideration and the fact that operating loss was made by the Group for the year ended 31 December 2011, we consider that the Consideration for the Disposal is fair and reasonable.

We also value the Group based on its price to books ratio as abovementioned. As set out from the above table, the Relevant Disposal Comparable has price to book ratio of 1.27 times, which is lower than the Disposal of 1.63. Based on such comparison of price to book ratios, we are of view that the Consideration for the Disposal is fair and reasonable.

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(d) Settlement method

The consideration for the Disposal or approximately RMB1,184,869,600 shall be settled (i) as to approximately RMB1,179,346,700 by the transfer to the Company of Jingcheng Holding's entire interests in the Target Companies; and (ii) as to RMB5,522,900 in cash to account for the difference between the respective considerations for the Disposal and the Acquisition at Completion. As set out in the Letter from the Board, such cash consideration to be received by the Company for the Disposal shall be applied by the Company as the working capital.

Having considered the factors relating to the Disposal and the Disposal Group mentioned above (the “**Disposal Factors**”), in particular, (i) the outlook of the printing press industry, particularly the difficulties currently confronting the printing machinery manufacturing industry in the PRC which are not expected by the Directors to be alleviated in the near future; (ii) the financial performance of the Group during the Track Record Period, in particular the operating losses and the net losses recorded during the Track Record Period, including but not limited the operating loss of approximately RMB50,376,000 and the net loss of approximately RMB48,541,000 for the the seven months ended 31 July 2012; (iii) the Company's plan to transform from its currently loss making printing press business to a new business with a proven track record of profitability with forecasted profit in the coming years ending 31 December 2012 and 2013; (iv) the price to earnings and price to book ratios implied by the Consideration for the Disposal are higher than the ratios of the Relevant Disposal Comparable; (vi) the other terms of the Disposal, including the arrangement to settle the consideration for the Disposal, we consider that the Disposal under the Reorganisation is in the interest of the Company and the Shareholders as a whole, and the terms of the Disposal are fair and reasonable insofar as the Company and the Shareholders are concerned as a whole.

Other material terms of the Reorganisation

Non-competition undertaking from Jingcheng Holding

We have been confirmed by the Company that Jingcheng Holding, with regard to the Reorganisation, has undertaken that as long as Jingcheng Holding is the controlling Shareholder, (1) Jingcheng Holding, and all the companies controlled by Jingcheng Holding (collectively referred as “**Jingcheng Group**”) to be procured by Jingcheng Holding by using its best endeavors, will not be engaged in any business which is the same as or similar to the business engaged by the Company for the purpose of avoiding any direct or indirect competition with the business of the Company; (2) in case there is any unfair impacts on the Company resulting from situations relating to market shares, business opportunities and resources allocation etc. of the Jingcheng Group, Jingcheng Holding will voluntary, and will use its best endeavors to procure that other members of Jingcheng Group to, give up engaging in competitive business with the Company; and (3) it will compensate the Company for any losses or expenses incurred by the Company due to the breach of the abovementioned undertakings.

We are of the view that the non-competition undertaking from Jingcheng Holding has provided a satisfactory degree of protection to safeguard the Company and the Reorganised Group in dealing with the potential conflict of interest situation between Jingcheng Holding and the Company upon Completion, as well as to ensure the development of the business of the Reorganised Group.

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Undertakings from Jingcheng Holding and Beiren Group (the “Jingcheng Group Undertakings”)

Legal defects in the Outgoing Assets

We noticed from the Outgoing Assets Valuation Report that there are some legal defects regarding certain assets, including land and properties of the Disposal Group. We have been confirmed by the Company that Jingcheng Holding and Beiren Group have respectively undertaken to the Company that (i) they have noted the existence of the legal defects relating to the Outgoing Assets; and (ii) they will bear, and will not require the Company to bear, any legal liabilities or losses incurred due to such legal defects relating the Outgoing Assets. Furthermore, Jingcheng Holding has further undertaken that it will not unilaterally reject the execution of or terminate or release or revise the Material Asset Reorganisation Agreement and other relevant agreements due to such legal defects with regard to the Outgoing Assets.

Undertakings from Target Companies and Jingcheng Holding

Legal defects of titles in land and properties in the Target Companies

We noticed from the Incoming Assets Valuation Reports that there are some legal defects regarding certain land and properties of the Target Companies. It has been set out in Appendix I to the Circular that Tianhai Industrial and Jingcheng Compressor have undertaken to ratify, or procure the ratification, of the defects before 31 December 2012, and Jingcheng Holding has undertaken that “any loss incurred by the Company after the Reorganisation arising from the ownership defect not resolved as scheduled will be fully compensated in cash by Jingcheng Holding in a timely manner” (please refer to the sub-paragraph headed “Defects in ownership of properties to be acquired” under the section headed “Risk Factors” of Appendix I to the Circular for details). In addition, we have been advised by the Directors that Jingcheng Compressor has also undertaken to ratify the defects before 31 December 2012.

Taking into consideration of the abovementioned undertakings given by Jingcheng Holding, Beiren Group and the Target Companies, we consider that such arrangement is in the interest of the Company.

Conditions precedent of the Material Asset Reorganisation Agreement

Completion of the Reorganisation under the Material Asset Reorganisation Agreement is conditional upon certain conditions being fulfilled or waived by the Company within the period to be agreed by the parties thereto, which conditions are summarized as below:

- (i) the Reorganisation and other related matters being approved by the Independent Shareholders at the EGM, with voting being taken by way of poll; and
- (ii) the approval of the plans and relevant matters relating to the Reorganisation by the relevant authorities in the PRC and Hong Kong, including but not limited to the approval by the Stock Exchange of the despatch of the Circular.

The abovementioned conditions are not capable of being waived and accordingly, in the event that they are not satisfied, the Reorganisation will not proceed.

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Financial effect of the Reorganisation on the Group

(a) *Net profit*

Based on the unaudited pro forma financial information contained in the Appendix V to the Circular prepared based on the audited consolidated income statement of the Group and the Target Companies for the relevant period, (i) the unaudited pro forma consolidated net profit attributable to the Shareholders would be approximately RMB59,573,000 as if the Completion has taken place on 1 January 2011, which is significantly higher than the audited consolidated net profit attributable to the Shareholders of approximately RMB11,383,000 for the year ended 31 December 2011; and (ii) the unaudited pro forma consolidated operating profit would be approximately RMB71,494,000, as compared with the audited consolidated operating loss of the Company as at 31 December 2011 of RMB29,435,000.

It should be noted that the aforesaid pro forma financial information is prepared based on the historical financials of the Target Companies. In addition, both of the Group and the Target Companies operate in different industry, and the Acquisition involves business and other risks to which the Group is not currently exposed. Therefore, there is no assurance that the performance of the Reorganised Group will be similar to those historical figures as reported in the pro forma financial statements contained in Appendix V to the Circular. Shareholders are advised to read the section headed "Risk Factors" contained in Appendix I to this Circular which describes the risks relating the Acquisition, the Reorganised Group, the Target Companies and the industry risk.

(b) *Net assets*

Based on the pro forma financial information set out in Appendix V to the Circular, the pro forma consolidated net assets of the Group would amount to approximately RMB668,118,000 as if the Completion has taken place on 1 January 2012, which is lower than the audited consolidated net assets value as at 31 July 2012 of approximately RMB726,152,000.

RECOMMENDATION

The Group has made a loss attributable to Shareholders of approximately RMB47,244,000 for the seven months ended 31 July 2012, the foregoing market environment of the Group remains to be uncertain and difficult in the Directors' view. Therefore, we concur with the view of the Directors that the transformation of the Company's currently loss making printing press business to a new business with a proven track record of profitability with forecasted profit in the coming years ending 31 December 2012 and 2013 under the Reorganisation will be in the interest of the Company and the Shareholders as a whole. In addition, having considered the abovementioned Acquisition Factors and Disposal Factors, as well as (i) the non-competition undertaking from Jingcheng Holding as well as the Jingcheng Group Undertakings in favour of the Company mentioned above; and (ii) the conditions precedent of the Material Asset Reorganisation Agreement, we are of the opinion that the Reorganisation involving the Acquisition and the Disposal are in the interest of the Company and the Shareholders as a whole, and the respective terms of the Acquisition and the Disposal are fair and reasonable insofar as the Company and the Shareholders are concerned as a whole.

LETTER FROM CELESTIAL CAPITAL

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Material Asset Reorganisation Agreement and the transactions contemplated thereunder, and the Reorganisation.

Yours faithfully,
for and on behalf of
CELESTIAL CAPITAL LIMITED
Daphne Ng
Managing Director

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

You should carefully consider all of the information in this circular, including the risks and uncertainties described below and the other information included in this circular, including the Company's financial statements and the related notes, prior to investing in the Shares. You should pay particular attention to the fact that the Company conducts its operations in the PRC and is governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. The Company's business, financial condition, results of operations and cash flows could be materially and adversely affected by any of these risks. The trading price of the Shares could decrease due to any of these risks, and you may lose all or part of your investment. The risks set out below may not be exhaustive; the Company operates in an emerging and evolving environment and new risk factors emerge from time to time that are impossible for the Company to predict. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial could also harm the Company's business, financial condition or results of operations.

I. RISK FACTORS

Risks relating to the New Business

Risk of fluctuation of raw materials prices and components

Upon the Completion, major raw materials necessary for the production of gas storage, transport equipment and gas compressors of the Company will be pipes, boards, valves, diaphragm and others. In recent years, affected by respective production cost, market supply and demand and short-term speculation in the market, the prices of raw materials fluctuated to a large extent, which will bring risks to the Company's future production business and profitability.

Risk of fluctuation of economic cycle

Upon the Completion, the principal business of the Company will become gas storage, transport equipment and gas compressor business. In recent years, the growth of investment in infrastructure and industrial capital goods remained high in the PRC. There were substantial investment in fixed assets and improvements to technology in fundamental industries including machinery, metallurgy, chemicals, construction, building materials and food, which effectively facilitated rapid growth of industrial gas industry and supported demand for gas storage and transport equipment. Cyclical fluctuation of macro-economies in the future may lead to changes in operational environment of such industries and result in the decline and adjustment of fixed assets investment, which will, in turn, affect the development of the gas storage and transport equipment industry. Therefore, there is risk to profitability of the Company under such influence.

There may be unidentified risks relating to the Acquisition

Although the Company has conducted due diligence with respect to the Acquisition, the Company may not identify all material risks associated with the Acquisition due to inherent limitations of due diligence, including, among other things, unforeseen contingent risks or latent liabilities relating to the entities acquired or to be acquired that may not become apparent until in the future. Any such unidentified risk could have a material adverse impact on the Reorganised Group's business, financial condition and results of operations after the completion of the Acquisition. Even if the Company identifies any such

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

risk and terminate the Sale and Purchase Agreement prior to the Completion, the Company's reputation may be harmed and the Company's prospects may be materially and adversely affected.

The Target Companies' research and development efforts may not yield the benefits that it expects and the Target Companies may not be able to introduce market-leading products and maintain the competitiveness of their products' offerings

In order to maintain and increase the Target Companies' current competitive position and to continue its business growth, the Target Companies need to continuously introduce market-leading products. The market for the Target Companies' products is characterized by continuous technological developments and innovation to provide better product performance and address the increasingly complex market needs. As a result, the Target Companies have been focusing on research and development activities, which require considerable human resources and capital investments. However, the Target Companies' research and development efforts may not be successful or yield the anticipated level of economic benefit. In addition, even if the Target Companies' research and development efforts are successful, it may not be able to apply these newly developed technologies to products that will be accepted by the market, or may not be able to apply them in a timely manner to take advantage of first-mover opportunities in the market. Furthermore, if the Target Companies are unable to anticipate trends in technological or product development and rapidly develop the new and innovative technologies or products that are required by customers, the Reorganised Group may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on the Reorganised Group's business, financial position and results of operations.

The Target Companies' business depends substantially on their senior management, professional engineers and other key personnel's continuing services

The Reorganised Group's future success depends substantially on the continued services of our management team. The Target Companies' ability to retain and attract other skilled professionals, including the members of the Target Companies' research and development, manufacturing, marketing and sales and after-sales services teams is also crucial to the Reorganised Group's future success. The industry in which the Target Company operates has a keen competition for such skilled labor and may require the Reorganised Group to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect the Reorganised Group's financial condition and results of operations. The Reorganised Group may be unable to attract or retain the personnel required to achieve their business objectives and the failure to do so could severely disrupt their business and prospects. If the management and other key personnel of the Target Companies discontinue their service, the Reorganised Group's business may be adversely affected.

The Target Companies have limited product liability insurance coverage

The Target Companies' product liability insurance coverage is limited and may not adequately protect them against all the risks related to their business and operations. If any claims were to be made by customers, the Reorganised Group might have to incur substantial costs and experience a diversion of resources which would have a material effect upon its business operations.

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

Risks relating to the Industry

The Reorganised Group faces growing competition in the gas storage and transportation and compressor industry

The gas storage and transportation and compressor industry are highly competitive in the PRC. The Reorganised Group faces direct competition both in the PRC and internationally across all product lines and price ranges. The competitors of Tianhai Industrial include Worthington Industries, Inc. and CIMC Enric Holdings Limited. The competitors of Jingcheng Compressor include Howden BC compressors and Shenyang Yuanda Compressor Co., Ltd. etc. Moreover, the industry is becoming increasingly competitive as more international companies are currently seeking to enter the PRC market while more domestic Chinese manufacturers are enhancing their international penetration and competitiveness. The Target Companies' competitors may be able to offer more flexible payment options and/or more attractive purchasing terms than the Target Companies. The Target Companies' failure to maintain a competitive position with respect to pricing, product quality, brand name recognition, financial resources and technological advances, adapt to changing market conditions or otherwise compete successfully against their competitors may have a material and adverse effect on their business, financial condition, results of operations and prospects.

The Reorganised Group is subject to technological changes in the industry

The gas storage and transportation equipment and compressor are subject to rapid technological advances. The Reorganised Group's success will depend on their ability to keep abreast of these developments in technology and to adapt the Target Companies' business strategy to effectively deal, accommodate and embrace these advances. There is no assurance that the Reorganised Group can respond promptly and cost effectively to these changes. If the Reorganised Group is unable to compete with its competitors' new products or improve its products in line with the rapid technological developments, whether due to financial or technical reasons, the Reorganised Group's business and operational results would be adversely affected.

Risks relating to the Reorganised Group

Risk of not distributing dividend for a long time after the Reorganisation

Due to unsatisfactory operating results of the printing machinery business over the years, undistributed profit of the parent company of the Company as at 31 July 2012 amounted to RMB-200,647,061.34. Despite the fact that, upon the Completion, the Company will be engaged in gas storage and transport equipment business which is profitable, the undistributed profit in the statements of the parent company will remain a large negative sum. Therefore, there is a risk that the Company will be unable to distribute any dividend for a long time.

Defects in ownership of properties to be acquired

As at the Latest Practicable Date, among the assets to be acquired, there are 9 properties with no building ownership certificate, of which 1 is undertaken to be demolished before 31 December 2012 by Tianhai Industrial; 3 arose from Shanghai Tianhai being unable to obtain a building ownership certificate due to an judicial restriction imposed as a result of a property dealing dispute (parties involved have, under coordination of the court, reached a settlement which has already completed execution and the restriction will be lifted), which Tianhai Industrial has undertaken to urge Shanghai Tianhai to

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

complete all procedures, for obtaining the 3 ownership certificates before 31 December 2012; and the other 5 are in the process of obtaining their certificates which Jingcheng Compressor undertakes to complete before 31 December 2012. For the problems of the above properties, Jingcheng Holding has undertaken that: “any loss incurred by the Company after the Reorganisation arising from the ownership defect(s) not resolved as scheduled will be fully compensated in cash by Jingcheng Holding in a timely manner”.

Risks relating to the operations in the PRC

Risk of changes in preferential tax treatment

As at the Latest Practicable Date, both Tianhai Industrial and Jingcheng Compressor are high and new technology enterprises jointly certified by four departments including Beijing Municipal Science & Technology Commission. Pursuant to requirements of article 28 of Enterprise Income Tax Law of the PRC, Tianhai Industrial and Jingcheng Compressor are subject to 15% enterprise income tax rate. There is a possibility that they may not be able to continue enjoying such preferential treatment in the future due to cancellation of such preferential policy, or such companies being not recognized as high and new technology enterprises subsequent to expiration of their existing certificates. Therefore, upon the Completion, there is a risk of the operating results of the Reorganised Group being affected by changes in preferential tax treatment policies.

Effect of imposition of the anti-dumping duties and countervailing duties by the United States on future operating results of the Company

Pursuant to the final ruling made in May 2012 of an anti-dumping and countervailing investigation conducted by United States International Trade Commission (USITC) against high pressure cylinders manufactured in the PRC, seamless steel cylinder products of Tianhai Industrial exported to the US will be subject to 15.81% countervailing duties and 6.62% anti-dumping duties. Imposition of the two duties may affect sales of Tianhai Industrial in the US market, and thus future operating results of the Reorganised Group may fluctuate.

Adverse changes in political and economic policies of the PRC government could have a material and adverse effect on the overall economic growth of the PRC, which could in turn reduce the demand for the Reorganised Group's products, thus materially and adversely affecting its business and prospects

Economic, political and legal developments in the PRC significantly affect the business, financial condition, results of operations and prospects of the Target Companies. In many respects, the PRC economy differs from those of most developed countries, including the degree of government involvement, the level of development, growth rate, control of foreign exchange, access to financing and allocation of resources. While the PRC economy has grown significantly in the past two decades, the growth has been uneven, both geographically and among various economic sectors. The PRC government has implemented various measures to foster economic growth and guide the allocation of resources. While some of these measures have benefited the overall Chinese economy, they may also negatively impact the Target Companies. For example, the Target Companies' financial condition and results of operations may be adversely affected by government control over applicable capital investments or changes in tax regulations that are applicable to the Target Companies.

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The Reorganised Group may be subject to more stringent environmental laws and regulations in the PRC

The Reorganised Group is required to comply with the environmental laws and regulations in the PRC. If more stringent regulations are implemented in the future, the extra costs of compliance with such new laws and regulations may be substantial. The profits of the Reorganised Group could be adversely affected if it was unable to pass on such additional costs to its customers. If the Reorganised Group fails to comply with present or future environmental laws and regulations, it may be subject to substantial fines, suspension of production or even the cessation of its operations.

Fluctuations in exchange rates could result in foreign currency exchange losses

Currently, the sales, costs of sales and services, expenses and borrowings of the Target Companies are denominated in RMB, Euros or USD, while the financial statements are prepared in RMB. Therefore, fluctuations in exchange rates (particularly among the RMB, Euro or USD) could impact the profitability of the Target Companies and result in foreign currency exchange losses of their foreign currency denominated assets and liability. The Company cannot accurately predict how the fluctuation in exchange rate will affect the operating results of the Reorganised Group and may incur net foreign currency losses that may have a material and adverse on its financial condition and results of operations. In addition, an appreciation in the value of RMB against foreign currencies could increase the prices of certain of products of the Reorganised Group, thereby making the Target Companies less appealing to their overseas customers, which could adversely affect our strategy of the Company to further expand in overseas markets.

Risks relating to the Reorganisation

Risk of suspension, discontinuance or cancellation of the Reorganisation

There are risks of suspension, discontinuance or cancellation of the Reorganisation due to the follow reasons:

- (a) abnormal fluctuation of share price or unusual transactions of the Company deemed as involving in insider transactions.
- (b) defects in building ownership certificates in respect of properties to be acquired, notwithstanding such companies have undertaken to the Company to demolish relevant properties or obtain relevant certificates, and Jingcheng Holding has undertaken to the Company that it will reimburse any loss incurred by the Company due to such defects.
- (c) unforeseeable significant decrease in results of the assets to be acquired. If any of the above risks materialised and the Company intends to reinitiate the Reorganisation, the transaction price and other conditions may vary greatly from those disclosed herein.

Risk of approval

The proposal for the Reorganisation has been approved by Beijing SASAC in principle. However, the Reorganisation is subject to many conditions, including without limitation completion of filing with or verification and approval of the proposal by Beijing SASAC, passing of this proposal at the EGM, approval of related matters by Ministry of Commerce and approval of the proposal by CSRC. There is uncertainty in the passing of

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the resolution approving the Reorganisation at the EGM and in filing, approval or verification of competent authorities, as well as the timing thereof. Accordingly, there is risk of approval in the Reorganisation.

II. INDUSTRY OVERVIEW

The Target Companies proposed to be acquired by the Company pursuant to the Reorganisation are principally engaged in the manufacture and sale of gas storage and transportation equipment. In particular, Tianhai Industrial is principally engaged in the manufacture and sale of industrial gas and natural gas storage and transportation equipment; Jingcheng Compressor is principally engaged in the manufacture and sale of air compressor business; Jingcheng HK is indirectly engaged in the manufacture and sale of the gas storage and transportation equipment business by holding the minority interest in Tianhai Industrial and subsidiaries of Tianhai Industrial.

(I) Analysis of the Gas Storage and Transportation Equipment Industry of Tianhai Industrial

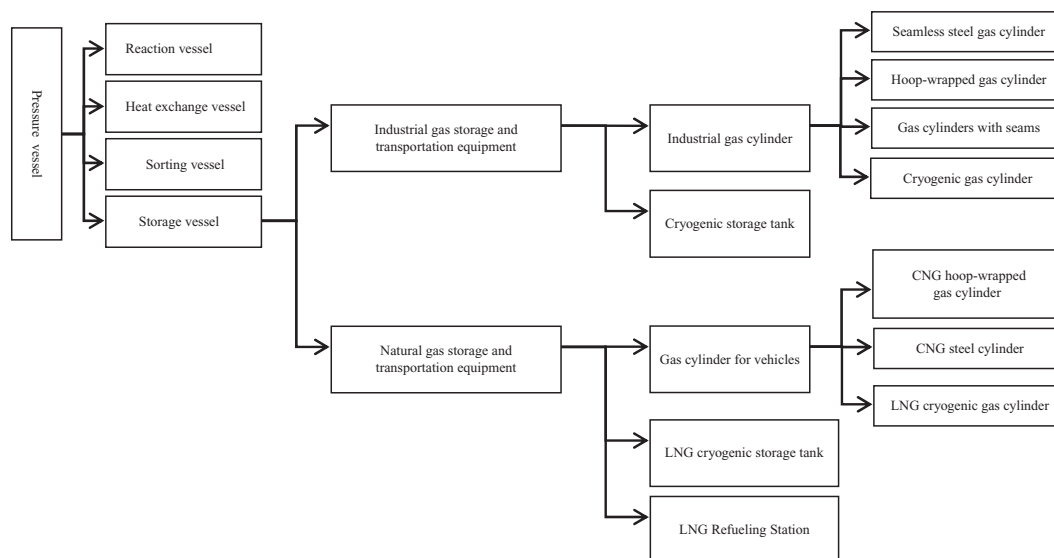
1. *Classification of gas storage and transportation equipment industry*

According to the Industrial Classification and Code for National Economic Activities (GB/T 4754-2011) of National Bureau of Statistics, the gas storage and transportation equipment industry that Tianhai Industrial is engaged in belongs to “C3332 Metal Pressure Vessel Manufacture” under “C333 Containers and Metal Packaging Vessel Manufacture” under “C33 Metal Product Industry” under “C Manufacturing Industry”. The main business activities in this industry are manufacturing metal vessels (whether with covers, plugs, lined with materials other than iron, steel and aluminum) for storing compressed gases, liquefied gases and other liquid materials with pressure.

As storage and transportation vessels with gases as filling medium, the gas storage and transportation equipment belongs to one of metal pressure vessels that are widely applied in various fields such as energy, environment protection, metallurgy, chemical industry, oil, petroleum chemicals, machinery, electronics, light industry, textile, aviation, aerospace and nuclear industry. Along with the increasingly wide application of industrial gases and natural gas in the national economy, the roles of the relevant gas storage and transportation equipment are becoming more and more important.

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The gas storage and transportation equipment produced by Tianhai Industrial can be roughly divided into industrial gas storage and transportation equipment and natural gas storage and transportation equipment according to their purposes in the downstream industries. The relevant schematic diagram is as follows:



2. *The Overall Development Situation of Gas Storage and Transportation Equipment Industry*

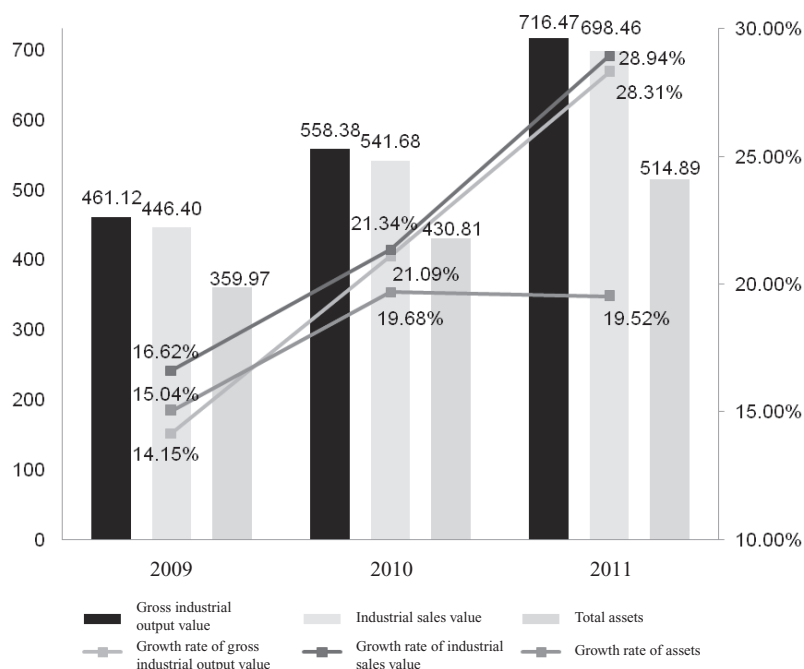
This section only introduces the overall development situation of metallic pressured vessel industry in previous years due to the absence of relatively authoritative statistical data source in the gas storage and transportation equipment industry. The statistical data of metallic pressured vessel industry mentioned in this section includes the general statistical data of reaction vessel, heat-exchanging vessel, classified vessel and storage-transport vessel; among which, the statistical caliber of storage-transport vessel only includes two types of products, gas cylinder and storage tank.

In view of the globalization of industry chain in recent years, together with the development of China's national economy, the continuous deepening of China's opening-up policy and the constant improvement of overall manufacturing technology level, the global manufacturing activity of metallic pressured vessel is gradually shifting to China, and the overall scale of the Target Group's metallic pressured vessel manufacturing industry continues to expand.

According to the statistics of China Machinery Industry Federation (CMIF), the gross industrial output value of the above-designated-size enterprises in China's metallic pressured vessel industry increased from RMB46.112 billion in 2009 to RMB71.647 billion in 2011, their industrial sales value increased from RMB44.640 billion in 2009 to RMB69.846 billion in 2011 and their total assets increased from

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RMB35.997 billion in 2009 to RMB51.489 billion in 2011. The gross industrial output value, industrial sales value and total asset realised in each year and their growth rate are shown in the following chart:



Source: China Machinery Industry Federation. Unit: RMB'00 million

According to the statistics of China Machinery Industry Federation (CMIF), the main operating income achieved by the above-designated-size enterprises in China's metallic pressured vessel industry in 2009 was RMB44.422 billion, representing a growth of 14.49% as compared with the corresponding period of the previous year; the main operating income achieved by the above-designated-size enterprises in 2010 was RMB54.356 billion, representing a growth of 22.36% as compared with the corresponding period of the previous year and the main operating income achieved by the above-designated-size enterprises in 2011 was RMB67.545 billion, representing a growth of 24.26% as compared with the corresponding period of the previous year.

From the above data, it can be seen that the development scale in China's metallic pressured vessel industry in recent years has taken on a relatively rapid expansion momentum whether in terms of the production value, the assets scale or the market scale.

As of the end of 2011, there were 420 above-designated-size enterprises in metallic pressured vessel manufacturing industry with main operating income of more than or equal to RMB20 million in China. In general, small and medium-sized enterprises in China's metallic pressured vessel industry are more in number, but their industrial concentration is relatively low and the competition in low-end to middle-end product market is more intense, so the overall development is uneven.

3. Demand of Gas Storage and Transportation Equipment Industry

Tianhai industrial competes in the industrial gas storage and transportation equipment market and the natural gas storage and transportation equipment market. The demand characteristics, development potential and market competition strategies

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in the two markets differ greatly as different parties were involved in market value chain. The main features of each portion of the complete value chain of industrial gas and natural gas are set out in the following table:

	Industrial gas	Natural gas
Production	✓ Gas company ✓ Mainly foreign investment and private-operated enterprises	✓ Energy company ✓ Mainly state-owned enterprises
Transportation	✓ Mainly by tank trunks and gas cylinders, with load distance less than 300 km ✓ Mainly undertaken by gas company	✓ Mainly by gas trunk pipelines laid by state-owned energy company, supplemented by tank trunk transportation ✓ Attaching equal importance to local gas/bus company urban pipeline infrastructure and tank trunk transportation
Distribution	✓ By way of on-site gas supply method or by gas sub-package retail transportation	✓ Industrial gas distribution are mainly distributed by laid pipelines ✓ Domestic gas is distributed through pipelines, gas storage and gas stations
Application	✓ Industrial enterprises customer from energy, chemical industry, machinery, electronics, medical, and food industries	✓ Ensure that priority is given to city gas; applicable to four major categories being (1) city gas (including natural gas automobile), (2) industrial fuel, (3) natural gas power generation and (4) natural gas chemical industry; the application order is preferential, permitted, restricted and prohibited

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	Industrial gas	Natural gas
Driving force of development	✓ Developed for many years, growth is relatively stable and the industry pattern has been formed initially ✓ Driven by the growth of GDP	✓ The industry is still growing, and the PRC Government plans to increase natural gas consumption from current 4.5% to 7.5-8% in 2015 ✓ Driven by urbanization and national energy investment

(1) Demand of the industrial gases industry

Products that are gaseous state at atmospheric temperatures and pressures are collectively referred to as the industrial gas products. There are various types of industrial gas products, and the following three types are most commonly used: separation air (nitrogen, oxygen, and argon), synthetic gas (such as hydrogen, carbon dioxide, acetylene) and special gas (such as helium, neon, and krypton gas). As an important basic raw material in modern industry, industrial gas products are widely used in many aspects. Sectors of metallurgy, iron and steel, petroleum, chemical industry, machinery, electronics, glass, ceramics, building materials, construction, food processing, medicine and medical care all use large amounts of air, synthesis gas and special gas.

With the rapid development of the national economy, China's industrial gases industry has also maintained a momentum of rapid development in recent years. The United States industry survey Company SAI's study shows that from 2002 to 2008, the average annual growth rate of the total sales volume of China's industrial gases market reached 25.6%, being 5 times that of the global industrial gases market, making China's industrial gases market to be the most dynamic industrial gases market in the world. As China's industrial gases market has much room for development, it has attracted the major industrial gas companies all around the world, to enter the domestic market, investing and setting up factories in China in succession.

Though China's industrial gases industry maintained a momentum of rapid development in recent years, the total annual consumption of industrial gases is still very small compared with that of the European countries, the United States and other developed countries and it is estimated to be only about 4% of that of the United States and 5% of that of the European countries. Therefore, there is still a large potential and space for the development of China's industrial gases market in the future. On the one hand, the PRC has a relatively high GDP growth to guarantee the growth of the industrial gases market, on the other hand, with the improvement of scientific and technological level of the PRC, the development of new industries, and the strengthening of the conscious of health and environmental protection, the depth and breadth of China's industrial gases application is expected to improve continuously, thereby pushing the growth of China's industrial gases market in the future. In recent years, the industries of very large scale integrated circuit, liquid crystal display (LCD), light-emitting diode (LED), photovoltaic, optical fiber, solar battery, and health care, have become new demand growth points of electronic gases, special gases and high

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purity gases. Further development of these sunrise industries and new industries will further promote the growth of China's industrial gases market. In the past, the industrial gases market growth of developed countries is normally 1.25 to 1.5 times of the GDP growth. The annual growth rate of China's industrial gases market is expected to be maintained at least 8% in the next 5 years.

Downstream customers of the industrial gases normally use 2 kinds of gas supply models, self-produced and self-used, and third-party-outsourcing. Self-produced and self-used refers to the purchase of air separation equipment by enterprises to produce gas for own use. Gas business outsourcing means outsourcing certain important but not core business function (such as air separation plant, synthesis gas plant etc.) to external senior outsourcers (gas company), and the outsourcer shall be responsible to supply gas on demand. Self-produced and self-used model has been the major supply model of the industrial gases in China for a long time. However, as opposed to the self-produced and self-used model, the use of the third-party-outsourcing model by the gas-consuming companies can reduce their cost of acquisition of equipment, improve the efficiency of the enterprise's funds, as well as improve the quality of the supplied gas effectively through division of labor and specialized production by the third party outsourcing. Therefore, more and more gas using enterprises have started to outsource gases business over these years, and the proportion of outsourcing supply model in China's industrial gas supply is increasing year by year. According to the United States industry survey company Strategic Analysis Inc. (SAI)'s study, the proportion of the self-produced and self-used gas in the industrial gas used reduced from 59% in 2007 to 55% in 2010, and there is a tendency of further decrease in the future.

There are mainly 4 ways of industrial gas supply, being: (1) pipeline delivery, which applies to abundant supply of gas; (2) on-site gas supply, which mainly applies to single user with large demand; (3) cylinders delivery, of which the transportation distance is within 50 km; (4) cryogenic liquid storage tank delivery, of which the transportation distance is within 300 km. These 4 ways can also be categorized into 2 kinds, scale gas supply and retail gas supply, where retail gas supply is the target market for gas storage and transportation equipment.

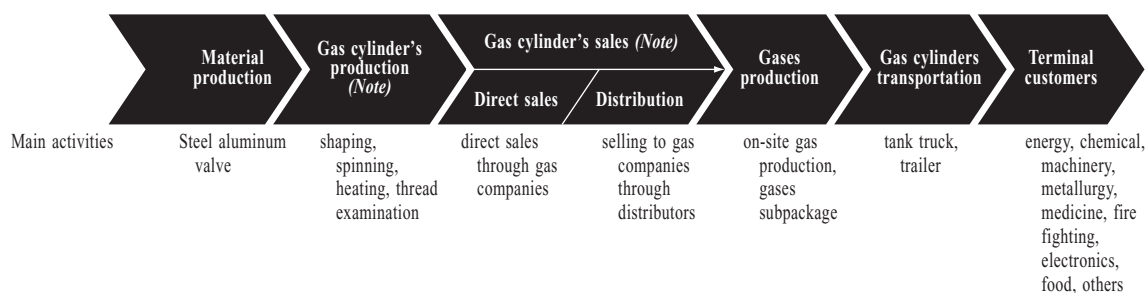
At present, large mainstream industrial gases companies' growth and profit model is: gas company first enters into a long term on-site gas supply contract with minimum order quantity enough to ensure that the company would surpass the breakeven point with a regional user with great demand (usually a large or medium-sized metallurgical, chemical enterprise) and then constructs a gas plant. During the construction of a gas plant, gas company will keep certain excess productivity for the retail market (which includes cylinders delivery model, liquid storage tank delivery model, etc.). The proportion of this excess productivity normally varies from 5% to 40% of the total production capacity, depending on the size of the local retail market. While the gas company earns stable cash flow from on-site gas supply, it will gradually open up the retail market of cylinders and cryogenic liquid storage tank (although most of time it can only retail indirectly through distributor's filling) thereby gradually increase the profit margin as well as the total revenue of the company through the increase in the proportion of higher profit-margin retail activities. Since regional industrial gas companies as well as medium and small-sized gas companies are

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more restricted by gases productivity and local market volume, these gas companies tend to supply industrial gases to end-users through the use of cylinders and cryogenic liquid storage tanks.

Although scale gas supply has become more and more popular in China or even globally in these years, the proportion of retail gas supply with cylinders delivery model and cryogenic liquid storage tank delivery model in total gas supply always remains a relatively steady proportion due to the special features of gas companies' operation models as described above. The proportion of cylinder gas and tank gas in total gas supply of the world's 4 largest gas companies had always remained above 50% in recent years. Therefore, the demand of the industrial gas storage and transportation equipment industry mainly depends on the growth of the total gas supply of, as well as the replacement rate of existing old gas cylinders and cryogenic storage tanks of downstream industrial gases companies. With reference to the 8% annual increase of the industrial gases market, and 4% to 5% annual replacement rate of the existing gas cylinders, the industrial gas storage and transportation equipment industry is estimated to be able to reach a 8% to 9% increase.

The structure of industrial gas related industrial chain is as follows:



Note: Stages which Tianhai Industrial has been involved in as at the Latest Practicable Date.

In respect of the industrial gas storage and transportation equipment industry, factors considered by downstream customer's are mainly product quality, delivery ability, price, strength of the supplier, and sales ability. However, the overseas customers' emphasis differs from that of domestic customers', customers in the European and American markets regard high performance of products and stable quality to be more important while customers in the Chinese and other markets value a competitive price more than other factors and they take product quality into consideration only when safety issue arises.

Factors considered by customers	Description	Domestic importance	Overseas importance
Product quality	weight-to-volume ratio inside and outside surface finish	★★★	★★★★★
Delivery ability	Delivery lead time	★★★★	★★★★
Price	Price competitiveness Cost control	★★★★★	★★★

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Factors considered by customers	Description	Domestic importance	Overseas importance
Strength of the supplier	Brand Management and operation system Professional qualification	★★	★★★
Sales ability	Sales organization ability: 1) market coverage; 2) salesman's ability to understand customers; 3) communication skills Relationship with senior management of the customers and relationship with local government	★★★★	★★

(2) Demand of Natural Gas Industry

As a clean, efficient and widely used high-quality energy, natural gas account for a substantial proportion in the world energy consumption structure. According to BP Statistical Review of World Energy, natural gas accounted for 23.67% in the world primary energy consumption in 2011, only secondary to the proportion of oil and coal. The proportion of the primary energy consumption for the countries in the world in 2011 is shown as follows:

	Oil	Natural gas	Coal	Nuclear energy	Hydropower	Renewable energy
China	17.67%	4.50%	70.39%	0.75%	6.01%	0.68%
America	36.73%	27.59%	22.12%	8.29%	3.27%	2.00%
Russia	19.84%	55.73%	13.26%	5.72%	5.44%	0.01%
India	29.03%	9.84%	52.87%	1.31%	5.33%	1.65%
Japan	42.17%	19.89%	24.64%	7.73%	4.02%	1.55%
Canada	31.21%	28.55%	6.60%	6.48%	25.79%	1.33%
Germany	36.39%	21.31%	25.33%	7.96%	1.44%	7.57%
Brazil	45.22%	8.99%	5.21%	1.31%	36.42%	2.81%
Korea	40.30%	15.93%	30.19%	12.93%	0.46%	0.23%
France	34.13%	14.94%	3.71%	41.17%	4.24%	1.77%
Total	33.07%	23.67%	30.34%	4.88%	6.45%	1.59%

Source: BP Statistical Review of World Energy 2012

In recent years, China's natural gas market is becoming more and more popular under low-carbon economy and natural gas consumption increased significantly. According to the data from National Bureau of Statistics, China's natural gas consumption has increased year after year since 2005, with an average annual growth rate of 18.30% during the years from 2005 to 2011. In 2011, national total natural gas consumption reached 131.3 billion cubic meters, resulting in a significant rise of 22.48% compared with the previous year. Natural gas producing regions and surrounding area, the Bohai rim, Yangtze River Delta and developed southeast coastal areas will become the major

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consumption areas. With the increase in consumption, the proportion of natural gas in the total national energy consumption of the PRC has shown a trend of increase from 2.6% in 2005 to 4.5% in 2011. However, compared with many developed countries and emerging markets countries, the proportion of natural gas in the current energy consumption structure of the PRC still appears to be low. China will endeavor to increase the proportion of natural gas consumption as primary energy consumption by 3% to 4% in the next few years. It is expected that total of the PRC natural gas consumption will reach 260 billion cubic meters by 2015, nearly the double of that of 2011. The national natural gas consumption from 2005 to 2011 in national is set out in the following table:

Year	Consumption		Proportion in total energy consumption (%)
	Total (100 million cubic meters)	Year-on-year growth	
2005	479.13	20.77%	2.6%
2006	561.41	17.17%	2.9%
2007	695.23	23.84%	3.3%
2008	812.94	16.93%	3.7%
2009	895.20	10.12%	3.9%
2010	1,072.00	19.75%	4.4%
2011	1,312.99	22.48%	4.5%

Source: National Bureau of Statistics

The existing long-distance storage and transportation methods of natural gas are mainly (1) pipeline storage and transportation and (2) liquefied storage and transportation. Pipeline storage and transportation is to transmit natural gas in gaseous form from gas fields to the location of the consumers by laying gas transmission pipeline. Liquefied storage and transportation is to liquefy the natural gas by cryogenic technology, and then store and first transport such national gas in the form of liquefied natural gas (“LNG”). Pipeline transportation technology is mature, and has been the major transportation and supply method of natural gas in the world. Yet it is limited by the location of the source, distance and investment conditions. Ocean transportation is hard to implement, and has disadvantages such as high delivery pressure and high cost in operations and maintenance expenses. Compared to the traditional pipeline transmission, the advantages of LNG storage and transportation are transmission flexibility, high storage density, low pressure, higher system security and reliability, and is suitable for large-scale, long-distance and cross-sea shipping. Thus, the LNG storage transportation method has developed rapidly in recent years. According to the BP World Energy Statistics Yearbook, the proportion of natural gas trade volume which applied LNG transmission in the world natural gas import and export trade reached 32.26% in 2011, with a 1.78% increase compared with 2010.

The increased demand for domestic natural gas consumption will inevitably lead to rapid development of industries related to natural gas supply, and LNG storage and transportation, which is in a flourishing stage, has received much attention by its numerous advantages and thus the LNG supply is increasing rapidly. On one hand, along with the continuous increase in demand of national natural gas consumption, China’s natural gas supply gap has also increased, and China’s imported LNG has been rising significantly each year. The first phase of

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LNG project of China National Offshore Oil Corporation (“CNOOC”) in Shenzhen, Guangdong, the LNG receiving station of CNOOC in Putian, Fujian, the LNG receiving station of CNOOC in Yangshangang, Shanghai, the LNG receiving station of Petro China in Dalian, Liaoning and the LNG receiving station of Petro China in Nantong, Jiangsu and many other LNG receiving station have been completed and formally put into production. According to China’s national plan, China will build 17 imported LNG receiving stations, with an annual receiving capacity up to 65 million tons during the 12th five-year period. The three largest oil companies in China have entered into agreements with various natural gas production countries for the import of LNG to maintain stable natural gas supply for the next 10 years. As such, it is expected that the national import of LNG will remain its fast development in the next few years. The following table sets out the import of natural gas of China from 2007 to 2011:

Year	Total import volume of natural gas		Among them: LNG import volume		Pipeline import	
	Total (100 million cubic meters)	Year-on-year growth	Total (10 thousand tons)	Year-on-year growth	Total (100 million cubic meters)	Year-on-year growth
2007	39.58	—	291.0	>300%	0	—
2008	45.37	14.64%	333.6	14.65%	0	—
2009	75.24	65.83%	553.2	65.80%	0	—
2010	163.04	116.71%	935.6	69.13%	35.8	—
2011	307.12	88.37%	1221.5	30.56%	141.0	293.80%

Source: Customs import and export statistics.

Note: one ton of LNG is equivalent to approximately 1,360 cubic meters of natural gas.

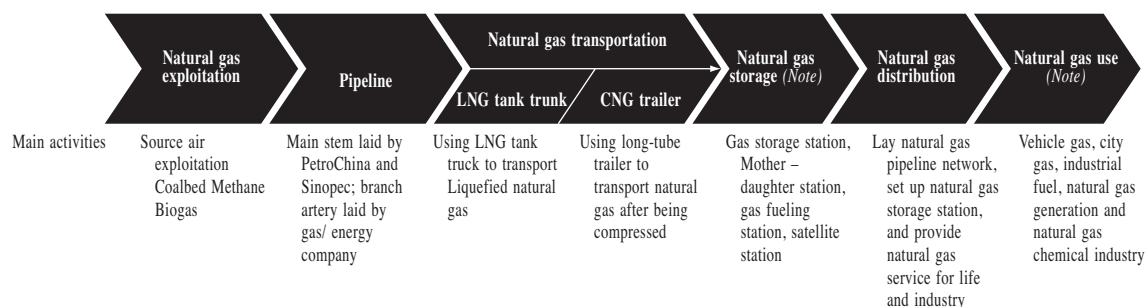
On the other hand, from proven natural gas reserves of China, China’s natural gas resource mainly concentrates on the western regions, such as Xinjiang, Sichuan and Shaanxi, while central and coastal areas, which have greater demand for natural gas, have relatively less natural gas resources. Moreover, China’s natural gas fields are relatively scattered, with a majority being small and middle-sized gas fields and a large portion of natural gas sourced from oil field exploitation as a companion product so the geographical sales radius is restricted. In order to realise long-distance transmission of natural gas from western part to eastern part of China and solve the external transmission problems of natural gas of small and middle-sized gas fields, LNG factories has benefited from China’s “West-East natural gas transmission” and achieved rapid development in recent years. According to the research of the China Industrial Gases Industry Association, LNG branch, as at the end of 2011, over 40 LNG factories are completed and under construction in China, more than 20 of which have been put into operation, generating a total annual production capacity of up to 2.5 million tons. It is expected that the total annual production capacity of LNG factories throughout the country will reach 7.5 million tons by the end of the 12th five-year plan. In addition, there are also various LNG liquefaction projects under construction and proposed to be constructed. It is estimated that with the increase in import of LNG and domestic LNG production capacity, the natural gas storage and transportation industry will have broad market development prospects in the coming years.

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Meanwhile, with the increase of China's natural gas fueling station in the next few years, the maturity of natural gas automobile technology and driven by the state's favourable policy of strengthening the development of natural gas bus, demands for CNG/LNG vehicle gas cylinder is expected to increase rapidly. According to the disclosure of China Automotive Technology & Research Center (CATARC), as of 2010, China's natural gas automobile ownership has increased to more than one million from 10,000 in 2000. And China has become the fourth largest natural gas automobile market in Asia, and the sixth largest natural gas automobile market globally. According to the statistics of bus branch of China Highway and Transportation Society (CHTS) in respect of the production and sales data of 50 bus enterprises in China, 18,837 natural gas buses were sold in 2011, representing an increase of 29.82% from the previous year and three times that of the average growth in the automobile industry. Among them, 5,670 LNG highway passenger vehicles were sold during the year, representing 30.10% of the total sales of gas buses. As of the end of 2011, of 450 natural gas automotive types and chassis included in the announcement of national motor vehicle products in China, more than 60 of which are natural gas automobile manufacturing enterprises.

The number of fueling station is the biggest limiting factor for the development of natural gas automobiles. The "Technical Standard for Vehicle Liquefied Natural Gas (LNG) Fueling Stations" issued by the National Energy Administration in 2011 provided that main operators of natural gas fueling station planned to put great efforts in building LNG gas fueling stations and developing distribution network in the next few years. In the years to come, along with the increase of the operating natural gas fueling stations in China, the natural gas automobile market is expected to achieve further development, and the market prospect of the complementary CNG/LNG vehicle gas cylinders will thus become broader.

The structure of the above industrial chains related to natural gas is shown as follows:



Note: Stages which Tianhai Industrial has been involved in as at the Latest Practicable Date.

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In the field of natural gas storage and transportation equipment, factors considered by downstream customers include: the ability to provide systematic solution, product quality, comprehensive strength of the supplier, production capacity, marketing ability and price. Among them, the most important factors are the ability to provide systematic solution and product quality.

Factors considered by customers	Description	Importance
Ability to provide systematic solution	Understand customer's business needs, and design systematic solution for customer according to business requirements Provide customised solution (including product production and project implementation) for customer according to customer requirements	★★★★★
Product quality	Product parameter: vacuum rate, non-destructive retention time, etc. Product usability	★★★★★
Comprehensive strength of the supplier	Brand Professional qualification Customer reference case	★★
Production capacity	Capacity Condition and scale of production place Delivery time	★★★
Marketing ability	Marketing organizing ability: 1) market coverage; 2) sales personnel's ability of understanding customer; 3) communication ability Relationship with senior management of customer and relationship with local government	★★★
Price	Price competitiveness	★★

4. *The Competitive Landscape and Marketisation Degree of Gas Storage and Transportation Equipment Industry*

(1) *Industrial Gas Storage and Transportation Industry*

The development of China's industrial gas storage and transportation equipment industry began in the late 1950s. After more than 60 years of development, especially the rapid development in recent ten years, the development of the industry has been relatively mature and formed a relatively stable competition landscape.

Industrial gas cylinder is the key product of industrial gas storage and transportation equipment, and seamless steel gas cylinders has the largest proportion of sales revenue in industrial gas cylinders. After years of development, China has become the country producing the most seamless steel gas cylinders in the world where seamless steel gas cylinders were most widely used, and China's sales of such products has also taken up a certain proportion in the international market. At present, China has relatively more existing enterprises for the manufacture industrial gas storage and transportation equipment, among which, most enterprises mainly produce seamless steel gas cylinders, while some enterprises have the ability to produce composite cylinders and cryogenic cylinders. Apart from enterprises with larger scale of production, there are many more small and middle-sized enterprises owning independent import and export operation rights and their products have been exported to Korea, Japan, Singapore, central Asia and European and American European markets as represented by the United States. From the regional distribution perspective, domestic manufacturing enterprises of industrial gas storage and transportation equipment are currently distributed widely and mainly concentrated in such regions as East China, North China and Southwest China.

From the market competition perspective, several large-scale enterprises with such advantages as scale advantage and quality advantage occupy domestic middle and high-end market and have relatively stable market share; while various small and middle-sized enterprises to get a fair share in the low and middle-end market mainly by means of price competition and etc., resulting in intense market competition. Several large scale domestic enterprises with higher share of exports also had to participate in direct competition with enterprises of exporting countries in overseas market. Since China's industrial gas storage and transportation equipment products exported are mainly seamless steel gas cylinders, and they have strong market competitive advantages in terms of product performance and price, they exert competitive pressure to local cylinder enterprises of exporting countries.

Main competing enterprises in the field of industrial gas storage and transportation equipment within the scope of the world and China include (i) Worthington Industries, Inc., (ii) Luxfer Holdings PLC, (iii) Norris Cylinder Company, (iv) Hebei Baigong Industrial Co., Ltd., (v) Zhejiang Jindun Pressure Vessel Co., Ltd., (vi) Sinoma Technology (Suzhou) Co., Ltd. and (vii) Chongqing Yifeng High-pressure Container Co., Ltd.

(2) Natural Gas Storage and Transportation Equipment

There are mainly three modes for natural gas storage and transportation, namely pipeline storage and transportation, Liquefied Natural Gas (LNG) storage and transportation and Compressed Natural Gas (CNG) storage and transportation. The main difference between LNG and CNG is the physical form in the course of storage and transportation for natural gas. LNG-related storage and transportation equipment for include LNG cryogenic storage tanks, LNG carriers, LNG receiving station, LNG transportation vehicles, LNG refueling station and LNG vaporizing station; and CNG– related storage and transportation equipment comprise vehicle CNG cylinder, high pressure storage cylinder, natural gas transportation vehicles and CNG refueling station.

Because natural gas (CNG/LNG) storage and transportation involves ultra-high pressure and cryogenic technology application with higher requirements for equipment manufacturing technology, there are few enterprises engaged in the manufacture of such products. In general, competition in natural gas storage and transportation equipment manufacturing industry is not too intense in the PRC at present. However, with the expanding natural gas application market and advancement and maturing of natural gas storage and transportation equipment manufacturing technology, the market competition of the industry will be more intense in the future which competitors include domestic enterprises such as CIMC Enric Holdings Limited and its subsidiaries (brands involved include Enric, Sanctum and Hungtu), Jiangnan Industries Group Co., Ltd. and Zhangjiagang Furui Special Equipment Co.,Ltd. and foreign investment enterprises such as Chart Cryogenic Engineering Systems (Changzhou) Co., Ltd.. Of which, CIMC Enric is the industry leader of domestic and global natural gas storage and transportation equipment industry, its products include almost all aspects of the natural gas storage and transportation industry chain and its sales revenue accounted for around 70% of the market share of domestic natural gas storage and transportation industry.

Major competing enterprises in natural gas storage and transportation equipment field in the PRC market include (i) CIMC Enric Holdings Limited, (ii) Jiangnan Industries Group Co., Ltd., (iii) Zhangjiagang Furui Special Equipment Company Limited, (iv) Chart Cryogenic Engineering Systems (Changzhou) Co., Ltd., and (v) EKC Industrial (Tianjin) Co., Ltd..

(3) Industry Entry Barriers

A. Product market entry barriers

Industry gas storage and transportation equipment and natural gas storage and transportation equipment are included in the pressured vessel industry. As pressured vessels belong to special equipment, its production is subject to the national license management and compulsory supervision and inspection system, and the manufacturing enterprises must be issued with the Manufacturing License of Special Equipment by AQSIQ prior to production. Enterprises must have corresponding production, inspection, safety conditions and sound quality assurance systems to pass the inspection and become certified by the quality supervision and inspection department. More importantly, as the international customary practice, enterprises should be in compliance with product technology standards set by the governments of foreign countries or third party professional

institution commissioned by the governments of foreign countries if they wish to sell gas storage and transportation equipment products, including industrial gas cylinders and LNG storage and transportation equipment, to such countries. As gas storage and transportation equipment has a wider scope of series and product technology standards developed by different countries vary from each other, enterprises manufacturing gas storage and transportation equipment wishing to export and sell storage and transportation equipment products in the international market need to spend time and money to modify their production technique process and technical parameters so as to meet the technology standards set by these countries, and apply and obtain authentication certificate. Accordingly, the reasons above form de facto entry barriers for enterprise intending to enter into the gas storage and transportation equipment industry.

B. Manufacturing capability and management ability barrier

Gas storage and transportation equipment belongs to a type of pressure vessel, its production and manufacturing involves comprehensive multi-disciplinary application of design, workmanship, material, welding, heat treatment, flaw detection, physicochemical process, inspection and testing, equipment and measurement, needs to undergo many work process and procedures, such as heat process, mechanical process, shape process, welding, flaw detection, heat treatment and pressure test, and any problems which may arise during the various procedures of workmanship or operation control may result in failure to reach the relevant product-quality requirements. The Conditions for Boilers and Pressure Vessels Manufacture Licensing (《鍋爐壓力容器製造許可條件》) provides detailed requirements for technology, manufacturing equipment and workmanship equipment of every grade pressure vessels and the management must strictly comply with the Regulations on Safety Supervision of Pressure Vessels. The above forms barriers for new entry enterprises in the aspect of manufacturing capability and management ability.

C. Talents and technology barriers

The production of gas storage and transportation equipment, especially natural gas storage and transportation equipment, require comprehensive multi-industry and multi-disciplinary knowledge, and its manufacturing technology involves metallurgy, machining operation, corrosion and corrosion resistance, flaw detection, safety protection and other aspects. Conditions for Boilers and Pressure Vessels Manufacture Licensing (《鍋爐壓力容器製造許可條件》) provides higher requirements for enterprises manufacturing pressure vessels including gas storage and transportation equipment, especially enterprises with Grade A certificate in terms of technology and different levels of technology talents, and requires them to be equipped with a certain number of technology personnel and professional operators. Meanwhile, with the improving level of product manufacturing workmanship and stricter requirements for manufacturing procedure control and quality management, production enterprises are required to completely master the whole set of production technology and continuously make innovation over production technology and production workmanship. Thus, gas storage and transportation industry requires for not only research and development personnel and workmanship technical personnel with advanced degree, but also experienced skill workers with

related qualified operation certificate. In addition, enterprises manufacturing gas storage and transportation equipment should establish a sophisticated quality assurance system and recruit special-assigned person in charge of such quality control system according to the requirements of Conditions for Boilers and Pressure Vessels Manufacture Licensing (《鍋爐壓力容器製造許可條件》). The above forms barriers for new entry enterprises in respect of talents and technology.

5. *Export Situation about Gas Storage and Transportation Equipment Industry*

As mentioned above, gas storage and transportation equipment export is exposed to technology standard barriers that are prevailing around the globe. In the meantime, downstream customers have customised demand in design pressure grade, cubage and shape for the gas storage and transportation equipment, so that mass production is not suitable for equipment other than gas cylinders. Therefore, the main export product in the gas storage and transportation equipment industry in China is presently industrial gas cylinder. Pursuant to the Customs Classification Catalogue of Import and Export Commodities, industrial gas cylinder is referred to as “steel gas vessel” (code: HS7311) in the commodity catalogue. Steel gas vessels refer to steel tanks used for storage of compressed gas or liquefied gas, including steel tanks with retail packing used for storage of compressed gas or liquefied gas and steel tanks with packing.

(1) *Export situation of steel gas vessel*

According to the import and export statistics from the State Customs, as for export volume and export value, in 2009, the export volume and export value of steel gas vessel were 125,000 tonnes and US\$295 million in China respectively, representing a decrease of 7.68% and 9.44%, respectively as compared with the previous year due to the global financial crisis; in 2010, the export volume and value of steel gas vessel of China amounted to 186,000 tonnes and US\$400 million respectively, driven by market demand in the United States and other countries, a significant increase of 48.81% and 35.57% as compared with the previous year, taking on a rapid recovery momentum. In 2011, export volume and export value reached 217,300 tonnes and US\$495 million respectively, representing a slower increase of 16.88% and 23.57% from the previous year, respectively. The following table is the export situation about steel gas vessel (HS code: HS7311) from 2007 to 2011 in China:

Years	Export volume		Export value	
	Total (10,000'tonnes)	Year-on-year growth	Total (US\$ 100million)	Year-on-year growth
2007	11.07	43.54%	2.49	77.42%
2008	13.54	22.23%	3.26	31.23%
2009	12.50	-7.68%	2.95	-9.44%
2010	18.60	48.81%	4.00	35.57%
2011	21.73	16.88%	4.95	23.57%

Source: General Administration of Customs of the State, China Machinery Industry Federation

From the destination of export perspective, the largest place to which China exports steel gas vessel is Asia and the second one is North America, followed by Africa and Europe. According to the import and export data statistics from the State Customs, the export volume and amount of steel gas vessel products from China to Asia accounted for 62% of the total export

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volume of steel gas vessel in 2011, and export volume and amount to North America reached 16% and 18%, respectively. Details of export volume and value of steel gas vessel (HS code: HS7311) from China to other continents in 2011 are set out in the table below:

Ranking	Continent	Volume			Value		
		Total (10,000' tonnes)	Increase from the previous year	Percentage of the total export volume	(US\$100' million)	Increase from the previous year	Percentage of the total export value
1	Asia	13.50	11.25%	62.10%	3.07	19.61%	62.03%
2	North America	3.50	39.00%	16.09%	0.90	60.08%	18.20%
3	Africa	2.04	4.33%	9.38%	0.36	5.59%	7.29%
4	Europe	1.08	14.41%	4.96%	0.27	-12.27%	5.43%

Source: General Administration of Customs of the State, China Machinery Industry Federation

Of which, the top ten export volume and value of steel gas vessel (HS code: HS7311) from China to other countries and regions in 2011 are set out in the table below:

Ranking	Countries/ Regions	Volume			Value		
		Total (10,000' tonnes)	Increase from the previous year	Percentage of the total export volume	Total (10,000' tonnes)	Increase from the previous year	Percentage of the total export volume
1	U.S.	30,238.52	53.77%	13.91%	7,725.05	67.58%	15.61%
2	Iran	20,568.65	6.36%	9.46%	4,818.44	10.92%	9.74%
3	Thailand	17,088.35	95.38%	7.86%	4,147.92	76.33%	8.38%
4	Uzbekistan	14,582.00	103.17%	6.71%	3,696.97	105.56%	7.47%
5	Indonesia	10,986.30	25.19%	5.05%	2,494.37	51.53%	5.04%
6	India	11,088.09	-17.33%	5.10%	2,214.92	-10.15%	4.48%
7	China Taiwan	5,553.37	-2.23%	2.56%	1,498.79	-6.25%	3.03%
8	Korea	8,084.49	39.05%	3.72%	1,471.83	-22.04%	2.97%
9	Australia	5,491.50	38.85%	2.53%	1,299.28	60.01%	2.63%
10	Malaysia	5,552.57	0.33%	2.55%	1,234.69	17.76%	2.49%

Source: General Administration of Customs of the State, China Machinery Industry Federation

(2) Anti-dumping and countervailing duty investigations conducted by the United States

Although the international market share of gas storage and transportation equipment products continued to increase in recent years, exports of gas storage and transportation products of China is still affected by the effects of the international financial crisis and international trade protectionism.

In May 2011, The Department of Commerce of the United States (the "US Department of Commerce") issued an announcement that given the application of American gas cylinder manufacturer Norris Cylinder Company (the "Claimant"), it decided to conduct anti-dumping and countervailing duty

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investigations over seamless steel gas cylinder originally manufactured in China, and HS codes for products in issue are HS73110000.30, HS73110000.60 and HS73110000.90. The Claimant considered that Chinese manufacturing enterprises sold seamless steel gas cylinders products to the United States at a low price subsidized by the government, and required to impose a 17.04% to 176.28% anti-dumping duty over the products in issue. As the export volume of Tianhai Industrial to the United States accounted for a significant share of total export volume from China to the United States within the investigation period, the Department of Commerce therefore determined Tianhai Industrial as the only compulsory respondent enterprise against the case.

Having been selected as the compulsory respondent enterprise, at the request of the US Department of Commerce, Tianhai Industrial submitted answers to various questionnaires for the anti-dumping and countervailing in the specified time, and by the requirements of the American anti-dumping and countervailing duty investigation procedures, lodged comments and views at each procedure. The inspection officials of Department of Commerce conducted anti-dumping and countervailing duty investigation on-site inspections at Tianhai Industrial and its subsidiaries in December 2011 and January 2012.

The US Department of Commerce made the preliminary determination of countervailing on 12 October 2011 and also issued the supplementary determination on 20 March 2012, pursuant to which, the countervailing duty rate over Tianhai Industrial was 24.21%. On 8 December 2011, the US Department of Commerce set the preliminary determination of anti-dumping that the anti-dumping duty rate over Tianhai Industrial was 5.08%.

On 1 May 2012, the US Department of Commerce made the final determination that the countervailing rate over Tianhai Industrial was 15.81%, the countervailing duty rate over other Chinese enterprises was 15.81%, the anti-dumping duty rate over Tianhai Industrial was 6.62% and the anti-dumping duty rate over other Chinese enterprises non-respondent against the case was 31.21%.

On 30 May 2012, the International Trade Commission of the United States made affirmative final determinations that exports of seamless steel gas cylinder products from China to America materially injure the domestic industry in the United States, following which the final determination by the US Department of Commerce came into effect. From the date of the taxation order, the Customs of the United States began to impose tax on the seamless steel gas cylinder products exported to the United States from China.

Tianhai Industrial was imposed a total of 22.43% of countervailing and anti-dumping duty rate after the anti-dumping and countervailing investigation conducted by the Department of Commerce, which actually reduced the competitiveness of seamless steel gas cylinder products distributed to the United States market by Tianhai Industrial. Since the anti-dumping and countervailing duty investigation only involved the seamless steel gas cylinder for American DOT standard, Tianhai Industrial switched to manufacture products with other technical standard, lowered the product cost and sought to expand the overseas markets in the Middle East, Southeast Asia and other regions in response to the adverse situation in the American market.

6. *Characteristics of Gas Storage and Transportation Equipment Industry*

(1) Gas storage and transportation equipment have general and customised characteristics

As both industrial gas storage and transportation equipment and natural gas storage and transportation equipment belong to the special equipment of pressured vessel, their design, production and manufacturing, inspection and material requirements must meet specified standards. In addition, in respect of structure, they generally consist of cylinder body (also called “shell”), head (also called “end shield”), flange, sealing element, open pore and welded pipe (including manhole, hand hole, sight glass hole, material entrance and discharge connection, liquid level indicators, flow meters, temperature tube and safety valve) and bearer and other different internal components.

On the other hand, as gas storage and transportation equipment has been widely used, downstream customers have customised demand in design pressure grade, cubage and shape for the gas storage and transportation equipment, thus, most enterprises manufacturing equipment implement customised production by the customers demand.

Generally, gas storage and transportation equipment has general and customised characteristics.

(2) Channel mix with direct selling and distribution in parallel

The sales channel mix which the successful companies in gas storage and transportation equipment industry adopted, is mostly that of distribution (developing scale distribution) and direct selling in parallel, supplemented by electronic channel mix. Most leading companies in the industry have built a direct sales team with solution sales ability, and relied on their direct sales customer managers to sell complicated products and services with a focus in industrial gas, energy, vehicle, firefighting/security protection industries, forming a comprehensive coverage of major big customers with high value. The sales of their direct selling channel accounted for 30% to 40% of total sales, and the annual sales to customers covered by direct selling reached US\$2 to 3 million with high efficiency. Meantime, their distribution management concentrated in customer development, customer relationship maintenance, sales forecast, product promotion and channel management and other activities, and products delivery (logistics), inventory management and loans support and other activities are carried out through developing large-scale distributors. On top of distribution of direct sales, other electronic channels, such as websites and customer contact hotline, have been built to supplement blind spots not yet covered by the actual channels.

(3) External merger and acquisition is a widely used development strategy

In their early stage of development, major enterprises in the gas storage and transportation industry in the world differed greatly in their respective emphasis on products and business scope and advantageous areas. In order to rapidly expand their own product lines, catch new market opportunity on a timely basis and increase production capacity to improve scale efficiency and reduce the cost, these companies all chose to merge with or acquire other companies so as to expand, increase their strength and improve profitability.

With the business areas continue to be subdivided in the same industry, it is increasingly difficult for the enterprises to entirely depend on their own research and development, sales and technical assistance to shape the service ability for the enterprise systematic solution and to meet the increasingly individualized and diversified demand of the downstream customers. Thus, the expansion strategy by the external merger and acquisition will be widely used by the gas storage and transportation enterprises as the competition strategy.

7. *Factors Affecting the Industry Development*

(1) *Favorable factors*

A. Good prospect for the industry demand

Industrial gas has played an indispensable role in the modern industry. Steel industry and petrochemical industry used to be the major application field and the application in national defense construction, food, electronics and healthcare field had also been prominent. In recent years, significant new demand from new energy and environmental protection field has been developed. The wide application of industrial gas brings gas storage and transportation equipment good prospects of demand. As a clean energy, natural gas is strongly supported by China's energy policies. It is expected that demand for natural gas storage and transportation equipment, especially for LNG storage and transportation equipment, is promising as a result of the vast room for development of natural gas extraction, import and pipeline transportation and new energy transportation equipment production. Please refer to the section headed "II Analysis of the Gas Storage and Transportation Equipment Industry of Tianhai Industrial "3. Demand for gas storage and transportation equipment industry"" of this Appendix for details.

B. Industrial policy support

In order to improve the ability and level of industrial equipment and to encourage the development of large liquefied and storage and transportation equipment for natural gas, LNG and chemical gas, the PRC government has launched a number of industrial policies to support the development of equipment manufacturing industry and natural gas related industry chain. Please refer to the section headed "III Regulatory Overview – Management system, laws, regulations and industrial policies relating to the gas storage and transportation industry in the PRC – (3) Industrial policies" for details.

C. Improvement on the overall manufacturing level of the industry

With the development of the national economy, China's gas storage and transportation equipment industry experienced development at a faster pace, resulting in the improvement of manufacturing level of gas storage and transportation equipment industry. According to the statistics of China Chemical Industrial Equipment Association (CCIEA), there were 260 manufacturers holding ASME (American Institute of Mechanical Engineers) certificate for the pressure vessel manufacturing industry in 2007, and by the end of 2011, there were 580 holders of ASME certificate in China, a net increase of 78 from the previous year, with an accumulated 878

certificates, which made China the country with the most ASME certificate holders outside the United States. In addition to the ASME regular certificate some large backbone enterprises also obtained core components certificate, reflecting the development of the general manufacturing level in gas storage and transportation equipment industry, which is conducive to improving the product performance and strengthening the international competitiveness.

(2) *Adverse factors*

A. Weaker foundation for innovative research and development

Since the “11th Five-Year Plan”, the general technical level in gas storage and transportation equipment industry has been improved, but there is disparity for the actual demand for the industrial development and the actual need for the energy structure adjustment. There is also a bigger gap as compared with developed countries, which are mainly reflected in: (1) weak industrial basic research and generic technology development; (2) weak technological innovation capability, including product innovation and creation; (3) long-time separation between the design enterprises and the manufacturing enterprises resulted in insufficient research and development ability of major technology and equipment. Currently, only few foreign enterprises are able to provide equipment and technical solution with more advanced technology, and there are serious repeated introduction phenomena. The lack of independent research and development capacity as well as insufficient investment in R&D expenses and R&D personnel inhibited the development of the technology of the domestic gas storage and transportation equipment industry.

B. Increased foreign trade risk

Under the background of the current international economic turmoil, international trade protectionism is on the rising trend, and local enterprises of foreign countries continue to petition for anti-dumping and countervailing duty investigation and other unfair competition measures against the manufacturing enterprises in China. Governments of these countries also formulated technical regulations to increase the environmental protection, quality and safety standards for imported products and adopt “legal” measures to set technical trade barriers so as to protect the industries at home. The increased foreign trade risk makes the enterprises in the gas storage and transportation equipment industry face a relatively adverse international trade environment, and thus reducing the competitiveness of the exported products, resulting in more difficulty in earning higher international market share by our own product competition advantage.

C. Independent talent training mechanism has not been established generally

With the increasing growth of gas storage and transportation equipment market and downstream customers’ increasingly demand for better product performance and solutions, the importance of human resources for gas storage and transportation equipment industry has gradually exceeded the material resources, making human resource

management facing more and more serious challenge. Many enterprises focused on attracting external talents and lacked internal talent training mechanism for their own technical personnel, management personnel, technical workers, and innovative policy. Thus failing to utilize their own talents, inhibited their innovative enthusiasm, and making it impossible to carry out the development and research of the advanced technology and making it difficult for the enterprises to organize resources to carry out large-scale innovation.

8. *Industrial technical level, operation modes and industrial cyclical, regionality and seasonality*

(1) Industrial technical level and technical characteristics

Gas storage and transportation equipment is a multi-industry and multi-disciplinary comprehensive product, and its manufacturing technology involves many disciplinarians, such as metallurgy, mechanical process, corrosion and corrosion resistance, flaw detection and safety protection. Technical development and application level have facilitated the development of the overall technical level of gas storage and transportation equipment industry. The core line for the development of the industrial technology is the safety and economic efficiency of gas storage and transportation equipment and how to design and manufacture the gas storage and transportation equipment with safety and economic efficiency, safety and resource saving remains to be the eternal object for the development of the industrial technology. Currently, the traditional design, manufacturing, weld and inspection methods of gas storage and transportation equipment industry are gradually replaced by the information technology represented by computer technology, flaw detection technology represented by ultrasonic scanning imaging flaw detection technology (TOFD), advanced design concept for structure and different composite materials with excellent performance, becoming the trend of the development of the industrial technology.

Over several decades of development, especially in recent years, benefiting from the globalized purchase of foreign leading enterprises, gas storage and transportation equipment industry in China gained advanced technical support from the foreign leading enterprises through technical cooperation, a joint venture and other means, thereby trained a group of key technical personnel and experienced managers who could develop new technology and workmanship suitable for China, thus gradually built and improved the standardised industry system. Product quality of many enterprises meets not only domestic standards, but also meets the requirements of many other countries and international standard organization, enabling enterprises to have the ability to develop domestic and foreign markets.

As for seamless steel gas cylinder products, China has already built a fairly sophisticated production system with the ability to produce products with various specifications to contain various medium on mass production. Many enterprises have passed the quality management system of international standard organizations, and their product quality and safety standard have also reached advanced international levels, with their products sold to the United States, Asia, Africa and Latin America and other countries and regions. In other words, the manufacturing technology of seamless steel gas cylinder product in China is quite mature.

As compared with steel cylinder products, the application of composite cylinders manufactured from materials such as metal, glass fiber, carbon fiber and polymer, has become increasingly popular in aerospace, aviation and civil industries in many technology advanced countries by virtue of their various characteristics such as light-weight, sound rigidity, high factor of vessel performance, high reliability, fine fatigue resistance, long load operating life, fatigue cycle and safe failure popping modes, strong designability, low manufacturing expense and short lead time for development. Currently, foreign composite companies with strong technical capability have advanced fiber hoop-wrapped equipment and are experienced in aspects of technology, talents and military products. Through research and development, long time inspection and after implementing several prototype changes for many types of composite gas cylinders, foreign developed countries have prepared rather mature standards for composite gas cylinder, and have relatively systematical standards in respective of reliability, safety and process control. In the last two decades, China's research and development technology of composite gas cylinders have made significant progress, and the technical level of some research and development organizations for composite gas cylinders and their product performance has reached the international advanced levels, meeting the technical requirements of composite gas cylinders for aviation military aircraft in terms of reliability and safety. However, compared with foreign developed countries, China lacked standards for composite gas cylinders, or a full set standard system for its product research and development and design. Although much research has been conducted in respect of fiber reinforced composites gas cylinders, there remains a significant distance from the engineering application of composite gas cylinders save for that of glass fiber and epoxy composite gas cylinders. As existing high-performance organic fiber and carbon fiber still rely on imported goods, the development of the composite gas cylinders technology is restricted. In the civil application field, composite gas cylinder application mainly include composite gas cylinder for compressed gas and liquefied gas, vehicle CNG gas cylinder and respiratory gas cylinder.

For the research of vehicle CNG gas cylinder, the United States issued the first relatively complete CNG gas cylinder specialized standard-Vehicle CNG Gas Cylinder (NGV2) in 1992, which is widely accepted globally, to meet demands for the worldwide gas cylinder manufacturing plants and development requirements of new technology in the gas cylinder industry. ISO approved the standard for Vehicle CNG High-Pressure Gas Cylinder (ISO 11439) in 2000, which mainly coordinated the research concept in European countries, incorporated experience from the previous 20-years of research conducted in respect of CNG gas cylinder, and thus has general guiding significance. Most domestic CNG gas cylinder enterprises carried out production according to this standard because China did not develop its national standards for CNG gas cylinders until 2010. By the end of 2009, the PRC National Committee for Standardization of Cylinders promulgated national standard for Steel Liner Hoop-wrapped CNG Cylinder for Vehicles (GB24160-2009), providing standardized requirements for types and parameters, steel liner hoop-wrapped CNG cylinder for vehicles such as technical requirements, test method, inspection rules, mark, coat, packing, transportation, storage, and the manufacturing technology of domestic vehicle CNG gas cylinder is becoming mature.

With increasing importance being attached to LNG and R&D application of LNG vehicles, design and development and manufacturing of cryogenic gas cylinders gradually became the technical focus of enterprises in the industry. LNG cryogenic gas cylinders are cryogenic welded insulated cylinders specialized for the storage of LNG, with valves, liquid level indicators, vaporizer and electronic control system installed on the cylinder, enabling LNG in refueling stations to be rapidly injected into the cylinder, pass through the valve line to become gaseous natural gas in the vaporizer and enter into the engines under pressure. Because the temperature of LNG is as low as minus 162°C, temperature difference between inside and outside of storage cylinder could reach above 200°C and the LNG would remain in cryogenic condition for a long time, the cylinders are required to have high heat-insulating property. The United States, Canada, Germany and France began to research on LNG cryogenic gas cylinders in 1980s, and its technology tended to be mature since the beginning of 1990s with small-scale promotion. Many foreign enterprises manufacturing cryogenic equipment have now mastered full set design, manufacturing, test, inspection and maintenance technology for cryogenic gas cylinder. In recent years, China also accelerated its pace to develop LNG cryogenic gas cylinders, and some domestic enterprises have grasped the design and production techniques for LNG cryogenic gas cylinders by introducing, assimilating, absorbing foreign advanced technology and manufacturing techniques and cooperating with scientific research institutions to do research, thereby gaining the ability to manufacture LNG cryogenic gas cylinders. As manufacturing and inspection technology of LNG cryogenic gas cylinder has become more mature in recent years, LNG cryogenic gas cylinders have been widely used in the application of vehicle, buses and heavy trucks by virtue of their economic, environmental protection and safety advantages.

It is necessary to build natural gas refueling stations due to the wide application of CNG/LNG gas cylinders. Natural gas refueling station is the place and unit to fill natural gas for the natural gas vehicles by fixed or moveable modes. Refueling stations can be classified into CNG standard refueling station, CNG mother-daughter refueling station and LNG refueling station according to the production process. The refueling station technology has made significant progress in China; most equipment production can be carried out in the whole country with better security and reliability; its advanced technique has been addressed effectively; related technique which is the advanced skid-mounted construction in foreign countries to build the station tends to be more and more mature and natural gas refueling station has been in phase of the large-scale construction. At the beginning of the 1990s, the construction of the natural gas refueling stations commenced in China with a focus on CNG refueling stations. Since 2010, the main refueling stations for vehicle use constructed in China were LNG refueling stations or L-CNG refueling stations.

In general, manufacturing technique for gas storage and transportation equipment manufacturing industry has been improved in recent years in China. However, as a sub-industry of the mechanical equipment manufacturing industry, gas storage and transportation equipment manufacturing technology has the common problems seen in current Chinese equipment manufacturing technology. For example, research and development ability is not strong enough; key technology has yet to breakthrough, standard systems, industrial ancillary ability and level of basic workmanship are yet to be improved; there are excessive low-end products while lacking of technique for high-end products. Such

problems limited the better development for equipment manufacturing industry in China, and restricted the further improvement for the manufacturing technique of gas storage and transportation equipment.

(2) *Industry operation model*

- A. Industrial gas cylinder products mainly adopt the design of prototype and mass production

As production licenses can only be obtained for seamless steel gas cylinders, hoop-wrapped gas cylinders, gas cylinders with seams, cryogenic gas cylinders and other industrial gas cylinders with the approval of the departments for safety supervision and administration of special equipment, the design conditions of the products are usually taken into consideration in the users' technique design, making products have general characteristics and the manufacturing enterprises are able to carry out the mass production with the prototype design. However, due to different uses, treatment media and installation working conditions, users still request for customised requirements for some specified products.

Following obtaining the production license after inspection according to the relevant national standards and standards design, manufacturing enterprises carry out mass production and sell products through a number of means. Through market forecast method, enterprises arrange reasonable mass production, deliver the finished products to users by direct sale and distribution modes. The direct sale generally consists of the tender mode and contacting gas companies to enter into a long-term supply agreement and so on; and distribution mode is mainly through the agency sales by the agents to realize wider coverage of regions of industry market.

- B. The storage and transportation equipment of natural gas are mainly customised in assortments or a complete set

Vehicle CNG gas cylinders and vehicle LNG cryogenic gas cylinders, are mainly used as vehicle energy device for passenger vehicles and heavy trucks in the domestic market. In general, manufacturing enterprises of gas cylinders enter into supporting agreements with downstream gas-fueled vehicle manufacturing enterprises and refitting factories of gas-fueled vehicles to provide vehicle CNG gas cylinders and vehicle LNG cryogenic gas cylinders facilities.

All kinds of LNG refueling stations, mobile refueling stations, portable refueling stations, which are mostly related to the entire solutions of filling technology of clean fuels, must not only comply with the national prevailing regulations for technology standards, but also need to be equipped with each of LNG unloading port, LNG dispenser, LNG immersed pump pool, LNG plunger pump, CNG dispenser, and high pressure vaporizer based on the handicraft and the body design of the storage tank, as well as build relevant station houses, fire extinguishing system, and water and electricity supply system, with obvious features of being customised in whole set for relevant products. Manufacturer of gas storage and transportation equipment will provide whole sets of facilities according to clients' requirements and their own capabilities.

(3) The cyclicality, seasonality and region of the industry

The manufacturing industry of gas storage and transportation equipment provides various gas storage and transportation facilities for the development of the national economy, as a typical investment industry equipment, the fluctuation of the demand for the facilities is closely connected with the expansion and contraction of the investment scale in downstream industries. The obvious trend of cyclical fluctuation in industrial investment in China leads to the industry becoming a typical cyclical industry. However, in recent years, since the proportion of natural gas storage and transportation equipment in gas storage and transportation equipment has increased significantly and became an emerging and rising industry, market demand had increased, all of which contributed to the rapid growth of the industry and weakened the cyclicality of the industry to some extent.

The products and technology service provided in the gas storage and transportation equipment industry cover various fields, including energy, environmental protection, metallurgy, chemical industry, petroleum, petrochemicals, machinery, electronics industry, light industry, textile industry, aviation, aerospace and communication and transportation, with relatively weak region and seasonality. With regard to the current situation and distribution formed in the historical course of the development of equipment industry in China, the manufacture base and the market of gas storage and transportation equipment mainly concentrate in the developed regions alongside the eastern coast, Bohai Rim areas and Sichuan and Chongqing, of which the consuming market of natural gas storage and transportation equipment expands across the country accompanied by the west-east natural gas transmission project and the widespread refueling stations and has a relative concentration in coastal areas of east China.

9. *The market position and competition advantages and disadvantages of Tianhai Industrial*

(1) The market position of the company

Tianhai Industrial, together with its various subsidiaries, possess various qualifications relating to the design of class A1, A2, C2, C3 pressured cylinders and the manufacture of class A1, A2, B1, B2, B3, C3, D1, D2 pressured cylinders. It is principally engaged in the research and development, manufacture and sale of equipment for industrial gas storage and transportation, with approximately 2,500 employees.

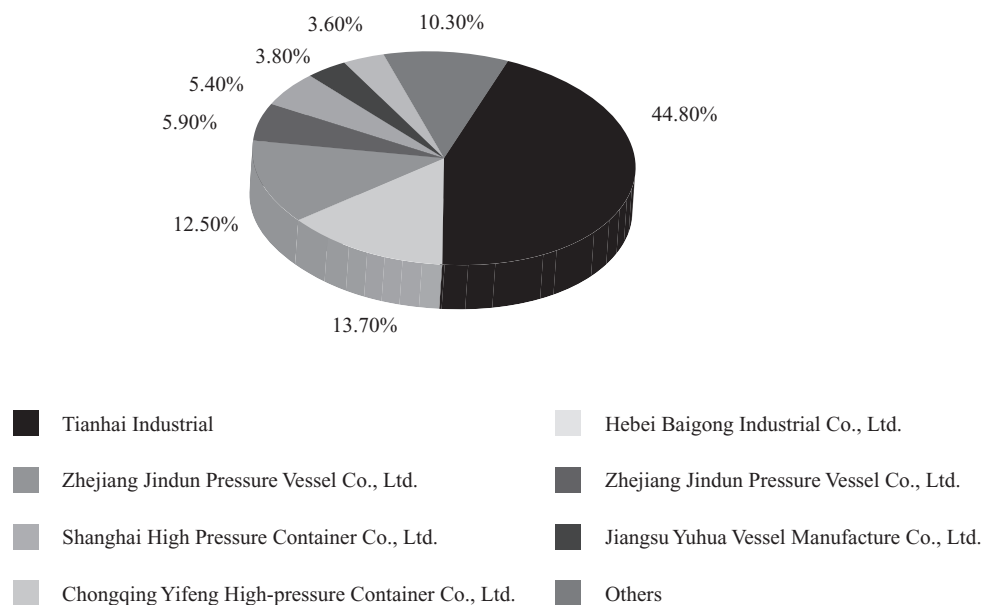
Tianhai Industrial was honored as User Satisfaction Enterprise and Excellent Enterprise in China Machinery Industry in 2007, National Qualified Enterprises of Product Quality Stability in 2008, Pacesetting Enterprise in China Metal Pressured Cylinders Manufacture Industry in five consecutive years in 2009 to 2011, Excellent Supplier of China Pressure Equipment and New High-Technology Enterprise in 2010 and Top 50 of China Manufacture Enterprise of Petroleum and Petrochemical facilities in 2011.

Tianhai Industrial has obtained ISO9001:2008 and ISO/TS16949:2009 international quality management system certification, ISO14001:2004 environmental management system, GB/T28001-2001 occupational health and safety management system and product certification certificates issued by

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governments and the third professional institutions in various countries. Currently, the products of Tianhai Industrial are exported to over 40 countries and regions over the world.

According to the statistics of China Machinery Industry Federation, the following chart sets out the relative market share of the manufacturing enterprises of industrial gas cylinders in China whose main operating income is above RMB50 million in 2011. Tianhai Industrial takes up the leading position among the competing enterprises in the field of industrial gas cylinder with a market share of around 45%.



According to the export data of the whole industry of steel gas container (Customs Code: HS7311) from China Machinery Industry Federation, the market share of Tianhai Industrial in exporting market has been remaining around 30% and even in 2009 when the external economic environment was worst, Tianhai Industrial had a share of above 20% in exporting market.

Year	Export amount of the industry		Export amount of Tianhai Industrial	Share of exporting market	Year-on-year growth
	Total (US\$'00 million)	Year-on-year growth	Total (US\$'00 million)		
2007	2.49	77.42%	0.87	43.49%	34.94%
2008	3.26	31.23%	1.13	29.89%	34.66%
2009	2.95	-9.44%	0.61	-45.74%	20.68%
2010	4.00	35.57%	1.13	84.71%	28.25%
2011	4.95	23.57%	1.53	35.22%	30.91%

Source: China Machinery Industry Federation. The export amount of Tianhai Industrial is translated based on the annual average exchange rate.

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National Technical Committee on Gas Cylinders of Standardization Administration of China, comprising of Safety Supervision of Special Equipment under the AQSIQ, Tianhai Industrial and Hefei General Machinery Research Institute is a nationwide institutional organization responsible for the centralization and technical work of gas cylinder standardization according to the relevant documents issued by the Standardization Administration of China. The secretariat of the committee is its standing office, affiliated to Tianhai Industrial. Tianhai Industrial undertakes more of formulating, revising, reviewing, promoting and implementing, explaining, publishing, issuing and consulting of the national standards and industrial standards, including organizing and leading the design, manufacturing, standards of test and inspection acceptance and regulations of gas cylinder.

(2) *The competitive advantages of the company*

A. Complete production qualification permit and types of products

As gas storage and transportation equipment belongs to the national special equipment, enterprises must obtain the manufacturing permit of the corresponding type of products issued by AQSIQ and pass stringent inspection before selling such products on the market. Small-to-medium enterprises in the industry usually focus on producing and selling one type of products while large enterprises with sufficient capital produces and sells several types of products. According to public information, Tianhai Industrial is one of the enterprises holding the most complete type of licenses of chartered manufacturing, and set out in the table below are the qualification licenses obtained by major enterprises manufacturing gas cylinders:

No.	Name of enterprise	Chartered manufacturing license
1	Tianhai Industrial	A1, A2, B1, B2, B3, C3, D1, D2
2	河北白工實業有限公司 (Hebei Baigong Industrial Co., Ltd.)	B1, B2, B3
3	浙江金盾壓力容器有限公司 (Zhejiang Jindun Pressure Vessel Co., Ltd.)	B1, B3
4	中材科技(蘇州)有限公司 (Sinoma Technology (Suzhou) Co., Ltd.)	B1, B3
5	上海高壓容器有限公司 (Shanghai High Pressure Container Co., Ltd.)	A1, B1, B2, B3, D1, D2
6	江蘇玉華容器製造有限公司 (Jiangsu Yuhua Vessel Manufacture Co., Ltd.)	B1, B2, B3
7	重慶市益峰高壓容器有限責任公司 (Chongqing Yifeng High-pressure Container Co., Ltd.)	B1, B3
8	上海容華高壓容器有限公司 (Shanghai Ronghua High-pressure Vessel Co., Ltd.)	A2, B1, B2, B3, D1, D2

Source: Websites of the companies, Database and Publication System of China Special Equipment Enterprises Qualification

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Meanwhile, Tianhai Industrial is one of the enterprises with the most complete product lines of gas cylinders in the industry and possesses practical capabilities of manufacturing and selling all types of gas cylinders set out in the state's Safety Inspection Regulations for Gas Cylinders. The product series covered by the major manufacturing enterprises of gas cylinder in China with bigger main operating income are set out below:

		Seamless steel gas cylinders	Gas cylinders with seams	Hoop- wrapped gas cylinders	Cryogenic gas cylinders	Composite gas cylinders	Acetylene cylinders
1	Tianhai Industrial	★	★	★	★	★	★
2	Hebei Baigong Industrial Co., Ltd.	★	★	★			
3	Zhejiang Jindun Pressure Vessel Co., Ltd.	★					
4	Sinoma Technology (Suzhou) Co., Ltd.	★		★		★	
5	Shanghai High Pressure Container Co., Ltd.	★	★				
6	Jiangsu Yuhua Vessel Manufacture Co., Ltd.	★	★	★	★		

Source: Websites of companies

B. The performance and quality of the products have strong market competitiveness

Tianhai Industrial and its predecessor have been engaged in the field of gas storage and transportation equipment for decades and have accumulated much research and development knowledge, crafting manufacturing capacity and cost management ability. The technical indicators, such as performance, quality and consistency, of the seamless steel gas cylinders, cryogenic gas cylinders, CNG vehicle hoop-wrapped gas cylinders and cryogenic storage tanks it manufactured are in line with the international standards. In addition, benefiting from the large-scale production and excellent manufacturing and improving ability of the production lines, Tianhai Industrial can achieve product differentiation from its opponents and is not subject to limitations from upstream manufacturers of production equipment. Leveraging on the market competitiveness of the performance and quality of product, the product portfolio of Tianhai Industrial is targeted at high-end products in the domestic market.

- C. The company has obtained relatively comprehensive certification systems and technology standards

Certification systems or technology standards for pressure vessel products, including gas storage and transportation equipment, have been set up in respective countries over the world. It is required to obtain certification certificate of the exporting country or comply with its technology standards for manufacture enterprises of gas storage and transportation equipment to export their products to other countries in the world. As it is difficult for enterprises to obtain relatively comprehensive certification due to the wide ranges of relevant certificates and standards and the time-consuming obtaining and passing process, the product types exported and selling areas are often restricted. However, as a manufacturing enterprise for gas storage and transportation equipment with a long history and years of accumulation, Tianhai Industrial obtained a relatively wide range of product certification certificates and complied with the standards of various countries, all of which resulted in competitive advantages of broader sales market and richer export product lines to Tianhai Industrial as compared with its competitors.

- D. Wide customer base

After years of operating, Tianhai Industrial has accumulated a wide customer base. Tianhai Industrial has maintained good relationships with its clients for years, ranging from top four industrial gas companies in the world and regional small-medium industrial gas manufacturing enterprises, three energy giants across the country and regional energy and transportation companies, the mainstream vehicles manufacturing enterprise to regional vehicles modification plants, and to manufacturers of fire-extinguishing apparatus and manufacturing enterprises of medical instruments. The wide customer base is a competitive advantage for Tianhai Industrial to maintain a strong market position.

(3) *Competition disadvantages of the company*

- A. Lack of capability in direct-selling channel and weaker construction of overseas channel

The current channel portfolio of Tianhai Industrial mainly focuses on the distribution by distributors, and direct sales account for less than 10% of the total sales and remain a large gap as compared with 30% to 40% of major accounts sales of the leading enterprises in the industry (Worthinton and Luxfer). The lack of capability in direct selling meant that Tianhai Industrial could not affect or control its end customers more directly, could not provide complicated product portfolio and complete solutions for large gas companies, vehicle companies and other downstream customers with high value promptly and efficiently. In respect of overseas channel, except for America Fortune, a sales subsidiary acquired in the United States, Tianhai Industrial lack of strong layout of overseas channel in the Europe, the Middle East, Southeast Asia, South America and other regions with promising development, all of which is adverse to its further expansion in the global market.

B. Inadequate variety and insufficient productivity of large-scale cryogenic storage and transportation equipment product portfolio

As Tianhai Industrial relies on endogenous growth, Tianhai Industrial needs to expand product lines and product types in respect of its product portfolio to meet the demands for diversified and whole series of products of some major accounts, in particular, in respect of large-scale cryogenic storage and transportation equipment, Tianhai Industrial needs to speed up the provision of LNG cryogenic tank wagons and LNG filling stations and large-scale cryogenic tanks with richer types. Meanwhile, Tianhai Industrial's current production capacity in some specifications of large-scale cryogenic storage and transportation equipment is insufficient to market demands. Moreover, the present limitations in the conditions of production field lead Tianhai Industrial to an inferior position when competing for the orders from major accounts in the energy industry.

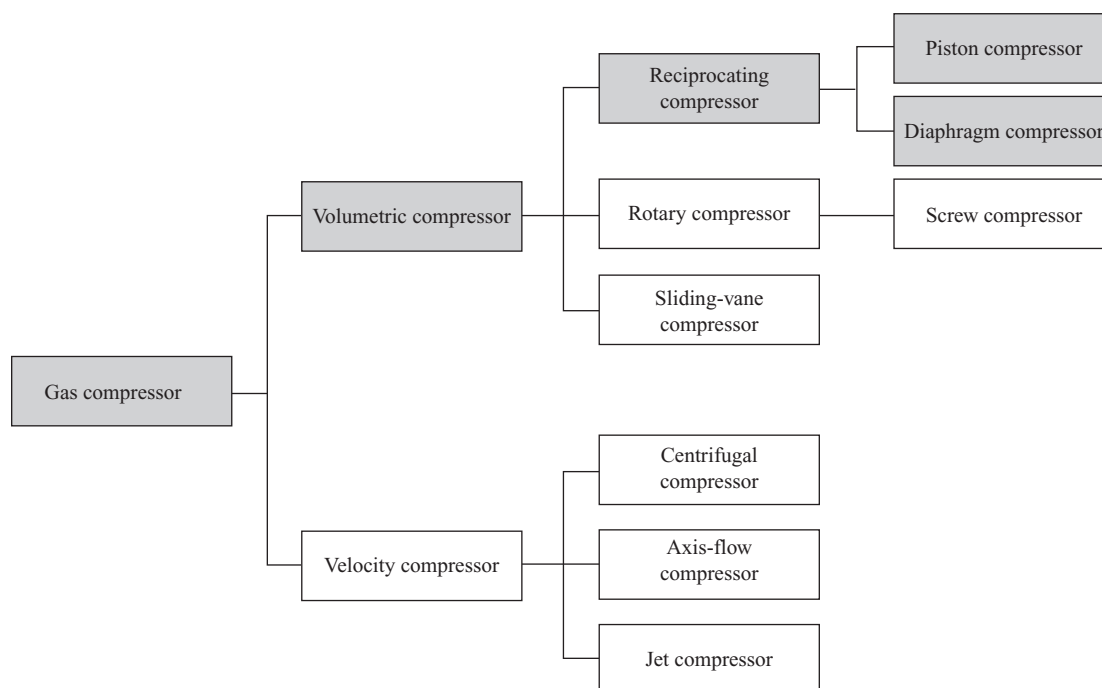
C. Insufficient ability in providing systematic solutions

Tianhai Industrial is confronted with challenges of fast transition of business mode from solely manufacturing gas cylinder products formerly to providing systematic solutions for the whole industrial chain. Many downstream customers, especially medium-to-large energy company customers in LNG industrial chain, require enterprises of gas storage and transportation equipment to provide case design with expertise and market experience, and with the support of pre-sales and after-sales technicians. The cultivation of the ability to provide systematic solutions requires time and reforms as to the design of corporate internal organizational structure. Tianhai Industrial's present ability to provide systematic solutions is insufficient and adverse to participating in market competition.

(II) Analysis of the industry of gas compressors for Jingcheng Compressor

1. The classifications of gas compressor industry

Gas compressor is a machinery used to compress gas to enhance the gas pressure, with a wide range of varieties and uses. Gas compressor is divided into volumetric and velocity compressor based on different principles for gas compression. Volumetric compressors directly compress the gas to enhance pressure by decreasing the volume of the gas while velocity compressors speed up gas molecules and stop them suddenly, thereby convert kinetic energy into potential energy and velocity into pressure. The volumetric compressor is divided into reciprocating, rotary and sliding-vane compressor according to the mode of piston motion. The chart sets out classifications of the above gas compressors:



Volumetric compressors are widely applied in various fields of the national economy, such as providing hydrogenation compressors for large-scale oil refining plants, multi-specification gathering natural gas compressors for the natural gas industry, nitrogen hydrogen gas compressors and carbon dioxide compressors for the chemical fertilizer and explosive industry, air compressors for power and pure, oil free and sterile compressors the compression of air for coal, metallurgy, mine, traffic, military, electronics, light textile, medicine, food and beverage industries, supporting compressors for the launch of nuclear submarines and rockets, improving the environment and energy structure supporting service for environmental filling station of clean fuel vehicles, as well as multi-type CNG compressors, LNG compressors and equipping compressors for clean energy nuclear power station. Under the circumstances of high pressure, ultrahigh pressure and small and medium-size flow, volumetric compressors are more advantageous and irreplaceable.

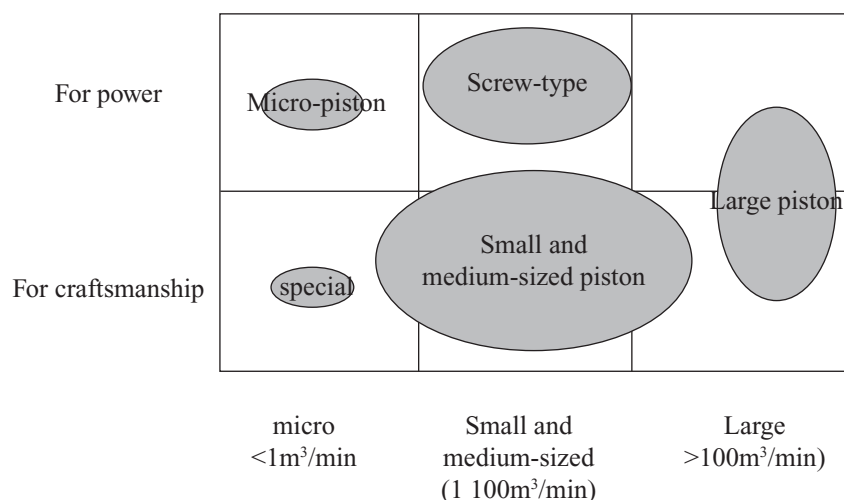
Jingcheng Compressor's major products of piston compressor and diaphragm compressor belong to reciprocating compressor in the categories of volumetric compressor. According to the National Economy Industry Classification and Code (GB/T 4754 – 2011) by the National Bureau of Statistics, the gas compressor industry

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where it operates is included in C3442 Gas Compressor Machinery Manufacturing under C344 Pump, Valve, Compressor and Similar Machinery Manufacturing under C34 General Equipment Manufacturing under C Manufacturing.

Piston compressor is a compressor compressing the air by the reciprocating movement of the piston in the cylinder, with a long history in design and use and a common traditional compressor with various uses. Diaphragm compressor, also known as membrane compressor, is a volumetric compressor with special structure. In the cylinder of diaphragm compressor equipped with diaphragm and the gap between the diaphragm and the cylinder head forms the air cavity and the gap between the diaphragm and cylinder block forms the oil chamber. When the diaphragm compressor is working, the reciprocating movement of the piston in the oil cylinder bends the diaphragm due to the pressure difference between the oil and the air and the effect of its own elastic deformation force and changes the volume of the gas compressing chamber periodically. Due to the special structure of diaphragm compressor, the cylinder does not need lubricant and excellent sealing performance prevents the contact of compressing medium with any lubricant, so it can compress gases with ultrahigh purity, applied to compressing, transporting precious rare gases and corrosive, radioactive, toxic and explosive gases and widely used in petroleum, chemical industry, steel, coal, gas filling, electronic industry, nuclear power station, aviation and aerospace, military equipment, food industry, medicine and scientific research.

To facilitate the research of market structure, based on the specifications (air discharge and piston power) and uses (for power/for craftsmanship) of the compressors, compressors are often divided into the following five categories: micro-piston compressor, screw compressor, large piston compressor, small and medium-sized piston compressor and special compressor. Jingcheng Compressor target the subdivision fields of piston compressors, such as small and medium-sized piston compressor, and it also manufactures large piston compressors for craftsmanship. The diaphragm compressor belongs to special compressor. Each market segment by ellipse pie chart below basically represents its respective market capacity:

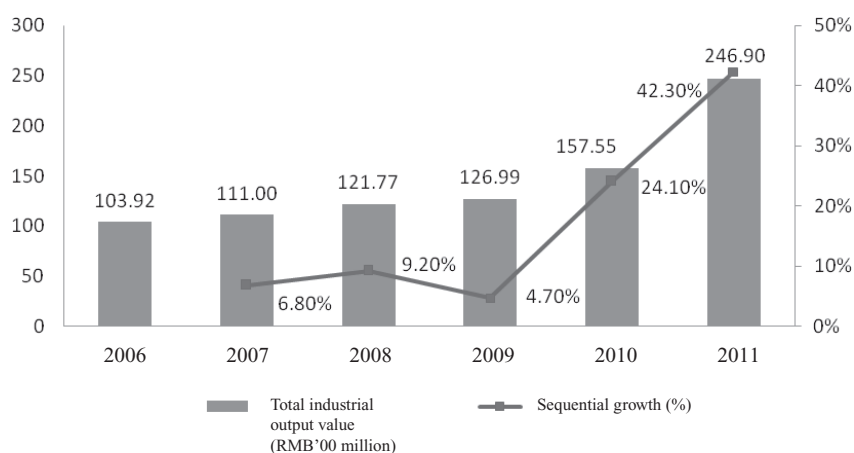


2. The overall development status of gas compressor industry in the PRC

In recent years, with the continuous and rapid development of the PRC' economy, GDP has increased at a pace of approximately 10% and the fixed assets investments in infrastructure construction, mine, metallurgy and petroleum and petrochemical industry remaining a relatively rapid growth, a broad market space was provided for the compressor industry. With the development of the national economy and on the basis of actively introducing and learning from foreign advanced technology (including equipment), management concept and management system, Chinese compressor manufacturing enterprises made progress in their production capacity, manufacturing level, quality of products and reliability. Compressor manufacturing enterprises in the PRC are already capable of designing and manufacturing hundreds of compressor products in dozens series including L, D, DZ, H and M type and can basically meet the domestic demand.

According to the statistics in 2010 by compressor branch (壓縮機分會) of the PRC, there were approximately 400 manufacturing enterprises in the compressor industry over China, 200 of which manufacture main engines. There were 128 members of compressor branch, most of which are manufacturing enterprises for main engines and facilities and few of them are scientific research institutions. The statistics below relevant to the compressor industry is mainly that of compressor branches members.

According to the reporting statistics of the whole industry collected by compressor branch, from 2006 to 2011, the total industrial output value of the whole industry increased from RMB10.392 billion to RMB24.690 billion, representing a CAGR of 18.90% (almost twice of the GDP growth), with accumulated total industrial output value of RMB86.813 billion in six years. With regard to the movement trend of the sequential growth in the total industrial output value, due to the shock of the international financial crisis, the production development of the compressor industry was unstable. The growth in 2009 declined to the lowest level but as the effect of various pump priming policy by the country began to show since 2010, the compressor industry showed a rising trend at a high rate. As a result, the growth of the total industrial output value reached the peak of 42.30% in 2011. The following chart sets out the growth of the total industrial output value of the compressor industry from 2006 to 2011:



Source: The compressor branch. The number of reporting units is 88, 75, 85, 90, 90 and 86, respectively from 2006 to 2011.

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According to the data that 66 manufacturing enterprises of compressor main engines reported to the compressor branch, from 2006 to 2011, the compressors manufactured by those 66 manufacturing enterprises decreased from 3.2396 million units to 1.1220 million units, representing an accumulative decline of 65.37%; however, the output value of the compressors increased from RMB6.285 billion to RMB20.678 billion, representing an accumulative increase of 229.01%; the output value of per unit compressor increased from RMB1,900 in 2006 to RMB18,400 in 2011. That reflects gradual adjustments of the product structure of the compressor industry where the industry is increasing the proportion of medium and large-sized compressors with high added value and getting rid of low-level repeated competitions.

Year	Output value of compressors (RMB'00 million)		Output of compressors (ten thousand units)		Output value per unit (RMB0'000/unit)
	For the year	Year-on-year growth	For the year	Year-on-year growth	
2006	62.85	40.30%	323.96	40.00%	0.19
2007	68.11	8.37%	260.21	-19.68%	0.26
2008	81.76	20.04%	126.59	-51.35%	0.65
2009	100.88	23.39%	138.72	9.58%	0.73
2010	124.28	23.20%	126.54	-8.78%	0.98
2011	206.78	66.38%	112.20	-11.33%	1.84

Source: The compressor branch

According to the reporting economic statistics of enterprises collected by the compressor branch, from 2006 to 2011, the whole industry recorded main operating income of RMB82.709 and a total profit of RMB5.990 billion, with an average profit margin of sales of 6.46%. Economic benefit indicators, including main operating income and industrial added value, increased with a CAGR of approximately 20% and the growth of the total tax revenue and the total profit exceeded 30% and 40%, respectively. In view of the economic indicators of the compressor industry from 2006 to 2011, the overall excellent performance of the economic indicators of the industry for the period mainly benefits from the burst growth due to the prosperous industry in 2011.

Unit: RMB'00 million

Name of indicator	2006	2007	2008	2009	2010	2011	Total
Revenue from principal business	96.77	110.58	115.59	121.94	153.54	228.67	827.09
Total tax revenue	8.13	8.67	9.52	12.85	15.19	32.46	86.82
Total profit	4.14	4.97	6.52	7.71	9.57	26.99	59.90
Industrial added value	27.76	27.83	29.87	32.07	40.21	67.44	225.18

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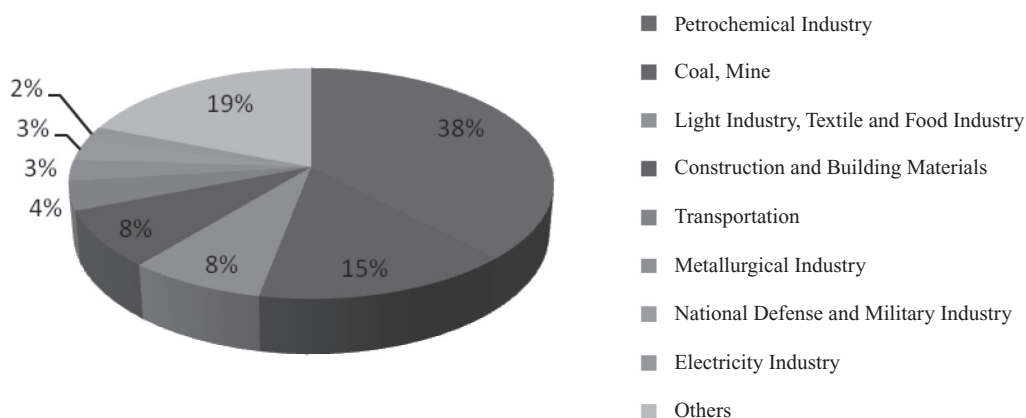
Name of indicator	2006	2007	2008	2009	2010	2011	Average
Growth of main operating income	–	14.27%	4.53%	5.49%	25.91%	48.93%	18.77%
Growth of the total tax revenue	–	6.64%	9.80%	34.98%	18.21%	113.69%	31.90%
Growth of the total profit	–	20.05%	31.19%	18.25%	24.12%	182.03%	45.49%
Growth of the industrial added value	–	0.25%	7.33%	7.37%	25.38%	67.72%	19.43%
Profit margin of sales revenue	4.28%	4.49%	5.64%	6.32%	6.23%	11.80%	6.46%

Source: the compressor branch

Note: The average growth of main operating income, total tax revenue, total profit and industrial added value represents the CAGR during the six years. The average profit margin of sales revenue represents the arithmetic average of the profit margin over the six years.

3. The demand of downstream compressor industry

Downstream customers are spread in various industries due to the extensive use of gas compressors. The annual compressor (above 3 m³) production over the country is around 120,000 to 150,000 units, with domestic sales accounting for over 97% of its total production. According to the statistical forecast conducted by the compressor branch to all domestic major user sectors, the distribution of the future market is as follows:



During the 12th Five-Year-Plan period, the reasons for growth in demand of gas compressors are mainly projects of 500,000 tons of synthesis ammonia per year, 1,000,000 tons of coal-to-methanol per year, 200,000 tons of acetic acid per year and 1,000,000 tons of methanol-to-olefin in the coal chemical industry, the projects of 800,000 to 1,000,000 tons of ethylene, ten million oil refining and 600,000 to 1,000,000 tons PTA in the petrochemical industry, 1000MW nuclear power station and the projects of natural gas and coal bed gas mining in the clean gas industry.

The piston compressors manufactured by Jingcheng Compressor are mainly applied in supercharging equipment of petrochemical, coal chemical industry, polycrystalline silicon, metallurgy, fine chemicals, recovering carbon dioxide and gas

gathering and transportation in oil field, and the diaphragm compressors are mainly applied in the circumstance in need of high purity gases, exposing to inflammable and explosive gases and recovering radioactive gases, such as the fields of nuclear power, gas filling, petrochemical process unit and coal chemical industry. Demand for Jingcheng Compressor' products in the downstream industry is relatively strong, so Jingcheng Compressor faces a favorable market chance and is expected to share the development opportunity from the overall expansion of the compressor industry.

4. *The competition landscape and marketisation degree of gas compressor industry in the PRC*

(1) *The structure of gas compressor industry in the PRC*

There are approximately 400 registered manufacturers in gas compressor industry in the PRC, most of which focus on manufacturing small, micro power piston compressors or screw compressors for general uses and with little technical content, aged structure and technology, thus production capacity is above the market demand. To avoid idle capacity, those enterprises can only compete by lowering prices, thus making so little a profit that they cannot form the positive cycle of technology upgrading, innovating or creating profits to reinvest.

The market demand of middle and high-end customers with strong ability to pay is basically monopolized by several international companies, including Atlas Copco in Sweden, Ingersoll Rand in Ireland, Kaeser Kompressoren in Germany, Gardener Denver in the United States, Sullair in the United States and Fusheng Group in Taiwan. These foreign and Taiwanese companies in the industry mainly provide medium and large-sized screw compressors and medium and large-sized craftsmanship piston compressor products with advanced technology targeted at middle and high-end customers in the PRC. They obtain the majority of the industrial added value by their product property, marketing ability of large projects, technical service ability and brand reputation.

With the increasing awareness of self-dependent innovation of the compressor industry and the launch of various industry support policies to encourage enterprises in the equipment industry to carry out technology innovation in the PRC, the R&D and manufacturing technology of medium and large-sized reciprocating compressor (including piston and diaphragm type) have improved and domestic products are developing towards super-huge type, integration and intellectualization while maintaining its stable quality. Compressors sold by large reciprocating compressors international companies to Chinese customers are manufactured in their manufacturing plants in Europe and America. As the price of domestic large reciprocating compressors is more competitive than that of imported machines, together with the geographical advantage, timely supply of accessories, convenient information communication and good after-sale services, domestic products are gradually recognized by major domestic users.

(2) *Major competing enterprises in the industry*

Major products of Jingcheng Compressor are piston compressors and diaphragm compressors. In the field of piston compressor, due to positioning in quality and middle end, small and medium-sized reciprocating compressor is the main product and Jingcheng Compressor's major competitors are Shenyang

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Yuanda Compressor Co., Ltd., Wuxi Compressor Co., Ltd. and Shanghai Dalong Machine Factory Co., Ltd. In the field of diaphragm compressor, Jingcheng Compressor's major competitors are Howden BC Compressors in France, PPI in USA, Hofer in Germany, Beijing Huizhi M&E Facilities Co., Ltd., Beijing Tiangao Diaphragm Compressor Co., Ltd., and Beijing JinKaiWei General Machinery Co., Ltd.

(3) *Industry entry barriers*

A. Barriers to market access

In accordance with relevant rules and regulations of the State Council and AQSIQ, enterprises that are engaged in manufacturing and selling gas compressor products in the PRC are required to obtain production licenses for industrial products issued by AQSIQ. Enterprises without such licenses are not allowed to manufacture gas compressor products and or sell or use gas compressor products in the production and operational activities. For enterprises that need to produce certain components of pressured cylinders in the supporting production of compressors, they are also required to obtain the license for design and manufacture of pressure vessels issued by AQSIQ. Enterprises that produce gas compressors used in civil nuclear safety equipment and for other special purposes, are further required to obtain the license for design and manufacture of civil nuclear safety equipment issued by the National Nuclear Safety Administration. Therefore, the aforesaid licencing requirements form barriers to enterprises intending to enter this industry.

B. Technical barriers

The compressor industry is a typical technology intensive industry with high technology content in products, complicated production technologies, high requirements on processing precisions and difficulties in product and technology update. The enterprises require certain strength in research and development and technical reserves as well as accumulation of practical experience to form the core competitive power with leading technical strength. Along with the rapid development of oil refining, ethene, fertilizer and natural gas and other industries and the upsizing of relevant projects of fixed asset investment, demands of downstream customers for the performance of gas compressors have to become more complicated and individualized. The performance objectives set by the customers for the compressor products they purchase are generally compact structures, low energy consumption, low noise, high efficiency, high plasticity and good air exhausting and purification abilities, which formed higher requirements to the compressor manufacturers in design, manufacturing, supporting and maintenance and other aspects. Therefore, the design and manufacturing technologies have formed certain barriers to the enterprises that intend to enter the industry. Compressor manufacturers lack of such technical reserves and development strength cannot survive in the fiercely competitive market.

C. Channel barriers

The sales of gas compressors depend on sales channels established by manufacturers, who improve their marketing abilities and explore the market through management of sales networks. Compressors are crucial for the safety production or for the performance of complete sets of production facilities of the downstream customers. Therefore, the downstream customers, especially medium and high end customers with higher requirements for the quality, reliability and stability of compressors, generally think highly of the technical levels, experience in research and development, brand and track record of the provision of products for other customers of the suppliers and focus on maintaining of original cooperative and personal relationship. Once customers establish cooperative relationship with a supplier, they are reluctant to try products from other suppliers. Some large-scale state-owned customers implement qualification certification system for the classified management of the suppliers and set up high thresholds. It usually takes a long time for the new enterprises to establish their own sales channels, therefore, forming certain entry barriers to those intending to enter this industry.

D. Talent barriers

As technology intensive products, gas compressors cannot go without the supports of professional technical and management talents in the full life cycle of gas compressor industry ranging from research, development, production, sales, use and subsequent maintenance. Along with the higher requirements of customers for the performance of compressors, their demands for talents are not restricted to R&D staff and process technical staff with high education background and experience, they also require a large quantity of skilled technicians with operating qualifications. At present, the competition for talents in the domestic compressor industry is fierce, and it also takes some time for the enterprises to cultivate their own talents. Therefore, there are certain barriers to talents for the enterprises that intend to enter this industry.

5. *Characteristics of the gas compressor industry*

(1) *The industry cycle is in high positive correlation to the gross investment in social fixed assets*

The downstream industries of gas compressor industry are important industries concerning the national economy such as petrochemical, metallurgy, power, transportation, light industry, textile, coal and mine, national defenses and military industry, construction and building materials, the fixed asset investment projects of which are the major components of the gross investment in social fixed assets. The scale of their fixed asset investments will greatly influence demands in the compressor industry. Therefore, changes in the scale and growth rate of gross investment in social fixed assets will determine the boom-recession cycle of compressor industry.

(2) High discretion in industry competition

As gas compressors are the fundamental equipment for various industrial sectors of national economy, they are widely applied. However, gas compressors with different purposes vary in structural design, technical specifications, structure of parts and components and core technology. Therefore, it is difficult for manufacturing enterprises of single gas compressors to satisfy users with so many different demands to provide compressors products across the board. Even large domestic and international compressor enterprises mostly have outstanding competitive advantages in one or two segments such as screw compressors and process piston compressors, but have difficulties to take the lead in all segments in the compressor industry. As the application fields of gas compressors can nearly be infinitely segmented, there are enterprises with distinct advantages in various application fields; even segments such as screw compressors or process piston compressors, enterprises with competitive advantages have difficulties in taking the lead in the downstream application fields. Therefore, the competition of gas compressors industry is dispersed and no single enterprise can take the lead in the market with full coverage of the products.

(3) Independent processing of key components

Compressor manufacturing enterprises usually process key components and special equipment independently and outsource minor components. The reason is that key components have higher added value and would better protect the core technological secrets of the manufacturer. Moreover, the processing of key components requires higher complexity and precision, making it more difficult to control the quality in the event of outsourcing and external processing, which would cause potential threats to the overall performance of the whole compressor. General parts, electronic control, instruments and parts and components that vary a lot are usually outsourced so as to utilize the social resources, improve the efficiency and lower costs to the largest extent.

6. Factors affecting the development of the industry

(1) Favorable factors

A. National industrial policies encourage and support the development of the industry

The PRC attaches great importance to the machinery and equipment manufacturing industry including gas compressors, and has formulated various industrial policies to encourage and support the development of the industry. For details, please refer to “III Regulatory Overview – management system, laws, regulations and industrial policies relating to the air compressing industry – (3) Industrial Policies” of this appendix.

B. Adjustments in industry product structure help the industry form a virtuous cycle

After years of development, the compressor industry in the PRC is accelerating its industrial restructuring and technical upgrading. The product structure gradually develops from traditional low air capacity into high capacity and from low and medium end products to products with high technological content and high added value. Especially after 2008, the

production volume of products with high added value such as process compressors maintained a fast growth rate, driving a rapid rise of the average unit price in the industry and promoting steady growth of industrial production value. As industries such as oil, chemical, coal seam gas, natural gas, pharmacy and other rare gas separation industries have a consistent strong demand for compressors, the adjustments in the industry product structure create an advantageous environment for the development of the industry, in which the enterprises in the industry can achieve profit accumulation, increase input for research, development and product innovation, and create favorable conditions for compressor enterprises to improve their own core competitive power and avoid vicious competition pattern with low prices.

C. Good prospects for the demands of gas compressor industry

Gas compressors are important fundamental industrial equipment that has been playing an irreplaceable role in the process equipment in various industries for more than a hundred years. As compressors are widely applied downstream and the customers are widespread in various industries, it provides vast area for compressor enterprises to meet their demands of customers, expand their own market scales and form advantageous product fields. Especially where fixed asset investments in petrochemical industry, coal industry, metallurgy, power, national defenses and military industry keep expanding, the good prospects for demand has become a favorable factor for the development of gas compressor industry.

(2) *Unfavorable factors*

A. Absence of the system of innovation in common technology

As the scientific research institutes undertaking industry research in the PRC are still in the stage of reforms restructuring, they take survival as first priority insufficient resources are dedicated to fundamental theoretical researches, and the role of industrial centralized management is not fully exerted, resulting in the weakening of the role of the institutes in the research of industry common technologies and fundamental theoretical researches as well as the absence of research and development of industry common technologies. Due to the lack of an effective cooperative mechanism for the alliance of production, study and researches, users and manufacturers and similar enterprises in the industry, it is difficult to form an innovate alliance and impossible to establish a system for the close cooperation of production, study and research for the innovation projects that require the cooperation of multiple organizations and a lot of technical personnel.

B. Absence of an industry investment and financing system

The industry investment and financing system has always been a part in the economic structure reform of the PRC that is lagging behind. The main channels for compressor manufacturing enterprises to attract capital at present include: financing in capital markets, introduction of strategic investors and bank loans. As most enterprises have low credits, it is difficult for them to obtain finance in capital markets or introduce strategic investors, and to radically change their current capital structure that is

highly dependent on bank loans. The absence of investment and financing system has restricted the development and expansion of compressor manufacturing industry. In addition, the investment of the PRC in science and technology, which is over RMB100 billion though, is dispersed over various departments such as Ministry of Science and Technology of the PRC, National Development and Reform Commission, Ministry of Industry and Information Technology, and National Nature Science Foundation, etc. The communication among these departments is not smooth, leading to the dispersion of investment in technical innovation, and making it difficult to achieve leaps in innovation results.

C. Low industrial concentration

The concentration of compressor manufacturing industry in the PRC is low. There are only a few large backbone enterprises and it lacks well-formed small and medium sized enterprises. None of the enterprises in the compressor manufacturing industry in the PRC are listed in the PRC's Top 500 Industrial Enterprises. For historical reasons, the compressor manufacturing industry in the PRC has formed a regional isomorphism and a large and inclusive or small but inclusive production method, leading to a serious situation of low level repetitive construction while lacking scaled economy and constellation effect. Horizontally, the industry faces the competitions within the industry that the domestic fellow traders are unable to cooperatively compete with external competitors; vertically, the industrial chain is not complete that the upstream and downstream enterprises are unable to cooperate to "fight", making it difficult to form a horizontal industrial scale while the competition in the industry is severely vicious. Take the Yangtze River Delta region for example, although there are a lot of compressor manufacturing enterprises, they lag behind in various aspects such as enterprise scale, financing capacity, R&D capabilities compared with other domestic industries like the automobile, engineering machinery and machine tools industries.

7. *The technical level, operation mode and the cyclicity, regionality and seasonality of the industry*

(1) *The technical level and features of the industry*

After 30 years of development, compressor manufacturing enterprises in the PRC have developed design and production capacity for over a hundred reciprocating compressors in more than ten series. Along with the development of industries such as oil refining, ethene, fertilizer, natural gas and solar energy in recent years, some enterprises in the compressor industry have improved their design and manufacturing level of large reciprocating compressors of the PRC by introducing, assimilating and making innovations based on foreign reciprocating compressor design and manufacturing technologies. Domestically produced large compressors have been applied in the production of various large investment projects of oil refining, ethene, and chemical industry in the PRC in recent years, breaking the monopoly of foreign enterprises of compressors for the industries above and marking a step of the PRC towards the international sophistication level in manufacturing ability of reciprocating piston compressors.

At present, reciprocating compressors have been developing towards large capacity, high pressure, compact structure, low energy consumption, low noise, high efficiency, good plasticity and good ability in exhaust gas purification; they generally adopt a skid-mounted, full cover and low noise design, which greatly reduces the cost of installation, foundation and debugging. Enterprises are continuously developing new types of gas valves under changing operating conditions, and the service life of the valves has been improving in product design, compressor thermodynamics and kinetics computer software and softwares that stimulate the working process of the compressors are applied to improve the accuracy of calculation and the success rate to develop new products has been improved by stimulating the performance parameters of compressors under the actual operating conditions. Meanwhile, the trend of the mechanical-electrical integration of the products keeps strengthening, through automatic displays of performance parameters by automatic computers, optimization of energy saving operating status, optimization of online operation, display of abnormal operating parameters, warning and protection are realised. Nowadays, product design attaches great importance to the industrial design, environment protection and appearance.

At present, Jingcheng Compressor is developing GD8 diaphragm compressors, which aims to make another breakthrough in the development of large diaphragm compressors. The target piston force will reach up to 30t and the target diameter of the diaphragm will reach up to 930 mm. The GD8 diaphragm compressor shall mainly be applied in special gas market and is suitable for transporting gases with high transmission and compression pressure, high purity, flammability and combustibility, strong erosion and no leakage required such as hydrogen, helium, oxygen, nitrogen and hydrogen chloride, etc. The technical parameters of GD8 diaphragm compressor are expected to lead industry standards. If it is developed successfully, it can fill the blank in the design and manufacture of super-large diaphragm compressors in the world and replace the small and medium size piston compressors that have been applied in large quantities in oil refining, ethene and PTA hydrogenating equipment. The significance of GD8 series diaphragm compressor does not only lie with meeting the higher technical requirements of downstream customers with its two features, being no leakage of compression medium and easy availability of super high pressure, but also lies with accelerating the replacement of piston compressors with diaphragm compressors in some of the application areas.

(2) The operation mode of the industry

The operation mode of the enterprises in the industry is usually that production is determined by the project orders obtained by the sales department. The design department will conduct specific component design and product design according to the needs of the customers' orders and based on certain parameters or the performance of certain products, and then organize production and delivery through the production department. This traditional operation mode has gradually showed more disadvantages as the demands of customers have become increasingly individualized, and it is difficult for compressor manufacturing enterprises to effectively avoid design risks and reduce the cost of design and production in such mode.

In recent years, Jingcheng Compressor has attempted to restructure the operating mode of the enterprise with standardized strategies. This mode evolves according to the idea of standardization of parts and components, general

utilization of parts, modularization of design and product developing into series, and the product lines platform of the enterprise is constructed by way of establishing standard parts warehouse of the enterprise. Taking into consideration of the general utilization of parts among series of products during the design stage, it aims to reduce in input of models and fixture, improve the quality and lower the cost. With the development of series products, formulation or revision of new enterprise standards, a new standard for the design of the parts and components of the compressors products will be formed. After the construction of standardized platform is realized, the enterprise may produce the parts and components in batches, thereby significantly lower production and operating costs, increase comprehensive production capacity and improve quality of parts and components to satisfy the customers' short term delivery requirements, so as to provide customers with low priced products and services with high quality on a timely basis.

(3) The cyclicality, seasonality and regionality of the industry

The gas compressor industry in the PRC is a mid-stream industry that is closely linked to the development of the national economy. The industrial boom is closed linked to the gross investment of the social fixed assets. Therefore, the cycle of the industry has been affected by the growth of the aggregate national economy and of the fixed assets investment. In the "12th five-year" plan, the national economy of the PRC will remain a relatively high and steady growth. Therefore, in the middle and long term, the compressor industry is still in high speed development.

There are no distinct seasonal characteristics in the gas compressor industry. However, as a lot of large fixed asset investment projects with long cycles mostly start at the beginning of a year and are constructed during the year and completed and put into production at the end of the year, the production cycle and sales revenue generation of certain types of process reciprocating compressors are highly consistent with the construction of the investment projects, leading to a higher proportion of sales revenue recognised by the compressor enterprises in the second half of the year or in the fourth quarter.

There are no distinct regional characteristics in the gas compressor industry.

8. *The market position and competitive advantages and disadvantages of Jingcheng Compressor*

(1) The market position of the company

As one of the top four diaphragm compressor manufacturers in the world, Jingcheng Compressor has been endeavoring in the field for more than 50 years. After years of continuous innovation and development, Jingcheng Compressor has formed diaphragm compressor production lines including G2V, G2.5V, G3V, GV3, GL3, GZ3, G3Z, GL4, GD2, GD3, GD4, GD5, GD6 series, which are applied in the downstream industries such as gas filling, poly crystalline silicon, petrochemical and clean fixed fuels filling. Among other things, large series products such as GL4 and GD4 are gradually becoming the leading diaphragm compressor products of the company and even the whole compressor industry.

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The development of heavy industry requires the use of the large equipment and promotes the development of diaphragm compressors into large sizes. Jingcheng Compressor had successfully developed GD4 (piston force $\leq$ 8t), GD5 (piston force $\leq$ 10t), GD6 (piston force $\leq$ 12t) series large diaphragm compressors since 2004, which met market demands. Jingcheng Compressor is now developing GD8 diaphragm compressors, which target a piston force of up to 30t and diaphragm diameter of up to 930mm.

It is expected that the GD8 diaphragm compressor would be able to meet the requirements of high pressure, discharge of gas compaction in large quantity and transportation, with huge consumer demands in the market. The research and development of GD8 series will further strengthen and enhance the brand image of Jingcheng Compressor diaphragm compressor products, consolidate high end market share and improve the recognition of users.

The strategies adopted by Jingcheng Compressor in the field of diaphragm compressor is clear and defined, that is: to persistently make diaphragm compressors the quality product in the medium and high end market with product series realizing seamless and full coverage; to firmly establish the market image and brand influence of diaphragm compressors as medium and high end products, to realize the monopoly over the segment market and to create the international brand of diaphragm compressors of Jingcheng Compressor.

(2) *The competitive advantage of the company*

A. The company is in the leading position in the field of diaphragm compressor

Jingcheng Compressor is recognized as the largest brand of diaphragm compressor in the PRC in the industry. Leveraging on major features and advantages such as large volume, no leakage, corrosion resistance, small fastening torque, high volumetric efficiency and long service life of diaphragm, the diaphragm compressor product of Jingcheng Compressor enjoys high reputation in the PRC. Jingcheng Compressor is the only supplier of nuclear compressors in the PRC. The industry standard JB/T6905-200 Diaphragm Compressors in the PRC is formulated and revised by Jingcheng Compressor, and it is also the only industry standard for diaphragm compressors in the world.

B. Standardized platform strategy improves the competitive strength

Jingcheng Compressor is an early enterprise to put the operational mode of standardized strategy into practice in the industry. This mode evolves completely according to the idea of standardization of parts and components, general utilization of parts, modularization of design and product developing into series, and the product lines platform of the enterprise is constructed by way of establishing standard parts warehouse of the enterprise. Taking a full consideration of the general utilization of parts among series of products during the design stage can relatively effectively realize mass production of parts and components, thereby greatly reduce the manufacturing and operational costs, improve comprehensive production capacity for the enterprise and improve the quality of the parts and components, satisfy the customers' short term

delivery requirements and provide customers with products or service of low price and high quality on a timely basis, all of which greatly increase the competitive power of Jingcheng Compressor in the market.

- C. Advantages brought by the alliance of production and studies to the research and development

Jingcheng Compressor has maintained much cooperation with colleges and universities to expand its position in product research and development. Jingcheng Compressor had in the past introduced fundamental theories and the latest results in science and research of universities and colleges, into its design and manufacturing process thereby persistently developed one series after another of diaphragm compressor products that met the needs of the market. At present, Jingcheng Compressor is in close cooperation with Xi'an Jiaotong University, Beijing University of Technology and Institute of Mechanics, Chinese Academy of Sciences to make breakthrough in topics such as the curve design and processing of cylinder body, hood and cavity, analysis and development of diaphragm material, design and process of double action cylinder body parts, abrasion at the crosshead and crosshead pin with a view to continue to maintain its advantages in research and development.

(3) *The competitive disadvantage of the company*

- A. The production facilities and conditions are to be improved to expand the production capacity

At present, the production site of Jingcheng Compressor is relatively small, and facilities for and conditions of the production of large diaphragm compressors and piston compressors remain to be improved. Jingcheng Compressor is now committed to a production capacity expansion project, which is expected to greatly improve production conditions for large compressors after it is completed.

- B. Less influential in piston compressor market

As the competitive pattern of piston compressor market is itself relatively discrete, and the product series provided by Jingcheng Compressor years ago for the customers are dispersed, there is no considerable sales scale and leading product, resulting in low production efficiency of Jingcheng Compressor in the piston compressor field and the overall market is small with insufficient market influence.

III. REGULATORY OVERVIEW

This section sets out summaries of principal laws, regulations and industrial policies in the PRC which are relevant to the Reorganised Group.

Tax laws and regulations

The Enterprise Income Tax Law of the PRC and its implementation rules were promulgated by the Standing Committee of the National People's Congress (the "Standing Committee") on 16 March 2007 and became effective on 1 January 2008. It requires that the taxpayers of enterprise income tax shall be enterprises and other organizations that obtain income within the PRC (hereinafter referred to as "Enterprises") and shall pay enterprise income tax in accordance with the provisions of this law. This law shall not apply to wholly individually-owned enterprises and partnership enterprises.

The Provisional Regulations on Value-Added Tax of the PRC was promulgated by the State Council on 13 December 1993 and amended on 5 November 2008. It requires that all organizations and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC are taxpayers of Value-added Tax, and shall pay VAT in accordance with these Regulations.

The Provisional Regulations of the PRC on Business Tax was promulgated by the State Council on 13 December 1993 and amended on 5 November 2008. It requires that all organizations and individuals engaged in the provision of services as prescribed in these regulations, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC shall be taxpayers of the business tax, and shall pay the business tax in accordance with these Regulations.

The Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax for Hi-Tech Enterprises (Guo Shui Han No. 203 [2009]) was announced on 22 April 2009 and implemented from 1 January 2008. It requires that upon the accreditation/re-examination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination.

Tianhai Industrial currently holds the Certificate of High and New Technology Enterprise (Certification No.: CR201011000725) jointly issued by the Beijing Science and Technology Committee, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau on 24 December 2010, which has a validity period of 3 years. Jingcheng Compressor currently holds the Certificate of High and New Technology Enterprise (Certification No.: GF201111001877) jointly issued by the Beijing Science and Technology Committee, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau on 28 October 2011, which has a validity period of 3 years.

Laws and regulations relating to administration of foreign exchange

For the purposes of strengthening foreign exchange administration, maintaining the balance of international payments and promoting the sound development of the national economy, the Foreign Exchange Administration Regulations of the PRC (the "Foreign Exchange Administration Regulations") was enacted by the State Council on 29 January 1996 and amended on 1 August 2008. According to the Foreign Exchange Administration Regulations, the foreign exchange receipts and payments under current accounts shall be

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based on accurate and legitimate transactions. Financial institutions engaged in the settlement and sale of foreign exchange shall conduct proper inspection of the accuracy of dealing documents and its conformity with the foreign exchange receipts and payments according to the provisions of the administration of foreign exchange under the State Council. Foreign exchange administration authorities have the authority to supervise and inspect such matters. The foreign exchange incomes under current accounts may be retained or sold to financial institutions engaged in the settlement and sale of foreign exchange in accordance with relevant provisions. The foreign exchange disbursements under current accounts shall be, against valid documents, paid with self-owned foreign exchange or foreign exchange brought from financial institutions engaged in the settlement and sale of foreign exchange in accordance with provisions on the administration of the sale and purchase of foreign exchange by the administration of foreign exchange under the State Council. The quota for carrying and declaring foreign currencies in and out of China shall be subject to the provisions of the administration of foreign exchange under the State Council.

Laws and regulations relating to environmental protection

For the purpose of protecting and improving living environment and the ecological environment, preventing and controlling pollution and other public hazards, safeguarding human health and facilitating the development of socialist modernization, the Standing Committee issued the Environmental Protection Law of the PRC effective as of 26 December 1989. According to these provisions, all enterprises and institutions that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection. These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

For the purpose of implementing the strategy of sustainable development, preventing adverse impact on the environment due to execution of plans and constructions projects, and facilitating the coordinated development of the economy, society and environment, the Standing Committee issued the Law of the PRC on Environmental Impact Assessment (the “Law on Environmental Impact Assessment”) on 28 October 2002. According to the Law on Environmental Impact Assessment, environment impact assessment shall be objective, open and impartial, taking into comprehensive consideration the impact on all the various environmental factors and the ecological system constituted thereby that might result from implementation of plans and construction projects, thus providing scientific basis for decision making.

For the purpose of preventing construction projects from generating new pollution and damaging the ecological environment, the State Council promulgated the Regulations on the Administration of Construction Project Environmental Protection (the “Regulations on the Administration of Environmental Protection”) on 18 November 1998. According to the Regulations on the Administration of Environmental Protection, industrial construction projects should adopt clean production techniques with low energy consumption, low materials consumption and low pollutants generation, and rationally exploit natural resources to prevent environmental pollution and ecological damage. The state implements the construction project environmental impact evaluation system. The work of construction project environmental impact evaluation shall be undertaken by relevant institutions having acquired certificates of corresponding qualifications.

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For the purpose of preventing and controlling atmospheric pollution, protecting and improving living environment and the ecological environment, safeguarding human health, and promoting the sustainable development of economy and society. The Standing Committee revised and promulgated the Law of the PRC on the Prevention and Control of Atmospheric Pollution (the “Law on Prevention and Control of Atmospheric Pollution”) on 29 April 2000. According to the Law on Prevention and Control of Atmospheric Pollution, inflammable gas engendered during industrial production shall be recovered for utilization; if such gas is discharged into the atmosphere due to the lack of recovery facilities for utilization, it shall undergo treatment for the prevention and control of pollution. The discharge into the atmosphere of converter gas, acetylene, yellow phosphoric tail gas engendered by the electric furnace process, and organic hydrocarbon tail gas must be reported to the local administrative department of environmental protection for approval. When the facilities for recycling inflammable gas for utilization cannot operate normally, they shall be repaired or updated without delay. Where the discharge of inflammable gas is really necessary during the period when the facilities for recycling cannot operate normally, the inflammable gas to be discharged shall be fully burnt, or other measures shall be taken, to reduce atmospheric pollution.

For the purpose of preventing and controlling water pollution, protecting and improving the environment, ensuring the safety of drinking water and facilitating the comprehensive, sustainable economic and social development, the Law of the PRC on the Prevention and Control of Water Pollution (the “Law on Prevention and Control of Water Pollution”) was promulgated by the Standing Committee on 11 May 1984 and revised on 28 February 2008. According to the Law on Prevention and Control of Water Pollution, the state practices the licensing system for pollutant discharge. Enterprises and public institutions which directly or indirectly discharge industrial waste water or medical sewage to waters or which are required to obtain the pollutant discharge license before discharging waste water and sewage water must obtain the pollutant discharge license; and entities operating facilities and establishments for the concentrated treatment of urban sewage must also obtain the pollutant discharge license. The power to provide for the specific measures and implementation steps for licensing pollutant discharge shall remain with the State Council. All enterprises and public institutions are prohibited from discharging the above-mentioned waste water and sewage to waters without the pollutant discharge license or in violation of the terms of the pollutant discharge license.

For the purpose of preventing and controlling environmental noise pollution, protecting and improving the living environment, ensuring human health and promoting economic and social development, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (the “Law on Prevention and Control of Pollution from Environmental Noise”) was promulgated by the Standing Committee on 29 October 1996. According to the Law on Prevention and Control of Pollution from Environmental Noise, the industrial noise emitted to the living environment of the neighbourhood within an urban area shall be kept within the limits set by the State on emission of environmental noise within the boundary of an industrial enterprise. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for environmental protection of the local people’s government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of

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the equipment that produces environmental noise pollution, in the noise level or facilities for prevention and control of such pollution must submit a report without delay and take prevention and control measures as it should.

For the purpose of preventing and controlling environmental pollution by solid waste, safeguarding human health and promoting the sustainable development of economy and society, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (the “Law on Prevention and Control of Environmental Pollution by Solid Waste”) was promulgated by the Standing Committee on 30 October 1995 and revised on 29 December 2004. According to the Law on Prevention and Control of Environmental Pollution by Solid Waste, the State institutes a system of report and registration for industrial solid waste. The organizations discharging industrial solid waste shall, in accordance with the regulations of the competent administrative department of environmental protection under the State Council, provide information about the quantity, flow direction, storage, treatment and other matters concerning industrial solid waste to the competent administrative department of environmental protection of the local people’s government at or above the county level in the place where such organizations are located. Any substantial change occurred on the reporting matters prescribed in the preceding provision shall be reported in a timely manner.

Laws and regulations relating to Labor and Social Security

For the purpose of protecting the legitimate rights and interests of labourers, readjusting labour relationships, establishing and safeguarding a labour system suited to the socialist market economy, and promoting economic development and social progress, the Labour Law of the PRC (the “Labour Law”) was promulgated by the Standing Committee on 5 July 1994. According to the Labour Law, the employing units shall establish and perfect rules and regulations in accordance with the law so as to ensure that labourers enjoy the right to work and fulfill labour obligations.

For the purposes of improving the labor contractual system, clarifying the rights and obligations of both parties of labor contracts, protecting the legitimate rights and interests of employees, and establishing and developing a harmonious and stable employment relationship, the Labour Contract Law of the PRC (the “Labour Contract Law”) was promulgated by the Standing Committee on 29 June 2007. According to the Labour Contract Law, the conclusion of employment contracts shall comply with the principles of legitimacy, justice, equality, free will, unanimity through consultation and good faith. A labor contract lawfully concluded shall be legally binding, and both the employer and the employee shall perform their respective obligations as agreed therein.

For the purposes of regulating social insurance relations, protecting the legitimate rights and interests of citizens participating in social insurance and enjoying social insurance benefits, enabling citizens to share the achievements of development and promoting social harmony and stability, the Social Insurance Law of the PRC was promulgated by the Standing Committee on 28 October 2010. It states that the State establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth.

For the purpose of strengthening the administration of housing provident funds, maintaining the lawful rights and interests of owners of housing provident funds, promoting the construction of urban houses, and improving the dwelling standard of urban residents,

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the Regulation on the Administration of Housing Provident Fund (the “Regulation on the Administration of Housing Provident Fund”) was promulgated by the State Council on 3 April 1999 and revised on 24 March 2002. According to the Regulation on Administration of Housing Provident Fund, the housing provident fund contributed by employees themselves as well as that contributed by employers to which the employees belong is owned by the employees themselves. Housing provident fund shall be used by employees for buying, building, overhauling and repairing houses for self living and shall not be misused by any unit or individuals for other purposes.

Laws and regulations relating to legal person qualification

For the purposes of regulating the organization and operation of companies, protecting the legitimate rights and interests of companies, shareholders and creditors, maintaining the social and economic order, and promoting the development of the socialist market economy, the Company Law of the PRC (the “Company Law”) was promulgated by the Standing Committee on 29 December 1993 and revised on 27 October 2005. According to the Company Law, for the establishment of a company, an application for establishment and registration shall be filed with the company registration authority. If the application meets the requirements for establishment of this law, the company registration authority shall register the company as a limited liability company or a joint stock limited company. If the application cannot meet the requirements for establishment of this law, it shall not be registered as a limited liability company or a joint stock limited company. If any law or administrative regulation stipulates that the establishment of a company shall be subject to approval, the relevant approval formalities shall be gone through prior to the registration of the company. The general public may consult the relevant matters on company registration at a company registration authority, which shall provide consulting services.

With a view to expanding international economic co-operation and technical exchange, the Law of the PRC on Chinese-Foreign Joint Ventures (the “Law on Chinese-Foreign Joint Ventures”) was promulgated by the Standing Committee on 1 July 1979 and revised for the second time on 15 March 2001. This law permits foreign companies, enterprises, other economic organizations or individuals to joint with Chinese companies, enterprise or other economic organizations in establishing joint ventures in the PRC in accordance with the principle of equality and mutual benefit and subject to approval by the Chinese Government.

For the purposes of facilitating the implementation of the Law of the PRC on Chinese-Foreign Joint Ventures, the State Council issued the Regulations for the Implementation of the Law of the PRC on Chinese-Foreign Joint Ventures (the “Regulations for Implementation”) on 20 September 1983 and amended it for the fourth time on 8 January 2011. According to the Regulations for Implementation, the establishment of a joint venture in China is subject to the examination and approval of the Ministry of Foreign Trade and Economic Cooperation of the PRC (hereinafter referred to as the Ministry of Foreign Trade and Economic Cooperation). Upon approval, the certificate of approval is to be issued by the Ministry of Foreign Trade and Economic Cooperation. A joint venture is a limited liability company. Except those export items restricted by the State, the products produced by a joint venture for export shall enjoy the tax reduction, exemption or refund according to relevant provisions of Chinese tax laws.

For the purposes of safeguarding the basic economic system of China, consolidating and developing the state-owned economy, strengthening the protection of state-owned assets, giving play to the leading role of the state-owned economy in the national economy, and promoting the development of the socialist market economy, the Law of the PRC on the State-Owned Assets of Enterprises (the “Asset Law”) was promulgated by the Standing

Committee on 28 October 2008. According to the Asset Law, the state-owned assets shall be owned by the state, i.e. owned by the whole people. The state-owned assets supervision and administration body under the State Council and the state-owned assets supervision and administration bodies established by the local people's governments according to the provisions of the State Council shall perform the contributor's functions for state-invested enterprises on behalf of and upon the authorization of the corresponding people's government.

Management system, laws, regulations and industrial policies relating to the gas storage and transportation industry in the PRC

(1) Management system

The PRC government mainly adopts a combined way of macro-control and administrative management for the supervision of gas storage and transportation equipment industry, and the enterprises conduct autonomous business in the market. The competent authorities of the industry are National Development and Reform Commission (NDRC), Ministry of Industry and Information Technology (MIIT) and General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ).

The responsibilities of NDRC and MIIT in the gas storage and transportation equipment industry are mainly: to research and present the development strategies for the industry, propose industry planning and policies and organize the implementation thereof; to instruct drafting the technical laws and regulations and industry standards; to examine, approve fixed assets investment projects within the planning and annually planned scales to the extent specified by the State Council; to monitor the routine operation of the industry; to instruct and support small and medium sized enterprises, etc.

AQSIQ conducts administrative management over the design, manufacture and use of pressured cylinders as special equipment. Any enterprise that is engaged in operational activities concerning the production and maintenance of pressured cylinders is required to obtain permission from various levels of inspection departments, and shall comply with the compulsory supervision and inspection system. The design and manufacturing enterprises shall apply for and obtain the license for design and manufacture of special equipment issued by AQSIQ before manufacturing.

For the purpose of the scope of business, there is no definite industrial association for the centralized management of Tianhai Industrial. From the perspective of the machinery industry, China's Petroleum & Petrochemical Equipment Industry Association (CPEIA) under China Machinery Industry Federation conducts self-disciplined management over the metal pressured cylinder industry; from the perspective of energy industry, China Chemical Industry Equipment Association under China Petroleum and Chemical Industry Federation conducts self-disciplined management to the chemical equipment industry. However, the scopes of self-disciplined management of the above-mentioned two associations are far beyond that of the gas storage and transportation equipment industry.

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(2) *Industrial Laws and Regulations*

As the manufacturing enterprise in gas storage and transportation equipment industry, apart from being subject to the general laws and regulations, Tianhai Industrial is also required to abide by the following special industrial laws and regulations:

No.	Laws and regulations	Main content of the laws and regulations	Issuer
1	Regulation of the People's Republic of China on the Administration of Production License for Industrial Products	Ensure the quality safety of the major industrial products that directly concern the public safety, human health, and safety of life and property, implement the state industrial policy	The State Council
2	Regulations on Safety Supervision of Special Equipment	Strengthen the safety supervision of special equipment, prevent and reduce accidents, safeguard the safety of people's lives and property.	The State Council
3	Regulations on Safety Management of Hazardous Chemicals	Safety management of the production, storage, use, sales and transportation of hazardous chemicals	The State Council
4	Provisional Regulations on Safety Supervision of Boilers and Pressure Vessels	Regulate the safety supervision of boilers and pressure vessels, clearly stipulate the duties and safety obligations of the manufacturer, user, detection and inspection institutions, safety supervision organs of boilers and pressure vessels (including gas cylinder), reduce accidents and safeguard the safety of people's lives and property.	The State Council
5	Provisions of the State Council on Investigation of Administrative Responsibility for Extraordinarily Serious Safety Accidents	Prevent the occurrence of extraordinarily serious safety accidents, investigate for the administrative responsibility for extraordinarily serious safety accidents and safeguard the safety of people's lives and property.	The State Council

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No.	Laws and regulations	Main content of the laws and regulations	Issuer
6	Provisions on Accident Treatment of Boiler, Pressure Vessel, Pressure Pipeline and Special Equipment	The report, investigation and treatment of the accidents of boiler, pressure vessel, pressure pipeline and special equipment and the statistics and analysis of the accident	AQSIQ
7	Safety Inspection Regulations for Gas Cylinders	Strengthen the safety inspection for gas cylinders and ensure the safety use of the gas cylinders	AQSIQ
8	Regulation of Safety Supervision for Liquefied Gas Tanker Wagons	Enhance the safe operation of the liquefied gas tanker wagons and supervise the design, manufacture, use, transportation, inspection, maintenance and modification of tanker wagons	AQSIQ
9	Gas Cylinders Safety and Technical Supervision Regulation for Vehicles	Strengthen and standardise the safety supervision and management of gas cylinders for vehicles, ensure the safety use of gas cylinders for vehicles, and supervise the design, manufacture, installation, filling, use and inspection	AQSIQ
10	Safety Supervision Code of Dissolved Acetylene Cylinder	Safety supervision of dissolved acetylene cylinder and ensure the safe use of acetylene cylinder	Former Ministry of Labor

(3) Industrial policies

The gas storage and transportation equipment products of Tianhai Industrial, which have the characteristics of both general equipment and special equipment, are important basic industrial equipment. This industry belongs to the industrial field which is encouraged to develop by the industrial policy of equipment manufacturing industry, industrial policy of independent innovation, adjustment of industrial structure policy and energy policy issued by the PRC government.

In order to enhance the industrial equipment capability and level of China, realise the transformation and upgrading of equipment manufacturing industry and the leaping development from a big industry to a strong industry, the Chinese government released “The Outline of the 12th Five-Year Plan for the National Economic & Social Development”, “Decisions of the State Council on Accelerating the Fostering and Developing Emerging Industries of Strategic Importance”, “12th Five-Year Plan for Development of the Strategic Emerging Industries”, “12th Five-Year Plan for Industrial

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Transformation and Upgrading”, “12th Five-Year Development Plan of the High-end Equipment Manufacturing Industry” and “The 12th Five-Year Development Plan of Industries of Machinery Components, Basic Production Technologies and Basic Materials” and other relevant guidance documents, such as professional plan and specific plan to vigorously cultivate and develop the high-end equipment manufacturing industry and constantly enhance the level of technologies and of material for the basic processing.

The National Development and Reform Commission (NDRC) promulgated the 2011 version of the Guidance Catalog for Adjustment in the Structure of Industries in April 2011, which involves the following encouraged category of field of natural gas: recycling of flaring natural gas and device manufacture, development and application of distributed energy technology of natural gas, development and application of recovery technology of oil gas evaporation of oil storage and transportation facilities, development and application of liquefied natural gas technology and manufacture of complete set of equipment for tanks. The natural gas storage and transportation equipment belongs to the encouraged development industry in the catalog, and conforms to the direction of the national industrial structure adjustment.

The PRC Ministry of Industry and Information Technology, the Ministry of Science and Technology, the Ministry of Finance and the State-owned Assets Supervision and Administration Commission of the State Council issued the 2012 version of “the Guidance Catalogue of Self-relied Innovation of Major Technical Equipment” in February 2012 to encourage to develop key and significant fields of technology, such as the long-distance oil and gas transmission pipeline equipment, large-scale liquefied equipment of natural gas, in which the technological innovation can drive the technological progress and the research and development level of products of gas storage and transportation equipment of China, promote the overall technological capabilities of the industry and enhance the international competitive ability of the products of domestic enterprises.

It was considered in the “Energy Saving and New Energy Automobile Industry Development Plan (2012-2020)” published by the State Council in June 2012 that China’s alternative fuel (such as natural gas) automotive technology has become mature basically and began to realise preliminary commercialization and formed certain market scale; the promotion and application and pilot demonstration of energy saving and new energy automobiles should be accelerated during the planning period. The plan proposed to develop alternative fuel automobiles according to needs of the specific location, and encourage regions rich in natural gas (including liquefied natural gas) and biofuel to develop alternative fuel automobiles.

The “12th Five-Year Plan for Energy Saving and Emission Reduction”, published by the State Council in August 2012 proposed to promote the rapid growth of natural gas production, popularize the use of clean energy, such as natural gas, coal gas and biomass moulded fuel, etc., and strengthen the construction of the strategic channel for oil and gas import, domestic backbone network, urban distribution networks and reserve storage.

In order to improve energy utilization efficiency, promote structural adjustment and energy saving and emission reduction and motivate the orderly development of natural gas distributed energy, four ministries and commissions, including the NDRC jointly issued “the Guiding Opinion Concerning the Development of Natural Gas Distributed Energy” in October 2011, which proposed to build about 1,000 natural gas distributed energy projects and planned to build about 10 distributed energy demonstrative areas with all kinds of typical characteristics during the 12th five-year. In June 2012, the Ministry of Housing and Urban-Rural Development of the PRC issued the “12th Five-Year Plan of National City Gas

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Development”. According to the plan, the urban gas penetration rate will be more than 94% and the gas penetration rate in county and small towns will be more than 65% by the end of the period of the “12th Five-Year”.

The launch of the above industrial policies in China provides a good policy environment of industry development for gas storage and transportation equipment industry to which Tianhai Industrial belongs, and opens a broad market space for the development of the industry, especially the development of natural gas storage and transportation equipment industry.

Management system, laws, regulations and industrial policies relating to the air compressor industry in the PRC

(1) Management system

The supervision of the gas compressor industry in China is conducted by the combination of governmental macro-control and administrative management with self-regulation of the industry association. Enterprises operate by themselves on the market. The authorities of the industry include the NDRC, MIIT and AQSIQ and the compressor branch of CGMA is the self-regulatory organization of enterprises in the industry.

The relevant responsibilities of the NDRC and MIIT to gas compressor industry are mainly researching and putting forward industrial development strategies, formulating industrial planning and policy and organizing the implementation, directing the formulation of industrial technology regulations and industrial standards, reviewing and approving the fixed assets investment projects within the national programs and annual planning scales, monitoring the daily operations of the industry and instructing and supporting small and medium-sized enterprises.

AQSIQ conducts admittance management to the enterprises in the gas compressor industry by issuing compressor manufacturing permit. Enterprises that need to manufacture by themselves some parts of pressure container in the process of manufacturing compressor facilities must obtain designing and manufacturing permit of pressure container issued by AQSIQ. Enterprises manufacturing gas compressors used as special purpose in nuclear safety equipment, must obtain designing and manufacturing permit of civil nuclear safety equipment issued by National Nuclear Security Administration (NNSA).

The major responsibilities of the compressor branch of CGMA are investigating and researching the industrial reform and development, providing emergency plans and advice for government to formulate material decisions, such as industrial reform scheme, development program, industrial policy, technical policy, as well as laws and regulations; accepting the engagement to draw up industrial development planning, making follow-up study on the technologies, the operation of economic policies and regulations and rules related to the development of the industry, timely reporting the industrial opinions to the government and giving advice of the improvement needed in the macro-control instruction of competent governmental authorities; assisting the government formulating and revising various standards in technology, economy and management of the industry and pushing forward the implementation of the standards, carrying out industrial inspection and assessment, supervising and rectifying the unqualified products and enterprises until advising the relevant government authorities to take administrative measures.

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(2) *Industrial laws and regulations*

As a compressor manufacturing enterprise, besides being subject to the general laws and regulations, Jingcheng Compressor is also required to comply with the special laws and regulations of the industry mainly as follows:

No.	Laws and regulations	Main content of the laws and regulations	Issuer
1	Law of the People's Republic of China on Prevention and Control of Radioactive Pollution	Prevent and control radioactive pollution, protect the environment, ensure human health, and promote the development and peaceful use of nuclear energy and technology	Standing Committee of the National People's Congress
2	Regulation of the People's Republic of China on the Administration of Production License for Industrial Products	Ensure the quality safety of the major industrial products that directly concern the public safety, human health, and safety of life and property, implement the state industrial policy	The State Council
3	Regulations on Safety Supervision of Special Equipment	Strengthen the safety supervision of special equipment, prevent and reduce accidents, safeguard the safety of people's lives and property.	The State Council
4	Regulations on Safety Management of Hazardous Chemicals	Conduct safety management over the production, storage, use, sales and transportation of hazardous chemicals	The State Council
5	Provisional Regulations on Safety Supervision of Boilers and Pressure Vessels	Regulate the safety supervision of boilers and pressure vessels, clearly stipulate the duties and safety obligations of the manufacturer, user, detection and inspection institutions, safety supervision organs of boilers and pressure vessels (including gas cylinder), reduce accidents and safeguard the safety of people's lives and property.	The State Council

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No.	Laws and regulations	Main content of the laws and regulations	Issuer
6	Provisions of the State Council on Investigation of Administrative Responsibility for Extraordinarily Serious Safety Accidents	Prevent the occurrence of extraordinarily serious safety accidents, investigate for the administrative responsibility for extraordinarily serious safety accidents and safeguard the safety of people's lives and property.	The State Council
7	Regulations on Quality Responsibility of Industrial Products	Specify the quality responsibility of industrial products, safeguard users' and consumers' legal rights and interests, guarantee the healthy development of the planned commodity economy and promote the socialist modernization construction.	The State Council
8	Regulations on Supervision and Administration of Civil Nuclear Safety Equipment	To ensure the safe operation of civil nuclear equipment, strengthen the supervision and administration of civil nuclear safety equipment, prevent nuclear accidents and protect the health of staff and the public	The State Council
9	Regulations on Administration of the Qualification of Nondestructive Inspectors for the Civil Nuclear Safety Equipment (HAF602)	Examination and administration of nondestructive inspectors for civil nuclear safety equipment	Ministry of Environmental Protection
10	Regulations on Supervision and Administration of the Design, Manufacturing and Installation and Nondestructive Test for Civil Nuclear Safety Equipment (HAF601)	Supervision and administration of the design, manufacturing and installation and nondestructive test for civil nuclear safety equipment	Ministry of Environmental Protection

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No.	Laws and regulations	Main content of the laws and regulations	Issuer
11	Regulations on Administration of the Qualification of Welder and Welding Operator for Civil Nuclear Safety Equipment (HAF603)	Administration of the qualification of welder and welding operator for civil nuclear safety equipment	Ministry of Environmental Protection
12	Regulations on Accident Treatment of Boiler, Pressure Vessel, Vessel Pipeline and Special Equipment	The report, investigation and treatment of the accidents of boiler, pressure vessel, pressure pipeline and special equipment and the statistics and analysis of the accident	AQSIQ
13	Implementation Regulations on Manufacturing Permit of Air Compressor Products	Administration on issuing manufacturing permit of air compressor products	AQSIQ
14	Regulations on Administration of the Safety Technology Training and Examination of Special Operators	Administration of the safety technology training, examination, issuing, reexamination and supervision of special operators in manufacturing and operation enterprises	

(3) *Industrial policies*

The compressor industry is the equipment manufacturing industry with national focused supports and in recent years, has presented a good situation of stable development and gradual breakthrough with the encouragement and support of The Outline of the 12th Five-Year Plan for the National Economic & Social Development, The Planning of Adjusting and Revitalizing the Equipment Manufacturing Industry, Opinions on Speeding up Revitalizing Equipment Manufacturing Industry, Guidance Catalogue of Industrial Structure Adjustment and Decisions about Speeding up the Cultivation and Development of Strategic Emerging Industries issued by the state. From the focus of the industrial policy, self-innovation and nationalization of technical crafts and the development of energy-saving and environment-friendly advanced equipment and technology is the development direction of the whole equipment industry, including the compressor industry.

In December 2011, according to relevant industrial policy, MIIT issued Industrial Transformation and Upgrading Investment Guide, refined the major task and development focus proposed for industrial transformation and upgrading planning, relevant industrial planning and special planning from the perspective of investment, and clearly defined the focus and direction of the industrial investment during the “12th Five-Year Plan” period. The following are related to the development focus of compressor products: (1) Compressors: high thrust (over 120t (including) piston thrust) reciprocating compressor to cater for the demand of petroleum and petrochemical equipment, such as 10,000,000 tons oil refining and 1,000,000 tons ethylene, ethylene refrigerating compressor, large multicolumn (over six (including) columns) labyrinth compressor, screw compressor (the

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screw over 630mm in diameter), long distance pipeline compressors group, large nitric acid 4 in 1 turboset (air compressors/ nitrogen oxide compressors/exhaust gas turbines/steam turbines) of 360,000 to 450,000 tons per year; (2) Energy-saving compressors: industrial air compressor with level one and level two energy efficiency, oil free jet screw air compressor, turbine gas compressor, the stepless adjustment control device of reciprocating compressor, to achieve the stepless adjustment control of reciprocating compressor and decrease the load of the compressors; (3) Recycling technology of residual pressure, residual heat and coal bed gas: screw compressor (single and dual screw) group for recycling coal bed gas; Mechanical Vapor Recompression Technology (MVR) equipment; high-performance large compressor complete equipment used to recycle the waste gas discharged from the manufacturing process of petroleum, petrochemical and coal industry; (4) Chemical fertilizer industry: encouraging the development of large domestic compressors with high efficiency.

In December 2011, the National Energy Administration issued the 12th Five-Year Plan for National Energy Science and Technology, clearly defined the development goals of energy science and technology from 2011 to 2015, determined 19 major special projects of energy application technology and project demonstration in 4 key technical fields, including energy resources exploration and exploitation, processing and conversion, power generation and power transmission and distribution as well as new energy, made technical road map for the realization of the development goals, and planned 37 major technical researches, 24 major technical equipment, 34 major demonstrative projects and 36 technical innovation platforms against the key technologies in the significant special projects that need to make breakthrough. The goal of general machinery field is to achieve the nationalization of the general equipment, including 80,000m³/h large air separation facility, large gas compressor, temperature and wear resistance pump, valve and pipeline.

In January 2012, four ministries including MIIT and MOST jointly issued the 2012 version of the Guidance Catalogue of Self-innovation in Major Technical Equipment and provided guidance for equipment manufacturing enterprises to enhance self-innovation level and develop new equipment products desperately needed by the national economy and national key construction projects. Million tons of ethylene screw compressors for craftsmanship, large reciprocating labyrinth compressor and BOG compressor (also known as vertical labyrinth compressor) were encouraged to develop and with prosperous potential prospect market demand in the compressor industry. Guidance Catalogue of Self-innovation in Major Technical Equipment also stresses that enterprises in equipment industry should adhere to the harmonious development of the upstream and downstream industry chain, the principle of the simultaneous development of complete equipment, key subsystem and key basic components.

In February 2012, MIIT issued the 12th Five-Year Plan of Industrial Energy Saving, specified the overall goal of our industrial energy saving until 2015 that the energy consumption of added value for the above-designated-size industries would decrease by approximately 21% as compared to 2010, expected to achieve energy saving of 670 million tons of standard coal during the 12th Five-Year-Plan period, and achieved the goal that the energy consumption per unit added value of the major industries, including steel, non-ferrous metal, petrochemicals, chemical industry, construction materials, machinery, light industry, textile, electronic information, respectively, decreased by 18% to 22% as compared to 2010. One of the important approaches to achieve the overall goal is to develop energy-saving, high added value products and equipment, enhance the innovation and demonstration of the major energy-saving technology and put more efforts to promoting the advanced applicable energy-saving technology. For the subdivision industries in the machinery industry, including fan, pump and compressor, their major craftsmanship and

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energy-saving measures and goals of the product are relying on major energy consumption industries to strengthen the energy-saving optimization reconstruction of fan, pump and compressor and promote frequency control and automation control technology.

As confirmed by the Directors, the Target Companies and its subsidiaries has completed their registrations with relevant company registration authorities, obtained approvals and all required licenses from competent government authorities. The Target Companies and its subsidiaries have, in all aspects, complied with the laws relating to their business operation and satisfies all relevant supervision rules and provisions.

As confirmed by the PRC Legal Advisor, the Target Companies and its subsidiaries are legally established and validly existing without liquidation, dissolution, winding up and other termination of the business according to the requirements of laws and administrative regulations, regulatory documents, and its constitution effective in the PRC, and passed annual inspection (where applicable). In addition, other than as disclosed in Appendix X “Other information – Litigation” of this Circular, in the opinion of the PRC Legal Advisor, Target Companies and its subsidiaries have no material litigation, arbitration or administrative penalties which has a material impact on the reorganization.

As at the Latest Practicable Date, the required licenses from the competent government authorities include the following:

Certificate holder	Qualification/Permit	Issued by	Validity period	Scope of business
Tianhai Industrial	License for Design of Special Equipment	AQSIQ	13 November 2016	Permitted to engaged in the design of A1 high pressure vessel(single layer only), A2 low and medium pressure vessel (type 3), C2 tank car and C3 tank container
	License for Design of Special Equipment	AQSIQ	18 March 2013	Permitted to engaged in the manufacture of A1 high pressure vessel(single layer and seamless accumulator shell structure only), B1 seamless gas cylinders (steel seamless only), B2 gas cylinders with seams (gas cylinders with seams and dissolved acetylene only), B3 special gas cylinders (for motor vehicles, hoop-wrapped gas cylinders and welding insulation cylinder only), C3 tank containers (gas special containers only), D1 pressure vessel (type 1) and D2 low and medium pressure vessel (type 2)
	Medical device manufacturing enterprise license (醫療器械生產企業許可證)	Beijing Drug Administration	5 July 2016	Permitted to engage in type II: manufacture of II-6854 oxygenator for medical use
	Medical device registration certificate (醫療器械註冊證)	Beijing Drug Administration	25 February 2014	Manufacture of LCY series oxygenator for medical use(LCY-2.1), which compliance with the market access provisions of medical device and allowed to register
	Wastewater discharge permit (排水許可證)	Beijing Water Authority	6 September 2016	Permitted to discharge water by the urban drainage facilities in the declaration area
Panni Gaokong	License for Design of Special Equipment	AQSIQ	4 August 2013	Permitted to engaged in the manufacture of BT5053JGKC-2, BT5056JGKC-2, BT5057JGKC-2 (with maximum platform height of 12.5m and maximum lifting load of 1t) and BT5061JGKC-2(with maximum platform height of 14.5m and maximum lifting load of 1.5t) aerial working platform vehicles
Shanghai Tianhai	License for Design of Special Equipment	AQSIQ	18 March 2013	Permitted to engaged in the manufacture of B3 special gas(for motor vehicles, hoop-wrapped gas cylinders and welding insulation cylinder only)

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Certificate holder	Qualification/Permit	Issued by	Validity period	Scope of business
	Wastewater discharge permit (排水許可證)	Shanghai Songjiang District Water Authority (上海市松江區水務局)	9 February 2014	Permitted to discharge water by the urban drainage facilities in the declaration area
Tianhai Cryogenic	License for Design of Special Equipment	AQSIQ	6 September 2016	Permitted to engaged in A2 low and medium pressure vessel (type 3), C2 tank car (with cryogenic insulation tank) and C3 tank container (with cryogenic insulation tank)
	Radioactive Safety Working Permit (輻射安全許可證)	Beijing Municipal Environmental Protection Bureau	16 December 2014	Permitted to use class II ray device
Langfang Tianhai	License for Design of Special Equipment	AQSIQ	17 April 2016	Permitted to engaged in B1 seamless gas cylinders (steel seamless only), B3 special gas cylinders (compressed natural gas steel cylinders for vehicles and steel liner hoop-wrapped CNG Cylinder for vehicles only)
	Pollutant Discharge Permit (排放污染物許可證)	Environmental Protection Bureau of Hebei Province (河北省環境保護廳)	8 April 2013	Permitted to discharge waste water and exhaust
Tianjin Tianhai	License for Design of Special Equipment	AQSIQ	16 February 2016	Permitted to engaged in the manufacture of A1 high pressure vessel (capacitor shells only), B1 seamless gas cylinders and B3 special gas cylinders (compressed natural gas steel cylinders for vehicles only)
	Pollutant (wastewater) discharge permit (排水(水)許可證)	Tianjin Port Free Trade Zone, the Environmental Protection Agency (天津港保稅區環境保護局)	24 September 2013	Permitted to discharge waste water according to the corresponding standard
Jingcheng Compressor	License for Design of Special Equipment	Beijing Municipal Administration of Quality and Technology Supervision	10 April 2016	Permitted to engaged in the design of D1 pressure vessel (type 1), D2 low and medium pressure vessel (type 2) (note: heat exchanger vessel, separation vessel and storage vessel)
	License for Design of Special Equipment	Beijing Municipal Administration of Quality and Technology Supervision	27 October 2015	Permitted to engaged in the manufacture of D1 pressure vessel (type 1), D2 low and medium pressure vessel (type 2)
	Civil nuclear safety equipment design permit (民用核安全設備設計許可證)	National Nuclear Safety Administration	25 May 2014	Compressor (membrane compressor), nuclear security level: 3
	Civil nuclear safety equipment design permit 4 (民用核安全設備設計許可證)	National Nuclear Safety Administration	25 May 2014	Compressor (membrane compressor), nuclear security level: 3
	Safety Production Permit (安全生產許可證)	Beijing Municipal Commission of Housing and Urban-rural Development	24 August 2014	Construction
	Road Transport Licenses	Transportation Administration of Beijing Municipal Commission of Transport	7 May 2016	General cargo
	Certificate for the Qualification of Construction Companies (建築業企業資質證書)	Beijing Municipal Commission of Development	Long term	Electronic equipment installations contracting: level three
Fusheng Machine	National Production License for Industrial Product (全國工業產品生產許可證)	AQSIQ	19 October 2015	Products with production permit: air compressor

IV. HISTORY AND DEVELOPMENT OF THE TARGET GROUP**Incorporation of Tianhai Industrial**

In October 1992, pursuant to the “Approval of the Feasibility Report on the Joint Establishment of 北京天海高壓容器有限公司 (Beijing Tianhai High Pressure Containers Co., Ltd.) ([1992] Jing Jing Wei Ji Zi No.210)” of Beijing Municipal Commission of Economy and Beijing Municipal Commission of Development Planning, the “Approval of the Contract, Articles of Association and Board Composition of the Joint Venture of Beijing High Pressure Containers Co., Ltd. ([92]Jing Jing Mao Zi Zi No.577)” of Beijing Municipal Foreign Economic and Trade Commission and the “Contract for the Joint Venture of Beijing High Pressure Containers Co., Ltd.” signed by both parties, Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠) and Korea High Pressure Containers Co., Ltd. (韓國高壓容器株式會社) jointly contributed the capital and established Beijing High Pressure Containers Co., Ltd.. In August 1993, according to the “Resolution relating to the Change of Company Name and establishment of Branch Office for Metal Construction Materials of Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司金屬建材分公司) at the Second Meeting of the First Board of Directors of Beijing High Pressure Containers Co., Ltd.”, the name of Beijing High Pressure Containers Co., Ltd. was changed to the present name of Tianhai Industrial.

Incorporation of Jingcheng Compressor

For implementing the requirement of reducing environmental pollution and containing the trend deteriorating ecology under the Approval of Tenth 5-year Plan of National Environmental Protection by the State Council (Guo Han[2001]No.169), Jingcheng Holding decided to develop environmental protection industry and to establish Jingcheng Compressor (formerly known as Beijing Jingcheng Environmental Protection Development Co., Ltd.). In July 2002, pursuant to the “Resolution of Beiren Group relating to the Acquisition of Property Rights of Four Wholly-owned Subsidiaries of Beijing Electric Machinery Co., Ltd. (北京汽輪電機有限責任公司) including Beijing Beiyi Membrane Compressor Factory (北京北一通膜式壓縮機廠) for the Investment in Beijing Jingcheng Environmental Protection Development Co., Ltd.) (Beiren Ji Dong Zi [2002]No. 6)” and the Contributors Agreement signed by the three parties, Jingcheng Holding, Beiren Group and Beijing State-owned Assets Management Co., jointly contributed the capital and established Jingcheng Compressor.

Key milestones in the history and formation of the Target Group are set out below:

Year	Events
1992	Official opening of Tianhai Industrial (then known as 北京天海高壓容器有限公司 (Beijing Tianhai High Pressure Containers Co., Ltd.))
1993	The name of Beijing Tianhai High Pressure Containers Co., Ltd. (北京天海高壓容器有限公司) was changed to Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司)
1999	Tianhai Industrial was ranked by State Economic and Trade Commission as a Foreign-invested Advanced Technology Enterprise
2002	Tianjin Tianhai was established Jingcheng Compressor (then known as 北京京城環保產業發展有限責任公司 (Beijing Jingcheng Environmental Protection Development Co., Ltd.)) was established

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- Jingcheng Compressor approved by Beijing Municipal Science & Technology Commission as a high and new technology enterprise
- Jingcheng Compressor obtained qualification certificate for the manufacturing of pressure container
- 2003 Jingcheng Compressor obtained mechanical and electrical equipment installation engineering contracting qualification certificate of Grade III
- 2004 Tianhai Industrial won National Labour Award
- Tianhai Industrial was named as “civilized unit” of national machinery industry
- Jingcheng Compressor obtained the license for fixed reciprocating piston air compressor and screw air compressor
- 2005 Shanghai Tianhai was established
- Jingcheng HK was incorporated
- 2006 Tianhai Xigang was established
- Tianhai Industrial recorded sales of over RMB1 billion, export of US\$60 million, which were record levels
- Tianhai Industrial ranked among Top 50 China Oil and Petrochemical Equipment Manufacturing Enterprises
- One-trial successful commissioning of Jingcheng Compressor’s 3 sets of 2D25 at the Jiangxi Xinghuo New Materials Factory (江西星火新型材料廠)
- 2007 Langfang Tianhai was established
- 2008 Tianhai Cryogenic was established
- 2008 Tianhai Industrial recorded export of US\$120 million
- Jingcheng Compressor signed the Shanxi coalbed methane project
- Jingcheng Compressor signed contract selling 8 sets of GD4 diaphragm compressors totaling over RMB11 million
- Jingcheng Compressor obtained the certificate of high and new technology enterprise
- 2009 Tianhai Industrial recorded sales revenue of RMB1.74 billion
- Tianhai Industrial held the expanded meeting of manager’s office, formally commencing the formulation of its 12th 5-year Plan strategic planning and confirming the direction of development in the gas storage and transportation industry
- Jingcheng Compressor obtained the license for the design and manufacturing of civil nuclear safety machinery equipment issued by the State Bureau of Nuclear Safety
- 2010 Tianhai Industrial acquired America Fortune, signifying the establishment of a United States-incorporated company by Tianhai Industrial
- All of Jingcheng Compressor’s headquarters and place of registration entered the new energy and environmental protection industry base of Badaling Economic Development Zone

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- 2011 One-trial success of heavy load test for the first 4M25 large compressor independently researched and developed by Jingcheng Compressor
- Tianhai Industrial defined its vision, mission, strategic goal, product mix, key projects, strategic initiatives, etc. of its strategic planning for the 12th 5-year Plan. Its product positioning extended from “gas cylinder” to include “cylinder, tank, vehicle and station” products, with “tank, vehicle and station” as its new growth driver
- Jingcheng Compressor obtained certification of Beijing Municipal Safety Production Standardisation (National Grade II)
- Jingcheng Compressor secured the project of Shenhua Wuhai Coal Company (神華烏海能源公司) under the Shenhua group for 3 sets 4M16 nitrogen compressors with a total amount of over RMB7 million
- 2012 One-trial success of 4M40 series new product of Jingcheng Compressor, signifying the complete advancement of piston compressors from the D series into M series
- Jingcheng Compressor had changed its name from 北京京城環保產業發展有限責任公司 (Beijing Jingcheng Environmental Protection Development Co., Ltd.) to 北京京城壓縮機有限公司 (Beijing Jingcheng Compressor Development Co., Ltd.)
- Key representatives of Jingcheng Compressor signed the Multi-parties Technological Cooperation Agreement for Research and Development of Compressors with Xi'an Jiaotong University, Beijing University of Science and Technology and Institute of Mechanics, Chinese Academy of Sciences at the premises of Jingcheng Compressor
- The disposal of equity interests in Jingcheng Tianyi by Jingcheng Compressor was completed

V. BUSINESS

The Incoming Assets comprise 71.56% equity interests in Tianhai Industrial (after the capital increase, the equity interests of Tianhai Industrial hold by Jingcheng Holding increase to approximately 88.51%, the accurate equity ratio should be based on industrial and commercial registration), and 100% equity interests in Jingcheng Compressor (after disposal of its environmental protection business) and 100% interests in Jingcheng HK.

Tianhai Industrial is a limited liability company incorporated in the PRC on 18 July 1992, which is owned as to 71.56% by Jingcheng Holding (Jingcheng Holding is currently under the process of capital injection of RMB230,000,000.00 to Tianhai Industrial, after the capital increase, the equity interests of Tianhai Industrial hold by Jingcheng Holding increase to approximately 88.51%, the accurate equity ratio should be based on industrial and commercial registration) and as to 28.44% by Jingcheng HK. The principal business activities of Tianhai Industrial are research and development, manufacture and sale of equipment for gas storage and transportation. In December 2009, Tianhai Industrial acquired 67.78% of equity interest in Shanghai Tianhai. In 2010, Tianhai Industrial acquired 100% and 51% equity interest in Panni Gaokong and America Fortune respectively, and acquired 70% equity interest in Langfang Tianhai in 2011.

Jingcheng Compressor is a PRC limited liability company incorporated on 6 August 2002 and its principal business activities are research and development, manufacture and sales of gas compressors. In September 2012, the registered capital of Jingcheng Compressor has been

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

increased by RMB29,990,000.00 to RMB139,271,500.00 and fully paid up by Jingcheng Holding. In order to avoid competition between the Company (after the Reorganisation) and other subsidiaries of Jingcheng Holding which are engaged in environmental protection business, Jingcheng Compressor has disposed of its environmental protection business in October 2012.

Jingcheng HK is an investment holding company incorporated in Hong Kong with limited liability and whose entire issued share capital is owned by Jingcheng Holding. As at the Latest Practicable Date, other than the holding of 28.44% interest in Tianhai Industrial (after the capital increase of Tianhai Industrial was completed, the equity interests held will decrease to approximately 11.59%) and 9.48% interests in Tianjin Tianhai, Jingcheng HK has no other business operations.

This section mainly introduces the business situation of Tianhai Industrial and Jingcheng Compressor.

I. Major use of products

(I) Tianhai Industrial

Tianhai Industrial, together with its various subsidiaries, possesses various qualifications relating to the design of class A1, A2, C2, C3 pressured cylinders and the manufacture of class A1, A2, B1, B2, B3, C3, D1, D2 pressured cylinders. The major products of Tianhai Industrial and its subsidiaries include seamless steel gas cylinders, hoop-wrapped gas cylinders, gas cylinders with seams, cryogenic cylinders and large cryogenic storage and transportation equipment etc. The main usage of the products above is as follows:

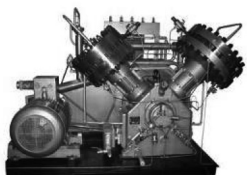
Major products	Usage	Illustration
Seamless steel gas cylinder	Seamless steel gas cylinders are divided into tubular gas cylinders and stamping gas cylinders according to different methods of manufacturing, which are mainly used for the storage and transportation of industrial gas and fire control gas (such as carbon dioxide).	
Hoop-wrapped gas cylinder	The hoop-wrapped gas cylinders are divided into looped gas cylinders and fully wrapped gas cylinders. Looped gas cylinders are mainly used for the storage of CNG for vehicles; fully wrapped gas cylinders are mainly used for the storage and transportation of respiratory gas, medical oxygen and CNG for vehicles.	 

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

Major products	Usage	Illustration
Gas cylinders with seams	Mainly used for the storage and transportation of acetylene and fire control gas (heptafluoropropane, etc.)	
Cryogenic gas cylinder	Mainly used for the storage and transportation of industrial gases such as liquid oxygen, liquid nitrogen and liquid argon and the storage of LNG for vehicles	
Large cryogenic storage and transportation equipment	Mainly including cryogenic storage tank and LNG refueling station and mainly used for the storage and transportation of liquefied air (liquid oxygen, liquid argon and liquid nitrogen, etc.) and LNG	

(II) Jingcheng Compressor

The compressors that are designed, manufactured, formed as a complete set and sold by Jingcheng Compressor are mainly piston compressors and diaphragm compressors, which can be used to compress various industrial gases such as hydrogen, oxygen, coal gas, oil gas, natural gas, nitrogen, methyl chloride, chloroethylene and hydrogen sulfide, etc.

Major products	Usage	Illustration
Piston compressor	Mainly used in petrochemical industry, fine chemical industry, coal chemical industry, iron and steel, polycrystalline silicon, metallurgy, recycling of carbon dioxide, and gathering and transportation of natural gas in oil fields, etc.	
Diaphragm compressor	Mainly used in space station, nuclear power stations, scientific research, polycrystalline silicon and coal chemical industry	

II. Procurement

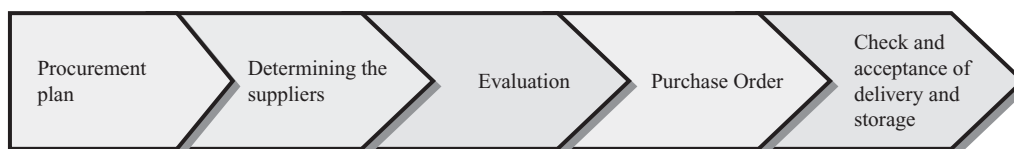
(I) Procurement mode

1. Tianhai Industrial

Tianhai Industrial and its subsidiaries adopt a procurement mode of “two-layer management”, pursuant to which Tianhai Industrial sets up a supply department and its subsidiaries set up supply and marketing departments to implement graded procurement management. The products procured by Tianhai Industrial and its subsidiaries are divided into products of group procurement and non-group procurement. The supply department of Tianhai Industrial is mainly responsible for the group procurement of products for Tianhai Industrial and its subsidiaries, the non-group procurement of products for the headquarters of Tianhai Industrial. It also instructs and supervises the procurement matters of its subsidiaries. The supply and marketing departments of the subsidiaries of Tianhai Industrial are mainly responsible for reporting their respective group procurement demand for products to the supply department of Tianhai Industrial, and independently procure non-group procurement products for each subsidiary.

Group procurement, which improves the quality of procurement and lowers the procurement cost, is suitable for the procurement of raw materials and parts in large volume. Non-group procurement, which improves the flexibility and efficiency of procurement, is suitable for the procurement of appliances for labor protection. According to the Procurement Management System and Procedures of Group Management, Control and Sales Center 《集團管控銷售中心採購管理制度和管理流程》 of Tianhai Industrial, Tianhai Industrial mainly procures products such as square steels, valves, paint, bottle necks and hoods, stainless steel, carbon steel plates, carbon fibers and glass fibers by way of group procurement. All other products which are procured by way of non-group procurement, are independently procured by Tianhai Industrial and its subsidiaries.

The procedures for the group procurement by the headquarters of Tianhai Industrial are as follow:



- (1) Procurement plan: At the beginning of each month, the strategy planning office shall issue a monthly working plan, following which the supply department shall prepare monthly material procurement plans and draft the procurement orders accordingly.
- (2) Determining the suppliers: The supply department shall choose, according to the procurement plans, product suppliers that meet the requirements in quality, production guarantee, delivery and service capacity and make fee quotation inquiries. The chosen product suppliers are assessed by both technology department and the supply department, the product suppliers are then approved by the quality control department.

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

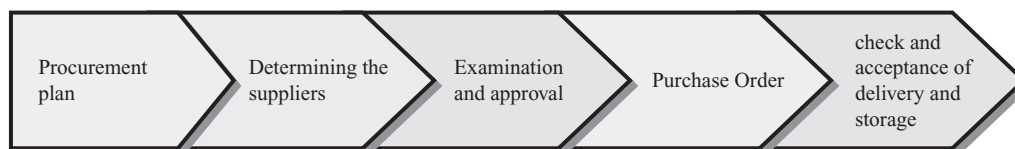
- (3) Evaluation: For new suppliers and suppliers with product quality issues on several occasions, the strategy planning office shall evaluate their qualifications or re-evaluate, and after the evaluation is passed, procurement can be made from these suppliers.
- (4) Purchase Order: The supply department shall conclude supply contracts with the chosen suppliers.
- (5) Check and acceptance of delivery and storage: The quality and quantity of materials procured shall be inspected. Upon satisfaction that the products conform with the relevant standards, the products shall be stored in the warehouse.

If the subsidiaries of Tianhai Industrial require products sourced by way of group procurement, they may report the procurement plan to Tianhai Industrial according to their demands.

2. *Jingcheng Compressor*

Jingcheng Compressor has established the piston compressor product department and the diaphragm compressor product department, both of which have procurement departments, in charge of the procurement of materials in relation to the production of piston compressors and diaphragm compressors respectively. The consumables and tools commonly used for both products are procured by the procurement department under the Piston Compressor Department.

The procedures for the procurement of Jingcheng Compressor are as follows:



- (1) Procurement plan: The production, technical and other departments shall report their procurement requirements to the procurement department according to the production plan, indicating information such as the type of materials, brand, quantity, time of delivery and requirements in respect of the materials required;
- (2) Determining the suppliers: If the suppliers are listed in the Directory of Qualified Suppliers, the Procurement Department may procure materials directly from them. If the suppliers are new, they are first required to be evaluated comprehensively and qualified by the operation control department followed by the approval by the general manager before the procurement can be made from these suppliers.
- (3) Examination and approval: The procurement plan shall be examined and approved by the chief of the procurement department;
- (4) Purchase Order: The supply department shall conclude supply contracts with the chosen suppliers.

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- (5) Check and acceptance of delivery and storage: The quality and quantity of materials procured shall be inspected. Upon satisfaction that the products conform with the relevant standards, the products shall be stored in the warehouse.

(II) Supply of raw materials, trend of raw material price and the proportion of the cost of raw materials in the total cost

1. *The proportion of the cost of major raw materials and the energy in the total cost*

(1) *Tianhai Industrial*

The major raw materials and energy used by Tianhai Industrial and its subsidiaries for production include steel tubes, square steel, stainless steels, natural gas and carbon steel plates. During the Track Record Period, the procurement of main raw materials and energy of Tianhai Industrial and its subsidiaries with combined calibers for each of the financial year ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012 are as follows:

A. Procurement of major raw materials and energy from January to July in 2012

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Steel tube	Ferrous metal	29,580.92	25.38%
Square steel	Ferrous metal	7,976.04	6.84%
Stainless steel	Ferrous metal	4,991.87	4.28%
Natural gas	Energy	3,055.64	1.62%
Carbon steel plate	Ferrous metal	1,172.98	1.01%
Total		<u>46,777.45</u>	<u>40.14%</u>
Total amount of procurement		<u>116,543.42</u>	<u>100.00%</u>

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

B. Procurement of major raw materials and energy in 2011

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Steel tube	Ferrous metal	45,009.30	21.25%
Square steel	Ferrous metal	19,091.60	9.01%
Stainless steel	Ferrous metal	7,045.80	3.33%
Natural gas	Energy	5,482.00	2.59%
Carbon steel plate	Ferrous metal	1,830.22	0.86%
Total		<u>78,458.92</u>	<u>37.03%</u>
Total amount of procurement		<u>211,858.09</u>	<u>100.00%</u>

C. Procurement of major raw materials and energy in 2010

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Steel tube	Ferrous metal	36,715.40	20.78%
Square steel	Ferrous metal	16,510.50	9.34%
Stainless steel	Ferrous metal	5,445.90	3.08%
Natural gas	Energy	4,791.71	2.71%
Carbon steel plate	Ferrous metal	1,346.96	0.76%
Total		<u>64,810.47</u>	<u>36.67%</u>
Total amount of procurement		<u>176,719.30</u>	<u>100.00%</u>

D. Procurement of major raw materials and energy in 2009

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Steel tube	Ferrous metal	36,139.70	24.81%
Square steel	Ferrous metal	14,920.10	10.24%
Natural gas	Energy	4,001.74	2.75%
Stainless steel	Ferrous metal	3,541.50	2.43%
Carbon steel plate	Ferrous metal	1,934.23	1.33%
Total		<u>60,537.27</u>	<u>41.55%</u>
Total amount of procurement		<u>145,684.27</u>	<u>100.00%</u>

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(2) *Jingcheng Compressor*

The raw materials procured by Jingcheng Compressor are mainly rough castings, semi-finished forging products, electric motors, instruments and meters, valves, fasteners, and the amount of these raw materials accounts for a small proportion in the total amount. The major raw materials used by Jingcheng Compressor for production include plates, tubes and profile steel. During the Track Record Period, the procurement of major raw materials for each of the financial year ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012 are as follows:

A. Procurement of major raw materials from January to July in 2012

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Plates	Ferrous metal	139.71	3.74%
Tubes	Ferrous metal	52.89	1.42%
Profile steel	Ferrous metal	15.52	0.42%
Total		<u>208.12</u>	<u>5.58%</u>
Total amount of procurement		<u>3,732.88</u>	<u>100.00%</u>

B. Procurement of major raw materials in 2011

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Plates	Ferrous metal	107.58	1.00%
Tubes	Ferrous metal	97.18	0.91%
Profile steel	Ferrous metal	21.61	0.20%
Total		<u>226.37</u>	<u>2.11%</u>
Total amount of procurement		<u>10,708.29</u>	<u>100.00%</u>

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C. Procurement of major raw materials in 2010

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Plates	Ferrous metal	145.36	1.86%
Tubes	Ferrous metal	81.41	1.04%
Profile steel	Ferrous metal	44.71	0.57%
Total		<u>271.48</u>	<u>3.48%</u>
Total amount of procurement		<u>7,897.99</u>	<u>100.00%</u>

D. Procurement of major raw materials in 2009

Products	Classification	Amount of Procurement (RMB'0000)	Proportion in Total Amount of Procurement
Plates	Ferrous metal	182.01	2.56%
Tubes	Ferrous metal	69.45	0.98%
Profile steel	Ferrous metal	21.06	0.30%
Total		<u>272.52</u>	<u>3.83%</u>
Total amount of procurement		<u>6,310.53</u>	<u>100.00%</u>

2. *Trend of raw material prices*

The major raw materials of Tianhai Industrial and Jingcheng Compressor are steel products, and Tianhai Industrial also uses natural gas as its main energy.

(1) *Steel Price Index*

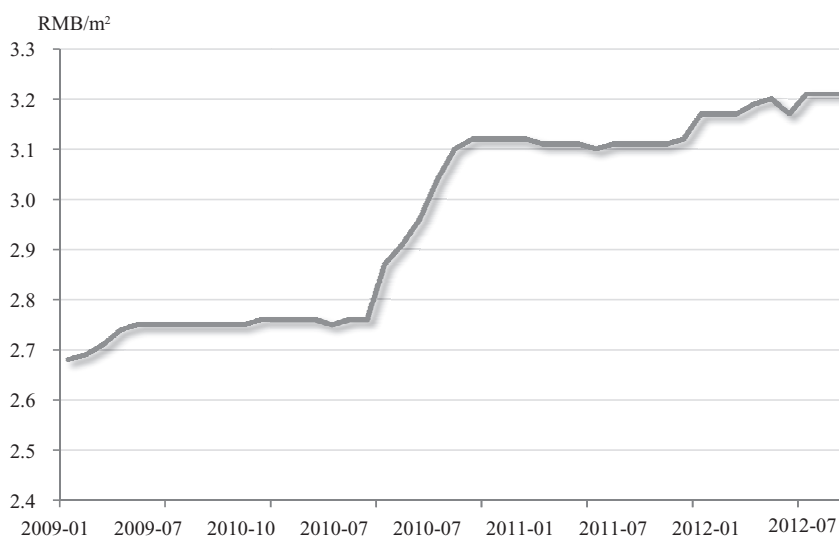
The chart of Steel Price Index from 2009 up to mid-2012 is as follows:



Source: GILDATA

(2) *Natural Gas Price Index*

The chart of Natural Gas Price Index from 2009 up to mid-2012 is as follows:



Source: CEIC

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

The great volatility of the major raw materials used by Tianhai Industrial and Jingcheng Compressor for production in recent years brings certain volatility risks for future production and operations. The rising natural gas price has an immaterial impact on the cost of Tianhai Industrial as the procurement amount of natural gas by Tianhai Industrial only accounts for a small proportion in the total procurement amount.

(III) Procurement from top five suppliers

1. Tianhai Industrial

The procurement of Tianhai Industrial and its subsidiaries from the top five suppliers is as follows:

(1) Procurement from top five suppliers from January to July in 2012

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
天津市潤德中天機電設備有限公司 (Tianjin Runde Zhongtian Electromechanical Equipment Co., Ltd), 天津潤德中天鋼管有限公司 (Tianjin Runde Zhongtian Steel Pipe Co., Ltd)	33,507.89	28.75%
衡陽華菱鋼管有限公司 (Hengyang Valin Steel Tube Co., Ltd.)	5,760.34	4.94%
本溪滙鑫銅鐵貿易有限公司 (Benxi Huixin Steel & Iron Trade Co., Ltd.)	3,937.28	3.38%
淮安市振達鋼管製造有限公司 (Huai'an Zhenda Steel Tube Manufacturing Co., Ltd.)	3,786.23	3.25%
寧波三安製閥有限公司 (Ningbo Sanan Valve Manufacture Co., Ltd.)	2,762.67	2.37%
Total amount of procurement from the top five suppliers	<u>49,754.42</u>	<u>42.69%</u>
Total amount of procurement	<u>116,543.42</u>	<u>100.00%</u>

Note: For suppliers under the same controller, the amount of procurement has been aggregated. (the same below)

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(2) Procurement from the top five suppliers in 2011

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Tianjin Runde Zhongtian Electromechanical Equipment Co., Ltd, Tianjin Runde Zhongtian Steel Tube Co., Ltd	73,310.06	34.60%
Hengyang Valin Steel Tube Co., Ltd.	12,370.22	5.84%
Benxi Huixin Steel & Iron Trade Co., Ltd.	8,914.09	4.21%
Huai'an Zhenda Steel Tube Manufacturing Co., Ltd.	3,817.32	1.80%
山西太鋼不銹鋼股份有限公司 (Shanxi Taigang Stainless Steel Co., Ltd.)	3,538.17	1.67%
Total amount of the procurement from the top five suppliers	101,949.86	48.12%
Total amount of procurement	211,858.09	100.00%

(3) Procurement from the top five suppliers in 2010

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Tianjin Runde Zhongtian Electromechanical Equipment Co., Ltd, Tianjin Runde Zhongtian Steel Tube Co., Ltd	61,232.68	34.65%
Shanxi Taigang Stainless Steel Co., Ltd.	9,097.96	5.15%
Hengyang Valin Steel Tube Co., Ltd.	7,263.94	4.11%
Benxi Huixin Steel & Iron Trade Co., Ltd.	5,039.17	2.85%
太原鋼滙不銹鋼有限公司 (Taiyuan Ganghui Stainless Co., Ltd.)	3,892.89	2.20%
Total amount of the procurement from the top five suppliers	86,526.64	48.96%
Total amount of procurement	176,719.30	100.00%

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(4) Procurement from the top five suppliers in 2009

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Tianjin Runde Zhongtian Electromechanical Equipment Co., Ltd, Tianjin Runde Zhongtian Steel Tube Co., Ltd	51,111.54	35.08%
Shanxi Taigang Stainless Steel Co., Ltd. Taiyuan Iron & Steel (Group) Spot Trading Co., Ltd.	13,416.84	9.21%
Hengyang Valin Steel Tube Co., Ltd.	8,338.78	5.72%
Taiyuan Ganghui Stainless Co., Ltd.	2,288.09	1.57%
北京寶德複合材料有限公司 (Beijing Baode Composite Material Co., Ltd.)	1,757.60	1.21%
Total amount of the procurement from the top five suppliers	<u>76,912.85</u>	<u>52.79%</u>
Total amount of procurement	<u>145,684.27</u>	<u>100.00%</u>

In conclusion, in 2009, 2010, 2011 and January to July in 2012, Tianhai Industrial and its subsidiaries neither procured materials of more than 50% of the total procurement amount for the period from a single supplier, nor relied heavily on few suppliers for the procurement. The Target Group has no interest in the suppliers above. None of the connected persons of the Group or the Target Group is interested in the suppliers above.

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

2. *Jingcheng Compressor*

The procurement of Jingcheng Compressor from the top five suppliers is as follows:

(1) *Procurement from the top five suppliers from January to July in 2012*

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
北京一通通用機械有限責任公司氣體壓縮機廠 (Beijing Yitong General Machinery Co., Ltd Gas Compressor Plant)	593.38	15.90%
北京中鼎恒盛氣體設備有限公司 (Beijing Zhongding Hengsheng Gas Equipment Co., Ltd.)	447.50	11.99%
北京天宇南防電機銷售有限公司 (South Beijing Universe Against Electrical Machinery Sale Limited Company)	134.91	3.61%
瀋陽撫特鋼鋼材經銷處 (Shenyang Fute Specdial Steel Distributor)	131.12	3.51%
阜城縣生髮機械設備有限公司 (Fucheng Shengfa Mechanical Equipment Co., Ltd.)	126.35	3.38%
Total	1,433.26	38.4%
Total amount of procurement	3,732.88	100.00%

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(2) Procurement from the top five suppliers in 2011

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Fucheng Shengfa Mechanical Equipment Co., Ltd.	422.54	3.95%
Beijing Zhongding Hengsheng Gas Equipment Co., Ltd.	413.58	3.86%
廊坊市長青石油管件有限公司 (Langfang Changqing Petroleum Pipe Fittings Co., Ltd.)	407.69	3.81%
北京實創通機電設備有限公司 (Beijing Shichuangtong Mechanical & Electrical Equipment Co., Ltd.)	333.68	3.12%
北京京城工業物流有限公司 (Beijing Global Industrial Supply Co., Ltd.)	239.86	2.24%
Total	<u>1,817.35</u>	<u>16.97%</u>
Total amount of procurement	<u>10,708.29</u>	<u>100.00%</u>

(3) Procurement from the top five suppliers in 2010

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Beijing Zhongding Hengsheng Gas Equipment Co., Ltd.	601.86	7.71%
北京一通通用機械有限責任公司氣體壓縮機廠 (Beijing Yitong General Machinery Co., Ltd Gas Compressor Plant)	555.55	7.12%
Fucheng Shengfa Mechanical Equipment Co., Ltd.	297.47	3.81%
營口渤海換熱設備有限公司 (Yingkou Bohai Heat Exchange Equipment Co., Ltd.)	192.71	2.47%
北京精瑞聯通機械廠 (Beijing Jingrui Liantong Machinery Factory)	156.36	2.00%
Total	<u>1,803.95</u>	<u>23.11%</u>
Total amount of procurement	<u>7,806.20</u>	<u>100.00%</u>

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(4) Procurement from the top five suppliers in 2009

Name of Supplier	Amount of Procurement (RMB'0,000)	Proportion in Total Amount of Procurement
Beijing Zhongding Hengsheng Gas Equipment Co., Ltd.	412.97	5.81%
北京一通通用機械有限責任公司 (Beijing Yitong General Machinery Co., Ltd.)	313.56	4.41%
Langfang Changqing Petroleum Pipe Fittings Co., Ltd.	161.37	2.27%
Fucheng Shengfa Mechanical Equipment Co., Ltd.	159.90	2.25%
Beijing Shichuangtong Mechanical & Electrical Equipment Co., Ltd.	127.06	1.79%
Total	<u>1,174.86</u>	<u>16.52%</u>
Total amount of procurement	<u>7,110.07</u>	<u>100.00%</u>

In conclusion, in 2009, 2010, 2011 and January to July in 2012, Jingcheng Compressor neither procured materials of more than 50% of the total procurement amount for the period from a single supplier, nor relied heavily on few suppliers for the procurement. The Target Group has no interest in the suppliers above. The suppliers above are not controlled by the same actual controller. Other than Beijing Global Industrial Supply Co., Ltd. which is a subsidiary of Jingcheng Holding, none of the connected persons of the Group or the Target Group is interested in the suppliers above.

III. Production

(I) Production mode

1. Tianhai Industrial

The production mode of Tianhai Industrial and its subsidiaries is “Management and control by the headquarters and independent production”. The main mode used by Tianhai Industrial and its subsidiaries to organize production is as follows:

- (1) Tianhai Industrial holds a bi-weekly contract coordination meeting to discuss the production arrangements and plans for the sales contract, and to determine the production assessment plans, products, quantities and output time requirements for each subsidiary. Representatives from the technical, production, supply, quality inspection and sales departments and management from each of the subsidiaries shall attend the meeting.
- (2) The production department of each of Tianhai Industrial and its subsidiaries is in charge of the implementation of production plans determined at the contract coordination meeting on time with quantity and quality assured.

- (3) The strategy planning office of Tianhai Industrial is responsible for organizing the contract coordination meeting, supervising and renewing relevant provisions in the sales contracts and supervising and assessing the supplies, production and inspection works with respect to such contracts.

2. *Jingcheng Compressor*

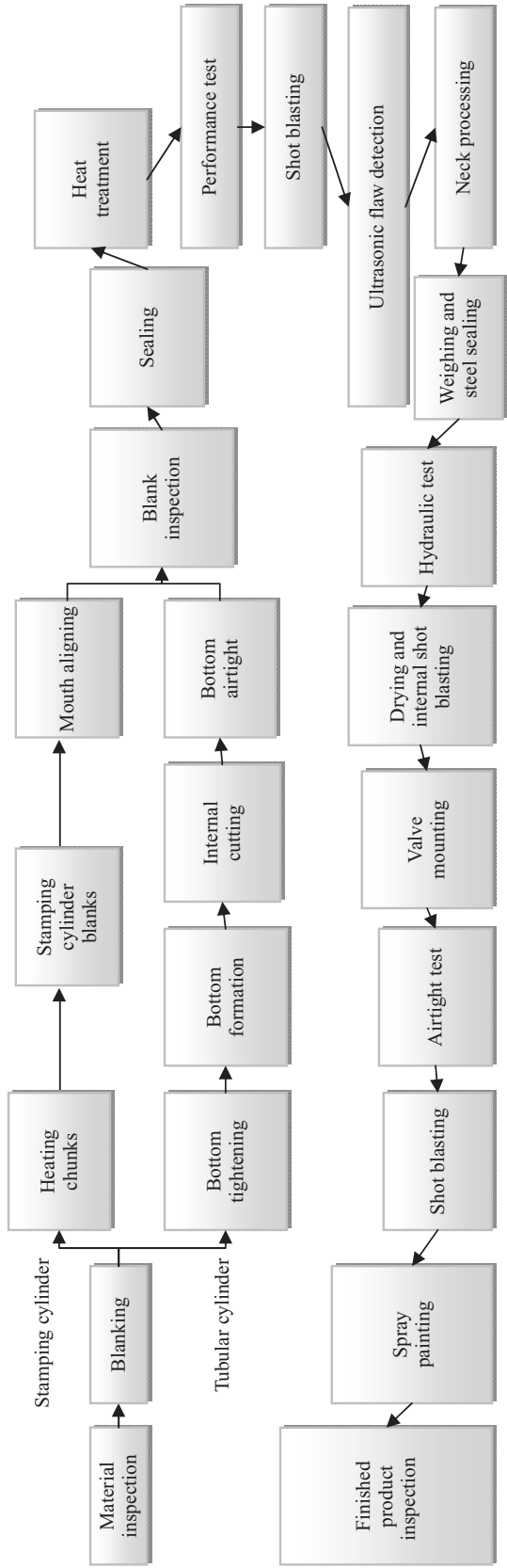
Jingcheng Compressor has established the piston compressor product department and the diaphragm compressor product department, which are in charge of the production of piston compressors and diaphragm compressors respectively. The production mode of Jingcheng Compressor is as follows:

- (1) The transportation and control department issues the production orders according to the sales contract, and prepares product design and production progress plans to each product design department and product department.
- (2) The product design department issues design drawings and process in accordance with the Production Division Plan 《產品分工計劃》 and Management Measures for Technical Documents 《技術文件管理辦法》.
- (3) The product department prepares product processing plans according to the Work Order for Semi-finished Products 《半成品工令》, coordinates the processing of the semi-finished products, and handles the warehousing formalities for the semi-finished products after they pass the inspection from the inspection department;
- (4) The product department coordinates the assembly, trial running, spray painting, packaging and warehousing works for the products according to the monthly production plan.

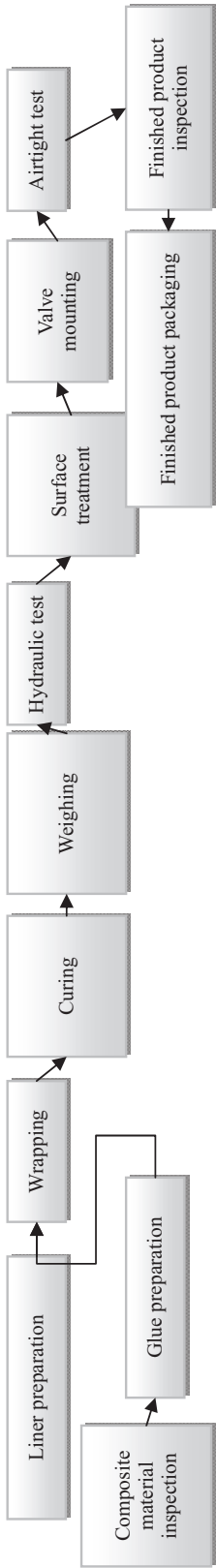
(II) The process flow chart for major products

1. Tianhai Industrial

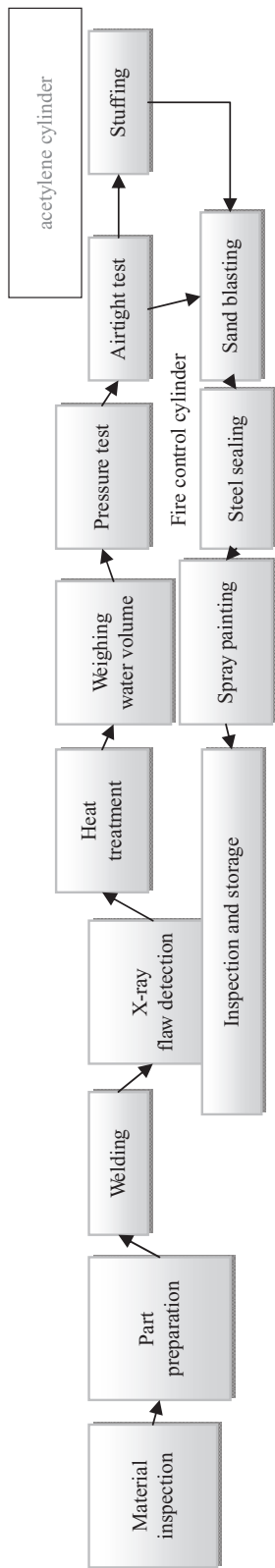
(1) Seamless steel gas cylinder



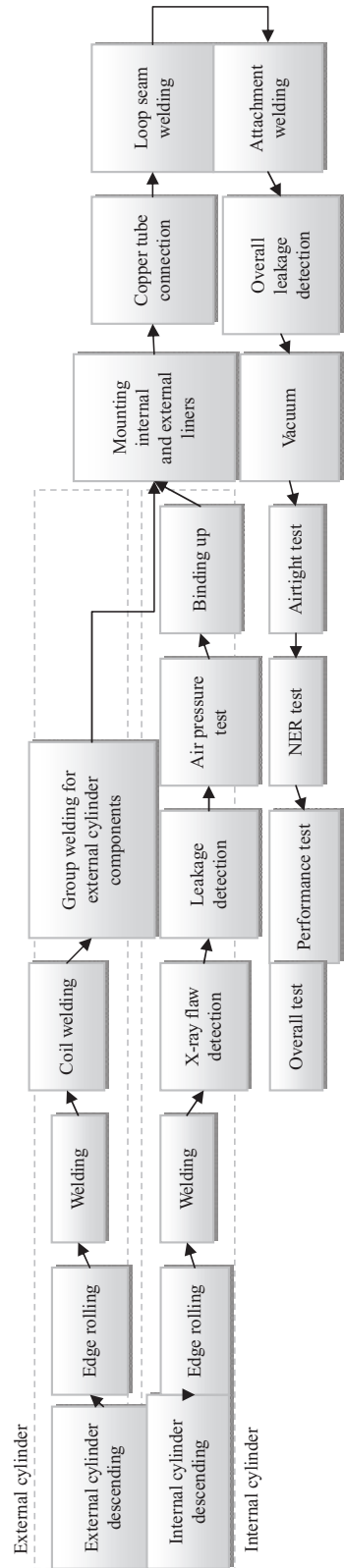
(2) Hoop-wrapped gas cylinder



(3) Gas cylinders with seams

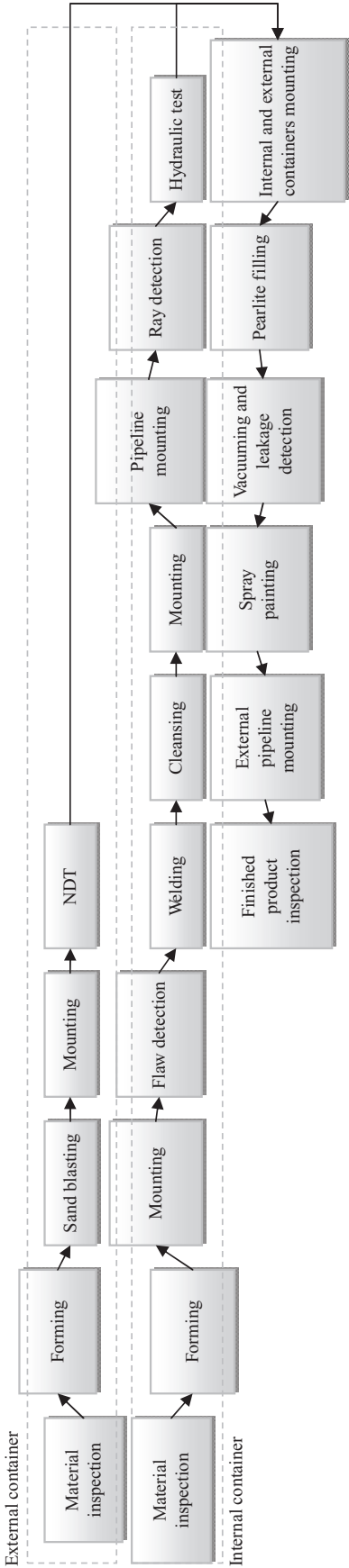


(4) Cryogenic gas cylinder

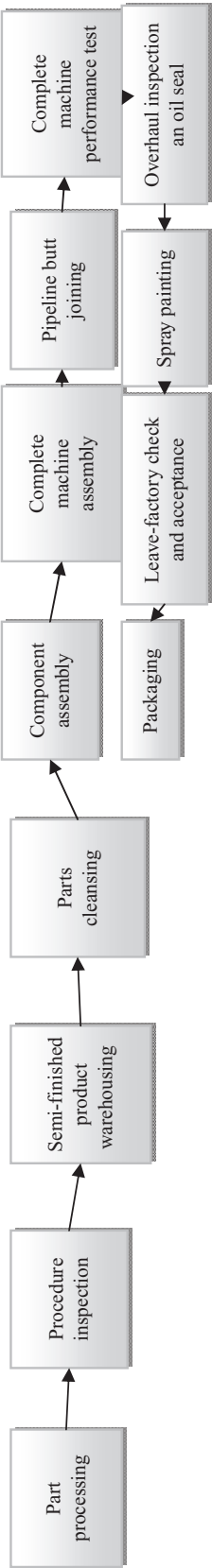


(5) Cryogenic storage tank

The manufacturing process flow chart of cryogenic storage tank is as follows:



2. The flowchart of products of Jingcheng Compressor



APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

(III) Production capacity and volume of major products

1. Tianhai Industrial

The table below indicates the production capacity and volume of major products of Tianhai Industrial and its subsidiaries:

Name of Product	Measurement Unit	2009		2010		2011		January to July, 2012
		Capacity	Volume	Capacity	Volume	Capacity	Volume	Volume
Seamless steel gas cylinder	bottle	2,000,000	2,030,389	2,200,000	2,194,011	2,500,000	2,433,468	1,373,207
Hoop-wrapped gas cylinder	bottle	300,000	225,272	300,000	271,809	300,000	334,975	185,084
Gas cylinders with seams	bottle	100,000	105,549	150,000	145,702	180,000	186,921	84,588
Cryogenic gas cylinder	bottle	7,000	6,914	12,000	11,496	15,000	10,985	9,207
Large cryogenic storage and transportation equipment	set	120	89	200	172	200	197	158

Note: The capacity was determined based on the then expected production efficiency and regular number of shifts. When the demand for production is high, the number of shifts and manpower will be increased and adjusted to enhance the volume of outputs, which may result in the actual production exceeding the capacity.

2. Jingcheng Compressor

The table below indicates the production capacity and volume of major products of Jingcheng Compressor:

Name of Product	Measurement unit	2009		2010		2011		January to July, 2012
		Capacity	Volume	Capacity	Volume	Capacity	Volume	Volume
Piston compressor	set	60	45	75	94	80	76	17
Diaphragm compressor	set	90	119	95	72	100	115	40

Note: The capacity is determined annually based on the designed capacity and the processing and assembling ability of the machinery, with reference to the standard type of machinery and the historical production volume. The actual production volume may vary due to the different types of machinery ordered by customers and the production difficulty of such machinery.

(IV) Quality control

1. Tianhai Industrial

As at the Latest Practicable Date, ISO 9001 certification systems that Tianhai Industrial and its subsidiaries had passed are as follows:

Name of Company	Certification System	Certificate No.	Expiry Date
Tianhai Industrial	ISO 9001:2008 GB/T 19001-2008	00110Q29131R3L/1100	28 September 2013
Tianhai Cryogenic	ISO 9001:2008 GB/T 19001-2008	00110Q29131R3S-4/1100	28 September 2013
Langfang Tianhai	ISO 9001:2008 GB/T 19001-2008	00110Q29131R3M-3/1100	28 September 2013
Shanghai Tianhai	ISO 9001:2008 GB/T 19001-2008	00110Q29131R3M-2/1100	28 September 2013
Tianjin Tianhai	ISO 9001:2008 GB/T 19001-2008	00110Q29131R3M-2/1100	28 September 2013

Tianhai Industrial and its subsidiaries strictly ensures the quality of products and safety production in accordance with the requirements of ISO 9001:2008 quality management system certification. Tianhai Industrial and its subsidiaries implements strict quality control in respect of all their products with product inspection points throughout the courses of design and production, from sourcing of raw materials and cooperation parts, inspection of outsourcing parts to the size inspection, mechanical performance tests, pressure tests, hardness tests, leakage tests, non-destructive tests during the production process, up to the final inspection of the end-products. Each and every product of Tianhai Industrial and its subsidiaries has passed the supervision and examination by provincial and municipal special equipment inspection centers where the product is produced. Products to be exported and individual domestic products have also passed the supervision and examination from authoritative third-party inspection companies.

There has been no material quality disputes between Tianhai Industrial and its subsidiary and the customers during the Track Record Period.

2. Jingcheng Compressor

Jingcheng Compressor has passed GB/T 19001-2008/ISO 9001:2008 quality management system certification, and its product quality has been improving continuously after nearly ten years of system operation and improvement. Jingcheng Compressor has prepared relevant management documentations, which integrates the requirements of the aforesaid quality system certification, for the design, manufacture and management system of pressured cylinders and for the design, manufacture and quality assurance system of civil nuclear safety equipment in order to strictly control product quality and effectively ensure production safety.

Jingcheng Compressor has qualified personnel and equipment to meet the inspection and testing requirements. The checking and testing process are mainly conducted in the workshop. The inspection and examination of the materials (including the shaping and welding materials etc.) are conducted by the materials inspection personnel of the quality assurance department. The inspection and

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examination process include the review of geometric dimensions, inspections of materials and review of certificate of quality. The inspection standard should be the same as the technology standard of the relevant materials.

The inspection procedures include the processing inspection, material identification and examination, cutting size checking, weld inspection, final size inspection, product assembly inspection, product performance inspection and the quality of paint surface inspections etc. The above inspections are all conducted by the inspection personnel with corresponding qualifications of the quality assurance department.

There has been no material quality disputes between Jingcheng Compressor and the customers during the Track Record Period.

(V) Safety production and environmental protection

Tianhai Industrial has passed ISO 14001: 2004 Environment Management System Certification and GB/T 28001-2001 Occupational Health and Safety Management System Certification, and Jingcheng Compressor has passed GB/T 24001 idt ISO 14001:2004 Environment Management System Certification and GB/T 28001-2001 Occupational Health and Safety Management Certification. Tianhai Industrial and Jingcheng Compressor strictly implement the standards of relevant system certifications, effectively ensure production safety and comply with the requirements of laws and regulations on environment protection.

In order to ensure the effectiveness and continuous enhancement of the operating systems, Tianhai Industrial and Jingcheng Compressor would review the systems based on the quality policy and target, review results, data analysis, rectification and preventative measures and management review and take the relevant follow up actions. In particular, they carry out regular supervision, inspection and analysis activities to actively and continuously improve the products, production process and system. Through the establishment and execution of the internal review mechanism and the annual review by external professional inspectors, the suitability and effectiveness of the systems are regularly monitored. Any area found to be below standard during such reviews shall be rectified and any dissatisfactory performance shall be improved, so as to ensure that the policy and target can be fulfilled and the system be gradually improved, resulting in the improvement in business performance.

During the Track Record Period, Tianhai Industrial and its subsidiaries and Jingcheng Compressor have complied with the provisions of applicable laws and regulations with respect to safety production in their production and operation activities, have had no serious safety production accidents and have never been penalised for any violation of laws or regulations with respect to safety production.

During the Track Record Period, Tianhai Industrial and its subsidiaries and Jingcheng Compressor have complied with the provisions of applicable laws and regulations with respect to environment protection in their production and operation activities, have had no serious environment pollution accidents and have never been penalised for any violation of laws or regulations with respect to environment production.

IV. Sales**(I) Sales mode****1. *Tianhai Industrial***

Tianhai Industrial and its subsidiaries adopt a sales mode of direct sales supplemented by sales agency. Direct sales are mainly for key customers while sales agency for smaller ones. For the three financial years ended 31 December 2011, the revenue obtained from direct sales constituted 67.86%(2009), 64.73%(2010) and 59.83%(2011) respectively of the total revenue and for the seven months ended 31 July 2012, the revenue obtained from direct sales constituted 56.76% of the total revenue, with the rest of the revenue obtained through sales agency. Direct sales mean the sales of products directly from Tianhai Industrial to the end customers. The products will be taken directly from the manufacturing factory or the warehouse and transported to the end customers. The title and ownership of the products will be transferred directly from Tianhai Industrial to the end customers. If sales through sales agency, Tianhai Industrial will contract with the agents who may or may not have already received the orders of the end customers. After contracting with the sales agents, the products will be transported from the manufacturing factory to the agents and then sold to the end customers. The title and ownership of the products sold through sales agency will be transferred at the time of sales to the sales agents.

Other than cryogenic storage and transportation products (which are independently produced and sold by Tianhai Cryogenic), all the other products produced by Tianhai Industrial and its subsidiaries are sold by Tianhai Industrial. The sales department of Tianhai Industrial is divided into the domestic sales department and international sales department. The domestic sales department is divided into No. 1 sales department, which is in charge of sales of seamless steel gas cylinders, hoop-wrapped gas cylinders, and gas cylinders with seams, and No. 2 sales department, which is in charge of sales of cryogenic gas cylinders and large cryogenic storage and transportation equipment.

Tianhai Industrial currently hires 7 overseas sales agencies, with points of sale located in America, Europe, Australia and South East Asia such as Singapore and Malaysia, while there are 13 local sales agencies with points of sale in the PRC provinces, including Beijing, Shanghai, Guangzhou, Shangdong, Chengdu and Wuhan

2. *Jingcheng Compressor*

Jingcheng Compressor adopts a sales mode of direct sales, and it has no regional or industrial agencies, while it may grant rights of agency for certain projects. The products of Jingcheng Compressor are all custom-made with different configurations and different sales prices for each order. Jingcheng Compressor usually sells its products by way of tender. Before a tender, the marketing department, the Operation Control Department and Deputy Manager in charge shall collectively fix a price after taking into account factors such as market competition, customers, cost and its production capacity.

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(II) Sales volume and revenue of major products

1. Tianhai Industrial

The table below indicates the sales volume and revenue of major products of Tianhai Industrial and its subsidiaries:

Unit: RMB

Product Name	2009		2010		2011		January to July 2012	
	Revenue	Volume	Revenue	Volume	Revenue	Volume	Revenue	Volume
Domestic Sales								
Seamless steel gas cylinder	861,405,359.65	1,674,785.00	711,925,795.43	1,318,264.00	801,193,755.31	1,301,567.00	434,479,223.41	745,515.00
Hoop-wrapped gas cylinder	389,606,673.78	249,592.00	372,120,011.14	249,917.00	516,272,440.55	315,534.00	314,316,864.29	195,235.00
Cryogenic gas cylinder	74,074,105.39	7,092.00	66,272,565.90	6,960.00	64,512,759.07	6,156.00	44,360,026.87	4,258.00
Cryogenic storage and transportation equipment	14,756,420.51	76.00	36,806,185.84	121.00	66,835,477.13	165.00	52,073,381.73	128.00
Gas cylinder with seams	29,193,728.86	15,674.00	12,139,358.74	26,150.00	6,228,346.97	9,181.00	3,751,266.53	5,309.00
Others	52,044,164.63	82,446.00	59,501,167.78	110,948.00	82,383,660.74	132,615.00	49,165,064.49	86,492.00
International Sales								
Seamless steel gas cylinder	165,542,200.00	391,742.00	436,440,110.00	877,374.00	540,370,120.00	1,015,985.00	327,336,750.00	641,359.00
Hoop-wrapped gas cylinder	17,888,840.00	7,089.00	54,256,970.00	23,727.00	48,978,470.00	22,079.00	22,766,560.00	12,570.00
Cryogenic gas cylinder	9,212,510.00	1,005.00	37,320,490.00	3,890.00	65,412,030.00	4,806.00	61,426,770.00	4,347.00
Cryogenic storage and transportation equipment	1,548,250.00	7.00	12,116,870.00	43.00	12,823,780.00	31.00	11,452,800.00	29.00
Gas cylinder with seams	15,204,560.00	55,322.00	35,088,390.00	128,548.00	55,366,920.00	170,977.00	32,288,900.85	82,362.00
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	1,630,476,812.82	2,484,830.00	1,833,987,914.83	2,745,942.00	2,260,377,759.77	2,979,096.00	1,353,417,608.17	1,777,604.00

2. Jingcheng Compressor

The table below indicates the sales volume and revenue of major products of Jingcheng Compressor:

Unit: RMB

Product Name	2009		2010		2011		January to July 2012	
	Revenue	Volume	Revenue	Volume	Revenue	Volume	Revenue	Volume
Domestic Sales								
Piston Compressor	30,118,803.45	38	52,445,650.37	69	54,944,296.05	80	15,176,153.85	18
Diaphragm Compressor	58,878,547.01	98	33,029,931.05	69	61,218,117.95	107	10,835,042.74	17
Screw Compressor	313,675.21	4.00	68,376.07	1.00	312,820.51	5.00	0.00	0.00
International Sales								
Piston Compressor	681,405.21	1.00	2,477,930.32	3.00	1,135,399.68	1.00	0.00	0.00
Total	89,992,430.87	141.00	88,021,887.81	142.00	117,610,634.19	193.00	26,011,196.58	35.00

(III) Changes in product price

1. Tianhai Industrial

In the past three years, the price of the products of Tianhai Industrial dropped since 2009 and increased in 2011 mainly due to the weak demand from downstream industries for gas cylinder products as a result of the outbreak of financial crisis in

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2008. Meanwhile, in order to prevent the loss of market share to small and medium gas cylinder manufacturers which charge lower prices, Tianhai Industrial implemented an operation strategy of “surrendering profits but not the market share” (讓利不讓市) in 2009 and adjusted the price of some gas cylinder products downward to maintain the market share. The market demands gradually recovered in 2011, and with the price of raw materials rising, the price of the products of Tianhai Industrial also increased.

2. *Jingcheng Compressor*

The products of Jingcheng Compressor are all custom-made with different configurations and different sales prices for each order. Jingcheng Compressor sets different prices for different industries, regions and customers. In the past three years, the overall prices of products of Jingcheng Compressor have been increasing mainly due to: (1) higher expectations from customers for automatic control, higher implementation standards of the equipment and generally improved configurations; (2) successful cultivation of high end customers by Jingcheng Compressor; (3) continuous improvement of the product standardisation platform of Jingcheng Compressor, improving the competitiveness of the products.

(IV) Sales to the top five customers

1. *Tianhai Industrial*

The sales of Tianhai Industrial and its subsidiaries to the top five customers are as follows:

(1) *Sales to the top five customers from January to July in 2012*

Name of Customer	Amount of Sales (RMB10,000)	Proportion in current operating revenue
Cyl-Tec, Inc.	12,311.48	8.80%
Sichuan Hengruifeng International Trade Co., Ltd. (四川恒瑞豐國際貿易有限公司)	4,833.54	3.46%
Leebucc (Tianjin) Hydraulics Equipment Co., Ltd. (巴克立偉(天津)液壓設備有限公司)	4,715.05	3.37%
Shanxi Jingcheng Electronic Chemical Equipment Co., Ltd. (山西京誠機電設備有限公司)	4,555.18	3.26%
Chengdu Senrui Materials Trade Co., Ltd. (成都森瑞物資貿易有限責任公司)	4,053.66	2.90%
Total	30,468.90	21.78%
Operating revenue	139,882.28	100.00%

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(2) Sales to the top five customers in 2011

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
CYL-TEC Inc.	17,745.32	7.61%
Sichuan Hengruifeng International Trade Co., Ltd.	11,648.23	5.00%
Shanxi Jingcheng Electromechanical Equipment Co., Ltd.	10,200.32	4.37%
Western International Gas and Cylinders	8,094.73	3.47%
Leebucc (Tianjin) Hydraulics Equipment Co., Ltd.	6,424.74	2.76%
Total	54,113.33	23.21%
Operating revenue	233,154.43	100.00%

(3) Sales to the top five customers in 2010

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
CYL-TEC Inc.	10,344.49	5.46%
Shanxi Jingcheng Electromechanical Equipment Co., Ltd.	8,586.00	4.53%
Eurotech Cylinders Pvt. Ltd.	5,993.18	3.16%
Super Certral Gas Co. Ltd.	5,180.29	2.73%
Chengdu Senrui Materials Trade Co., Ltd.	4,865.90	2.57%
Total	34,969.86	18.46%
Operating revenue	189,478.78	100.00%

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(4) Sales to the top five customers in 2009

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
Chengdu Senrui Materials Trade Co., Ltd.	7,480.45	4.44%
Zibao Wuda Electromechanical Device Limited Liability Company (淄博市物達機電設備有限公司)	5,986.27	3.55%
Shanghai Qigao Industrial and Trading Company (上海琦高工貿有限公司)	5,964.21	3.54%
Eurotech Cylinders Pvt. Ltd.	5,058.35	3.00%
Wuhan Tianhai Chengxin Trading Co., Ltd. (武漢市天海誠信商貿有限公司)	4,899.25	2.91%
Total	<u>29,388.52</u>	<u>17.45%</u>
Operating revenue	<u>168,429.28</u>	<u>100.00%</u>

In conclusion, in 2009, 2010, 2011 and January to July in 2012, the amount of sales of Tianhai Industrial to a single customer did not exceed 50% of the total operating revenue for the period, or rely heavily on few customers for purchase. None of the connected persons of the Group or the Target Group is interested in the customers above.

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2. *Jingcheng Compressor*

The sales of Jingcheng Compressor to the top five customers are as follows:

(1) *Sales to the top five customers from January to July in 2012*

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
Shandong Ding Chang Silicon Industry Science and Technology Development Ltd. Co. (山東鼎昌矽業科技發展有限公司)	580.34	19.25%
Shaanxi Tianhong Silicon Industrial Corporation (陝西天宏矽材料有限責任公司)	449.57	14.91%
Inner Mongolia Shenzhou Silicon Industry Limited Liability Company (內蒙古神州矽業有限責任公司)	320.51	10.63%
Air Liquide Nantong Industrial Gas Company Limited (液化空氣(南通) 工業氣體有限公司)	229.91	7.63%
Zhejiang Quzhou Giant New Fluorine Chemical Industry Limited Company (浙江衢州巨新氟化工有限公司)	201.20	6.67%
Total	1,781.54	59.09%
Operating revenue	3,041.78	100.00%

Note: Operating revenue in the above table refers to the operating revenue of Jingcheng Compressor after simulated the peel off of the environmental business.

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(2) Sales to the top five customers in 2011

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
Daqing Puluo Oil Technology Co., Ltd. (大慶市普羅石油科技有限公司)	1,462.14	11.72%
Shaanxi Tianhong Silicon Industrial Corporation	841.88	6.75%
Xinjiang Daqo New Energy Co., Ltd. (新疆大全新能源有限公司)	610.15	4.89%
Henan Kaixing Fine Chemical Co., Ltd. (河南開祥精細化工有限公司)	511.11	4.10%
Shanxi Natural Gas Co., Ltd. (山西天然氣 股份有限公司)	446.15	3.58%
Total	3,871.44	31.02%
Operating revenue	12,479.74	100.00%

Note: Operating revenue in the above table refers to the operating revenue of Jingcheng Compressor after simulated the peel off of the environmental business.

(3) Sales to the top five customers in 2010

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
Beijing IST Machinery Engineering & Technology Co., Ltd. (北京英世騰機械工 程技術有限公司)	1,218.46	13.06%
Air Liquide Baoding Co., Ltd. (液化空氣(保 定)有限公司)	487.18	5.22%
Zhejiang Hesheng Silicon Industry Co., Ltd. (浙江合盛硅業有限公司)	412.82	4.43%
Shandong Dongyue Organosilicon Material Co., Ltd. (山東東岳有機矽材料 有限公司)	405.13	4.34%
Heilongjiang Changfeng Fuel Oil Co., Ltd. (黑龍江長豐燃料油股份有限公司)	367.52	3.94%
Total	2,891.11	30.99%
Operating revenue	9,327.71	100.00%

Note: Operating revenue in the above table refers to the operating revenue of Jingcheng Compressor after simulated the peel off of the environmental business.

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(4) Sales to the top five customers in 2009

Name of Customer	Amount of Sales (RMB'0,000)	Proportion in current operating revenue
Jiangsu Zhongneng Polysilicon Technology Development Co., Ltd. (江蘇中能硅業科技發展有限公司)	1,686.84	17.84%
Tianjin Chenchuang Environment Engineering Science & Technology Co., Ltd. (天津辰創環境工程科技有限責任公司)	998.29	10.56%
Daqing Chenggao Valves Sales Co., Ltd. (大慶市成高閥門銷售有限公司)	633.33	6.70%
Jiangxi LDK PV Silicon Technology Company, Ltd. (江西賽維LDK太陽能多晶 硅有限公司)	547.01	5.79%
Jiangsu Brothers Chemical Co., Ltd. (江蘇兄弟化學有限公司)	537.61	5.69%
Total	4,403.08	46.57%
Operating revenue	9,455.09	100.00%

Note: Operating revenue in the above table refers to the operating revenue of Jingcheng Compressor after simulated the peel off of the environmental business.

In conclusion, in 2009, 2010, 2011 and January to July 2012, the amount of sales of Jingcheng Compressor to a single customer did not exceed 50% of the total operating revenue, or rely heavily on few customers for purchase. None of the connected persons of the Group or the Target Group is interested in the customers above.

(V) product maintenance and after sales service

Under correct usage and maintenance, Tianhai Industrial shall provide a warranty period of 3 years to clients regarding the vacuum of the gas cylinder and a warranty period of 1 year for the remaining parts. During the warranty period, Tianhai Industrial shall provide maintenance and repair service or replace the damaged components for free. Jingcheng Compressor will provide a warranty period of 12 months to clients. During the warranty period, Jingcheng Compressor will repair or replace the defective goods or defective goods for free with reasonable speed.

(VI) Pricing policy

1. Tianhai Industrial

Tianhai Industrial will set the price of order according to the nature of order while the sales shall be determined based on different factors. Among which, it includes (i) the fee needed for the materials; (ii) the freight needed for the products and operating fee of sales; (iii) the technical and cost requirement of products; (iv) the market condition; and (v) reasonable profit. Tianhai Industrial considers that the

selling price of the product given to the clients is at a reasonable level and the selling price is not the only factor the clients consider in buying the products. In respect of the industrial gas storage and transportation equipment industry, factors considered by downstream customers are mainly product quality, delivery ability, price, strength of the supplier, and sales ability. However, the overseas customers' emphasis differs from that of domestic customers', customers in the European and American markets regard high performance of products and stable quality to be more important while customers in the Chinese and other markets value a competitive price more than other factors and they take product quality into consideration only when safety issue arises.

2. *Jingcheng Compressor*

Jingcheng Compressor usually sells their products through bidding. Before bidding, the sales and marketing department convenes the operating control department and the supervisors and deputy manager for review and price is set collectively based on competition, clients, cost and production capacity. The products of Jingcheng Compressor are all custom products and the configuration and selling price for each order is different. Jingcheng Compressor set different price for different industries, different regions and different clients.

(VII) Credit policy

1. *Tianhai Industrial*

Tianhai Industrial collects client information by directly asking clients to supply information and/or obtaining from other public sources or professional organizations. It would assess the credibility of clients and set up clients' credibility files. Key factors in determining a client's credibility include duration of the business relationship, past payment records, asset value of the client and the credibility of the client's leadership. Credit limit and time limit are determined according to the credit assessment. If the credit assessment is favourable, corresponding credit limit may be granted for the transaction. Riskier clients may need to be subject to guarantee conditions, prepayment arrangement or transactions in cash only. The credit time limits are, based on the levels of credit risks, 30 days, 45 days, 60 days, 90 days and 120 days, etc, respectively. Tianhai Industrial has set up a system to manage receivables. Clients with overdue money would first be verbally reminded. Those clients with bills overdue for 15 days and 30 days would be issued a written reminder, followed up by calls and physical visit respectively. Tianhai Industrial may issue another written reminder and prepare for the engagement of professional debt collectors and litigation for those clients with bills overdue for 60 days. Professional debt-collectors would be engaged for those bills unpaid for 3 months. Litigation and arbitration would be taken against those clients whose bills are unpaid for 6 months.

2. *Jingcheng Compressor*

Jingcheng Compressor applies different credit policy to different clients based on factors such as their overall sizes, positions in the industry and sources of investment funds. The usual payment method comprises 30% prepayment, 30% progress payment, 30% completion payment and 10% quality guarantee payment. As for clients who have higher credibility such as national enterprises, preferential payment method may be allowed. As to clients with smaller scale, usually a higher proportion of prepayment is required and the contract may even stipulate that all purchase money must be settled before delivery of products. Under usual circumstances, the credit period provided by Jingcheng Compressor to its customers are: the prepayment shall

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be paid 1 month after the contract becomes effective; progress payment (if any) shall be paid after the major components and raw materials arrive at the factory; the completion payment shall be paid 1 month before product delivery; payment for satisfactory trial shall be paid 3 months after satisfactory trial or 6 months after the client receives the product (whichever is the earliest). Quality guarantee money shall be paid 12 months after the machine passed satisfactory trial or 18 months after the client receives the product (whichever is the earliest). Jingcheng Compressor adopts the measures for administration of payments. For clients with bills overdue for two weeks, text messages would be sent as reminders and the clients would be contacted. For bills overdue for one month, an assessment would be performed on the effect of the overdue amount on costs. For bills unpaid for more than 1 month, operation personnel shall be required to communicate with client in writing weekly. For bills unpaid for more than 3 months and which have no repayment plans, lawyers would be engaged to issue demand letters.

V. Research and development

(1) Technology and source of research and development

1. *Tianhai Industrial*

As at the Latest Practicable Date, major technologies and sources of Tianhai Industrial and its subsidiaries are as follows:

Product	Major Technologies	Source
Cryogenic gas cylinder	Wrapping	Technology introduction
Hoop-wrapped gas cylinder	Necking-in and bottom tightening	Independent R&D
	Wrapping	Technology introduction
Seamless steel gas cylinder (tubular gas cylinder)	Necking-in and bottom tightening	Independent R&D
	Bottom airtight	Independent R&D
Hoop-wrapped gas cylinder (Aluminum liner fully wrapped composite gas cylinder)	Plate punching and stretching	Technology introduction
	Necking-in and bottom tightening	Technology introduction
Acetylene gas cylinder without asbestos packing	Plate punching and stretching	Independent R&D
	No asbestos packing	Independent R&D
Cryogenic storage tank	Vacuum thermal insulation technology	Independent R&D
	Strain-hardening	Independent R&D

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2. *Jingcheng Compressor*

As at the Latest Practicable Date, major technologies and sources of Jingcheng Compressor are as follows:

No.	Name of Newly-developed Product	Major Technologies	Technology Source
1	GD8 diaphragm compressor	Seal structure and materials for the kinematic pair of oil system Design and technology of double acting cylinder components Diaphragm deformation and curved surface design	Independent R&D Cooperative R& D with Xi'an Jiaotong University and Beijing University of Technology
2	GD6 diaphragm compressor	Seal structure and materials for the kinematic pair of oil system Overall body design Design and technology of large-diameter cylinder and diaphragm	Independent R&D
3	R&D of 4M 5.5-ton comprehensive piston compressor	Design of small symmetrically balanced compressor	Independent R&D
4	10-ton piston compressor	Overall body design Long conical surface and large round corner transition between the head end of crankshaft and the primary axis diameter Technology of semi-hydraulic connection between the crosshead and piston rod Reverse lubrication technology	Independent R&D

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No.	Name of Newly-developed Product	Major Technologies	Technology Source
5	16-ton piston compressor	Overall body design Long conical surface and large round corner transition between the head end of crankshaft and the primary axis diameter Technology of semi-hydraulic connection between the crosshead and piston rod Reverse lubrication technology	Technology introduction and independent R&D
6	25-ton piston compressor	Overall body design Long conical surface and large round corner transition between the head end of crankshaft and the primary axis diameter Technology of semi-hydraulic connection between the crosshead and piston rod Reverse lubrication technology	Independent R&D
7	R&D of 32-ton comprehensive piston compressor	Technology of semi-hydraulic connection between the crosshead and piston rod Overall body design Long conical surface and large round corner transition between the head end of crankshaft and the primary axis diameter Low rotary speed and long travel Reverse lubrication technology	Independent R&D

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No.	Name of Newly-developed Product	Major Technologies	Technology Source
8	R&D of 40-ton comprehensive piston compressor	Technology of semi-hydraulic connection between the crosshead and piston rod Overall body design Long conical surface and large round corner transition between the head end of crankshaft and the primary axis diameter Low rotary speed and long travel Reverse lubrication technology	Independent R&D

3. *Patents*

The Target Group has registered various patents for conducting its business. Please refer to the section headed “(b) Patents” of “2. Intellectual property rights of the Reorganised Group” under “II. Further information about the business of the Reorganised Group” in Appendix X to this circular for details.

(II) Technical levels of products

1. *Tianhai Industrial*

Tianhai Industrial and its subsidiaries can produce gas cylinders that comply with various standards including seamless steel gas cylinders in line with Chinese GB 5099, European EN, International ISO 9809, Canadian TC-3AAM and U.S DOT 3AA standards. Tianhai Industrial is one of the few enterprises that provide seamless steel gas cylinders to international gas companies. Tianhai Industrial can also produce gas cylinders with seams in accordance with European standards (EN) and North American Standards (DOT, TC standard). Products of Tianhai Industrial have been sold to world top firefighting companies.

Tianhai Industrial has been developing cryogenic gas cylinders since 2001. It introduced production lines for cryogenic gas cylinders from the United States and purchased world top level automatic tracking looped seam welding machines, high precision helium mass spectrometer leak detectors, high-efficient vacuuming systems, heat insulation automatic strapping machines, automatic coil forming and welding machines and automatic polishing machines for the external surface of the cylinders. The cryogenic gas cylinders produced are exported to overseas markets such as the United States, Australia and Canada.

Tianhai Industrial has completed its development of cryogenic LNG transportation vehicles, aluminum liner fully looped natural gas cylinders, and is applying for production qualification for such products. 300-bar high pressure cylinders are produced in small batches, whereas the other products are in mass production.

2. *Jingcheng Compressor*

As one of four largest diaphragm compressors in the world, Jingcheng Compressor has production lines for G2V, G2.5V, G3V, GV3, GL3, GZ3, G3Z, GL4, GD2, GD3, GD4, GD5 and GD6 series diaphragm compressors, which are applied in downstream industries such as gas filling, polycrystalline silicon, petrochemical industry and filling of clean and mixed fuels. Among other things, large series products such as GL4, GD4 and above are the leading diaphragm compressor products of Jingcheng Compressor and have a strong competitive edge in the industry.

The development of large industrial production requires the use of larger equipment, thereby driving the trend for the development of larger diaphragm compressors. Jingcheng Compressor has earlier foreseen such trend of the industry and has been successfully developing GD4 (piston force $\leq$ 8t), GD5 (piston force $\leq$ 10t), GD6 (piston force $\leq$ 12t) series large diaphragm compressors in succession since 2004, all of which have well met market demands. GD8 diaphragm compressors, which targets a piston force of up to 30t and diaphragm diameter of up to 930mm, currently being developed by Jingcheng Compressor is so far one of the diaphragm compressors with the greatest piston forces in the world.

Among Jingcheng Compressor's products, 2D32, 4M32, KG-0.4/1-250, GD8 series products are in the fundamental research stage; 2D40, 4M5.5, 4M10, 4M16, 4M25, 4M40, GD6-5670/17-23.5 and GD6-550/4-135 series products are in the trial production stage; 2D3.5 and 2D16 series products are produced in small batches; and all the other products are in mass production.

(III) R&D staff and organizational structure

1. *Tianhai Industrial*

Tianhai Industrial sets up its technical center in its headquarters while its subsidiaries have no R&D functions. The technical center of Tianhai Industrial is a municipal level enterprise technical center in Beijing. The technical center is mainly responsible for preparing the medium to long term technical development strategic planning for Tianhai Industrial, planning the development and promotion of new technologies as a whole, improving product process, introducing technologies and technology transfer as well as patent applications and management.

As at 31 July 2012, there were 370 R&D staff in the technical center of Tianhai Industrial, of which 39 staff has master degrees, 143 staff has bachelor degrees, 90 staff has associate degrees and 98 staff has certificates of vocational studies and other education qualifications. The number of staff with bachelor degrees and above accounted for 49.19% of all the R&D staff.

2. *Jingcheng Compressor*

Jingcheng Compressor has a technical center which actively launches cooperation in production, studies and researches and emphasizes on the development of key technologies for the design of compressors. The company has signed a four-party cooperation agreement with the Institute of Mechanics, Chinese Academy of Sciences, Xi'an Jiaotong University and Beijing University of Technology, creating opportunities for the research and development of the company's products.

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As at 31 July 2012, Jingcheng Compressor had in total 45 R&D staff, of which 28 staff has bachelor degrees, 13 staff has associate degrees and 4 staff has other education qualifications.

VI. Assets

(1) Major production equipment

1. Tianhai Industrial

The major production equipment owned by Tianhai Industrial and its subsidiaries is as follows:

Name of Enterprise	Name of Major Equipment	Quantity (Unit /Set)	Service Condition	Comprehensive newness rate
Tianhai Industrial	Circular furnaces, necking-in machines, manual typing production lines, mechanical arms and charging and discharging devices for curing furnaces, lathes, grinding machines, boring machines, boilers, wrapping machines, internal shot blasting machines, band sawing machines, CNC machine tools, cryogenic fluid storage tanks, hydraulic press units, high air compressors, and internal throwing machines, etc.	1,037	Normal	65.09%
Tianhai Cryogenic	Three-roller plate rolling machines, vacuum pumps, hot blast heaters, roller carriers, vacuum machine units, necking-in machines, gas protective welders and flaw detectors, etc.	166	Normal	85.58%
Shanghai Tianhai	Wrapping machines, grinding machines, dust collectors, air tight turrets, curing light, pneumatic pumps, spreaders, deionizing equipment and fatigue testing machines, etc.	42	Normal	53.89%
Langfang Tianhai	Internal drying machines, internal shot blasting machines, plate type heat exchangers, hydraulic testing machines, screw air compressors, internal throwing machines, external throwing machines, drill machines and lathes, etc.	268	Normal	81.82%

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Name of Enterprise	Name of Major Equipment	Quantity (Unit /Set)	Service Condition	Comprehensive newness rate
Tianjin Tianhai	Necking-in machines, pipe cutters, internal drying machines, hydraulic testing equipment, high air compressors, internal throwing machines, CNC machine tools, spinning machines, low air compressors, drying machines, etc.	536	Normal	71.62%
Panni Gaokong	Shearing and bending machines, electric welding machines, cutting machines, air pumps, overhead cranes, bench drills and milling machines, etc.	38	Normal	17.58%

2. *Jingcheng Compressor*

The major production equipment owned by Jingcheng Compressor is as follows:

Name of Enterprise	Name of Major Equipment	Quantity (Unit /Set)	Service Condition	Comprehensive newness rate
Jingcheng Compressor	Bench drills, grinding machines, pipe bending machines, electric welding machines, horizontal boring machines, vertical milling machines, beam cranes, beam drills, common lathes, etc.	255	Normal	33.58%

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(II) Major properties and buildings

1. Tianhai Industrial

As at the Latest Practicable Date, the details of properties with property ownership certificates obtained by Tianhai Industrial and its subsidiaries are as follows:

No.	Property Owner	Certificate No.	Location of Land	Usage	Area (m ²)
1	Tianhai Industrial	X Jing Fang Quan Zheng Chao Zi No. 727497	3 buildings, including Building No. 38, No. 9 North Tianying Road, Chaoyang District, Beijing,	Workshops, boiler house and warehouse	5,347.02
2		X Jing Fang Quan Zheng Chao Zi No. 607418	32 buildings, including Building No. 1, No. 9 North Tianying Road, Chaoyang District, Beijing,	Office rooms, pump rooms, garages, warehouses for finished products, delivery rooms, public lavatories, air compression station, gas pressure regulating station, power distribution rooms, dining rooms, fire service pump rooms, oil depots, bike sheds, comprehensive warehouses, and comprehensive administration building	39,796.6
3		X Jing Fang Quan Zheng Chao She Wai Zi No. 00164	Building No. 25, Huawei Xili, Chaoyang District, Beijing	Supporting commercial facilities	4,520.49
4	Langfang Tianhai	Lang Kai Zi No. G5023	Buildings Nos. 10 and 11, No. 18 Yaohua Road, Langfang Development Zone	Loadometer room and gate keeper's room	100.62
5		Lang Kai Zi No. G5021	Buildings Nos. 4, 5 and 6, No. 18 Yaohua Road, Langfang Development Zone	Common chemical liquid rooms, loadometer rooms, pump rooms	803.54
6		Lang Kai Zi No. G5022	Building Nos. 7, 8 and 9, No. 18 Yaohua Road, Langfang Development Zone	Sewage disposal, warehouse	2,900.21
7		Lang Kai Zi No. G5020	Buildings Nos. 1, 2 and 3, No. 18 Yaohua Road, Langfang Development Zone	Gate keeper's room, office building, factory building	27,982.43
8	Tianjin Tianhai	Fang Di Zheng Bao Shui Zi No. 150001160	Buildings Nos. (1) to (5), No. 268, Jinbin Road, Tianjin Port Free Trade Zone	Non-residential	37,141.95
9.		Fang Di Zheng Jin Zi No. 115021201217	Buildings Nos. (1) to (3), No. 306, Xingang Road, Free Trade Zone	Non-residential	25,342.76
Total					<u>143,935.62</u>

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2. *Jingcheng Compressor*

As at the Latest Practicable Date, the details of properties with property ownership certificates obtained by Jingcheng Compressor are as follows:

No.	Certificate No.	Location	Usage	Area (m^2)
1	Jing Fang Quan Zheng Yan Gu Zi No. 00251	Industrial Development Zone, Kangzhuang Town, Yanqing County	Industrial	20,334.1

Note: The PRC legal advisers of the Company confirmed that the major properties and buildings of Tianhai Industrial and Jingcheng Compressor as disclosed above have obtained the relevant certificates of the land use rights and property ownership in compliance with relevant requirements under the PRC law, regulations and regulatory legal documents, which are legal and effective without any defects in its title (and ownership).

(III) Land use right

1. *Tianhai Industrial*

As at the Latest Practicable Date, Tianhai Industrial and its subsidiaries owned the land use rights of six plots of land, all with State-owned Land Use Certificate, the details are as follows:

No.	Right Owner	Certificate No.	Location of Land	Useful Life	Means of Acquisition	Land Usage	Area (m^2)
1	Tianhai Industrial	Jing Chao Guo Yong (2005 Chu) No. 0242	No. 9, North Tianying Road, Chaoyang District	28 October 2054	Transfer	Industrial	87,541.76
2		Jing Chao Guo Yong (2006 Chu) No. 0127	Building No. 25, Huawei Xili, Chaoyang District	7 February, 2046	Transfer	Commercial	1,402.78
3	Shanghai Tianhai	Hu Fang Di Song Zi (2009) No. 014241	Plot JT-07-004, Songjiang, Shanghai	29 April 2059	Transfer	Industrial	14,913.00
4		Hu Fang Di Song Zi (2007) No. 008568	Plot 759-1, Songjiang, Shanghai	20 December 2056	Transfer	Industrial	7,633.00
5	Langfang Tianhai	Lang Kai Guo Yong (2007) No. 119	North Yaohua Road and East Huaxiang Road, Langfang Development Zone	20 June 2057	Transfer	Industrial	62,946.02
6	Tianjin Tianhai	Fang Di Zheng Bao Shui Zi No. 150001160	No. 268, Jinbin Road, Tianjin Port Free Trade Zone	9 January 2053	Transfer	Manufacturing and processing	50,373.50
7		Fang Di Zheng Jin Zi No. 115021201217	No. 306, Xingang Road, Free Trade Zone	24 March 2053	Transfer	Industrial	45,489.20
Total							<u>270,299.26</u>

Note: The PRC legal advisers of the Company confirmed that the major properties of Tianhai Industrial and Jingcheng Compressor as disclosed above have obtained the relevant State-owned Land Use Right Certificates and Building Ownership Certificates in accordance with the law, which are in compliance with relevant requirements under the PRC law, regulations and regulatory legal documents, and are legal and effective without any relevant defects in its title (and ownership).

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2. *Jingcheng Compressor*

As at the Latest Practicable Date, Jingcheng Compressor owned the land use rights of 2 plots of land with details as follows:

No.	Certificate No.	Location	Useful Life	Means of Acquisition	Land Usage	Area (m ²)
1	Jing Yan Guo Yong (2003 Chu) No. 222	Industrial Development Zone, Kangzhuang Town, Yanqing County	19 August 2053	Transfer	Industrial	90,631.29
2	Jing Yan Guo Yong (2003 Chu) No. 223	Industrial Development Zone, Kangzhuang Town, Yanqing County	19 August 2053	Transfer	Industrial	66,882.81
Total						<u>157,514.10</u>

Note: The PRC legal advisers of the Company confirmed that the land use rights of Tianhai Industrial and Jingcheng Compressor as disclosed above have obtained the relevant State-owned Land Use Right Certificates and Building Ownership Certificates in accordance with the law, which are in compliance with relevant requirements under the PRC law, regulations and regulatory legal documents, and are legal and effective without any relevant defects in its title (and ownership).

(IV) Intellectual Property

The Target Companies rely on a combination of patents, trademarks and contractual rights to protect our industrial and intellectual property rights. As of the Latest Practicable Date, the Target Companies owned 10 registered trademarks, 7 registered utility model patents, 1 registered invention patent and 5 computer software copyright registrations in the PRC. Please see “Further information about the business of the Reorganised Group – Intellectual property rights of the Reorganised Group” in Appendix X to this circular for more information on the intellectual property rights of the Reorganised Group. As at the Latest Practicable Date, the Target Companies were not involved in any litigation or legal proceedings for violation of intellectual property rights, nor were the Target Companies aware of any violation of the same.

(V) Logistics and storage

Tianhai Industrial and its subsidiaries transport the materials to the relevant companies based on the purchasing orders. The warehouse managers inspect the all aspects of the materials including the quality and quantity before acceptance for storage. All materials stored are labeled and classified in categories. The warehouses are unobstructed and built to minimizing damages and adequately ventilated. Any materials which are damaged or expired during storage are recorded and reported to the supervising department head and identified and stored separately. The transportation of materials out of the warehouses is based on internal production records and, under special circumstances, the release of materials from the warehouses shall be applied by the head of the department requesting for the materials which shall be approved by the head of the warehouses. Any materials to be transported from the warehouses are verified and released on a first-in-first-out basis. A physical stock count is performed at the end of each month to verify the quantity of materials stored which is reported to the finance department for determining the cost of production. During transportation, care shall be taken in managing the goods preventing loss or damage. Finished goods to be stored in warehouses shall be accompanied by a

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completed written storage record which shall be reviewed and stamped by the quality control staff and signed by the transportation managers. For sales, products are arranged for delivery based on invoices properly stamped by the finance department.

The main raw materials of Jingcheng Compressor and its subsidiary are delivered to their warehouses directly by the suppliers while fragmental materials are taken directly using their designated trucks. Warehouse managers shall check the delivered materials before storage, or if such materials require inspection, the quality control department shall be notified to perform the check. All materials stored are labeled and classified in categories. The warehouses are built with materials for minimizing damages. When completed products are to be delivered, the sales department shall obtain the approval of the audit control department before delivery of the products as required under the agreements. Such products shall be packed and checked by the inspection officers before delivery. During the delivery, care shall be taken when loading and unloading the products for their protection and, lastly, professional logistics companies are hired for delivering the products to the locations specified under the agreements.

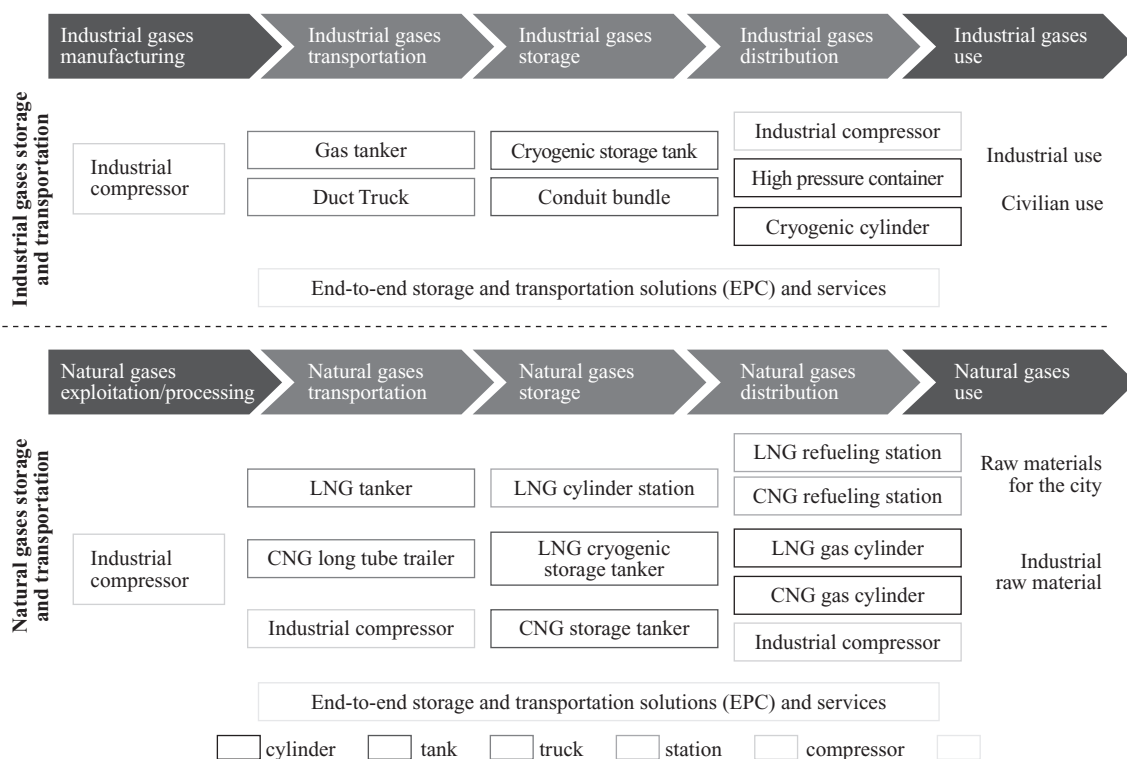
VI. FUTURE PLANS AND STRATEGIES

Description of strategies

Part 1: Summary of Strategies

(1) Business positioning

The gas storage and transportation business of the Reorganised Group mainly service in the two markets of industrial gas and natural gas. The business positioning is to provide the gas storage and transportation users with the ability to support the total value chain.



(2) Strategic goal

After the completion of the Reorganisation, the Company aspires to be the internationalized company in the forefront of the global gas storage and transportation equipment industry. In order to achieve the vision, the Reorganised Group will continue to strengthen its leading position in the market of industrial gases storage and transportation, focus to develop the market of natural gas storage and transportation and to become the first tier supplier of such market.

Regarding the core market development and competition in the industry, the Reorganised Group will continue to build the core competitiveness along the following direction:

- (1) Product upgrade: products of advanced technology and first class quality and design of personalized end-to-end storage and transportation solutions
- (2) Upgrade of sales: expand and improve the global distribution network, strengthen the direct selling capacity of the system solution, set up a strategic alliance of important clients
- (3) Service upgrade: strengthen the service quality, provide leading delivery capacity of end-to-end storage and transportation solution

The Reorganised Group shall implement the six measures below to achieve the strategic goal and corporate vision:

1. Research and development: continue enhancing the product technique and expand the product lines and cultivate the ability in solution design
2. Manufacturing: expand the production capacity, implement the sophisticated production management and enhance the synergy ability
3. Sales: improve the direct selling mechanism, cultivate the ability in the sales of solutions and establish a strategic alliance relationship of important clients
4. Service: strengthen the solutions and the delivery ability, enhance the project management ability and improve the service mechanism
5. Talent: upgrade the talent structure and improve the talent management mechanism
6. Informationalization: reinforce the sales, service and cost management and boost the operational efficiency

(3) Overall scheme

The scheme is planned to be implemented in three phases:

1. The first phase For the field of industrial gases storage and transportation, the product performance shall be on a par with the world-class standard, ranks as the first in the domestic market and to be a lead in the global market. For the field of natural gas storage and transportation, achieving that the vehicles and stations are fully qualified. The product line of cryogenic container shall be basically completed and commence the entry into the system solutions.

2. The second phase For the field of industrial gases storage and transportation, the product performance shall be further enhanced, forming a complete global sales network and further uphold the lead in the international market. For the field of natural gas storage and transportation, maintaining the leadership in product technology, owning the solution for full solution stations and establishing the market position as the provider of first class gas storage and transportation solutions in China.
3. The third phase For the field of industrial gases and transportation, the product performance shall reach the top international standard, ranking in the global market share. For the field of natural gas storage and transportation, developing large scale storage and transportation facilities, improving the end-to-end storage and transportation solutions continuously and taking the lead in the market share of natural gas storage and transportation business.

Part 2 Details of strategic initiatives

(1) Research and development: improve the product technique continuously, expand the product lines and cultivate the design capability for solutions

The R&D strategy for gas storage and transportation business of the Reorganised Group is an important strategic initiative for the building of core competitiveness. Regarding the research and development of products, the Reorganised Group will maintain the lead in product technology, and enhance the manufacturing technique and precision of core products. At the same time, the Company focus on the cost control and strengthen the ability in research and development of end-to-end gas storage and transportation solution and establish a market-oriented integrated product development mechanism.

- For the field of industrial gases, the Reorganised Group will
 - enhance the key indicator such as weight to volume ratio and luminance and reach the top international level
 - enhance the design capability in product production technique, stimulate the quality and consistency of products
- For the field of natural gas, the Reorganised Group will
 - expand the product line and meet the end-to-end demand of natural gases storage containers, tanks, vehicles and stations
 - maintain the advanced nature of product performance and consolidate the patent advantage
 - provide the design of solutions for different kinds of gas refueling stations
- For the field of gas compressor, the Reorganised Group will
 - regarding medium and small sized compressor, develop a general design platform, improve the standardization of product components and enhance the product quality
 - develop large-sized compressor and meet the demand in high-end market

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- At the same time, the Reorganised Group will establish a market-oriented integrated product development mechanism and ensure the efficiency and the lead in product development

In the future, the plan of the Reorganised Group for the launch of product upgrade will include but not limited to:

1. cylinder: the stamping cylinders with the smoothness and finish of the inside and outside surface reaching the leading level in the world, the customized respirators based on the selection of customers, LNG heavy truck fuel cylinders of the new generation and LNG marine fuel tanks etc.;
2. tank: large and extra-large sized cryogenic tanks and tank containers etc.;
3. vehicle: LNG cryogenic tankers and so on
4. station: LNG storage stations, peak-shaving stations and gas storage and refueling stations etc.
5. compressor: the medium and small sized compressors produced by the standardized platform and the large sized compressors for industrial use

(2) Manufacturing: expand the production capacity, implement sophisticated production management and enhance the synergy ability in manufacturing

For the manufacturing section, the Reorganised Group will increase the production capacity of the storage and transportation equipment so as to meet the market demand, boost the production quality and consistency of the product, enhance the economies of scale and focus on achieving the synergy effect of production among the products of different fields at the same time in order to ensure the product competitiveness.

- Regarding the expansion in production capacity, the Reorganised Group will
 - expand the capacity of the existing production base
 - construct the new base in western or northern China by leveraging upon the trend of China Western Development
 - increase the strategic fixed asset investment in cryogenic, long tube and gas cylinder production base and achieve the economies of scale
- Regarding the launch of sophisticated production management, the Reorganised Group will
 - commence the sophisticated production management programme, improve the production workflow and flexibility in manufacturing and enhance the manufacturing efficiency
 - establish the production culture of comprehensive cost control preliminarily, safeguard the quality and enhance the competitiveness of the product price at the same time

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- Regarding the enhancement of the synergy ability in manufacturing, the Reorganised Group will
 - conduct components standardization, parts generalization and design modularization
 - achieving the synergy for manufacturing of compressor and solutions for the system of cylinders, tanks, vehicles and stations

In the future, the plan of the Reorganised Group for the launch of sophisticated production will include but not limited to:

1. enhancing flexible manufacturing ability: including enhancing the automation ability of CNC machine tool for production lines, optimizing the transportation system of materials and optimizing the production layout etc.;
2. enhancing the level of neck processing: including further improvement of performance of neck processing equipment, enhancing the automation level in neck processing, and enhancing the precision and level of inspection etc.;
3. comprehensive cost control and lower the cost: sharing of purchase data, enhancing the accuracy of production forecast and enhancing the automation level in the newly constructed factory and so on

(3) Sales: improve the direct selling mechanism, cultivate the sales ability for all production lines and solutions and establish a strategic alliance relationship of important clients.

The sales strategy for the Reorganised Group is an important strategic initiative for the building of core competitiveness. Regarding the sales, the Reorganised Group will expand the global distribution network, strengthen the direct selling system and cultivate the sales ability of the sales team for all the product lines and system solutions.

- Regarding the improvement of the global sales network, the Reorganised Group will
 - consolidate the sales network in U.S.A. and expand to the southeastern Asia, the Middle East and Europe
- Regarding strengthening the establishment of direct selling system, the Reorganised Group will
 - optimize the sales coverage model based on the characteristics of clients
 - be distribution-oriented, pay equal attention to distribution and direct selling and strengthen the organization ability in direct selling
- Regarding cultivating the sales ability of the sales team for all the product lines and system solutions, the Reorganised Group will
 - strengthen the knowledge of the sales team towards all the product lines and solutions

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- cultivate the ability of the sales team in understanding and exploring the need of the clients and establish the sales ability in solutions and EPC
- Regarding the establishment of the strategic alliance relationship of important clients, the Reorganised Group will
 - enhance the product quality continuously based on the clients' need, adjust the product line portfolio and personalize the solutions for gas storage and transportation
 - establish a team and back office exclusively for major clients
- At the same time, the Reorganised Group will improve the sales and management system, enhance the sales and management efficiency, lower the company's risk

In the future, the plan of the Reorganised Group for the launch of sales upgrade will include but not limited to: transformation of sales organization, establishment of directing selling workflow, establishment of sales management mechanism and upgrade of ability of sales personnel etc.

(4) Service: reinforce the delivery ability of system solutions and the project, upgrade the implementation ability of projects, establish service management system and boost the service quality

Service upgrade represents that the Reorganised Group will better satisfy the market demand, achieve the critical change of industrial chain upgrade. Regarding the service upgrade, the Reorganised Group will establish a complete service delivery and quality management system by cultivating service personnel, setting up a project management organization and enhancing the implementation ability of projects. The synergy of each of the product lines and services will be strengthened to ensure the high quality and efficiency of services and enhance customers' satisfaction.

- Regarding the delivery of system solutions and cultivation of talents, the Reorganised Group will
 - introduce and cultivate service personnel, understand the business development needs of clients and implement personalized solutions
 - allocate resources and serve the clients from the market demand so as to enhance the ability in company's value delivery
- Regarding the implementation ability of projects, the Reorganised Group will
 - establish project management organization to manage and control the service project and ensure the quality of service
 - provide and implement the ability in management and delivery of the projects
 - enhance the implementation ability for solutions and achieve the upgrade from sales of products to sales of services

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- Regarding the service management system, the Reorganised Group will
 - implement the knowledge base of system solutions and classify the management service assets/knowledge accumulated by management
 - set up standards for project delivery, design general module and achieve the synergy throughout each of the products and overall solutions and services

At present and in the future, the plan of the Reorganised Group for the launch of service upgrade includes but not limited to:

1. introducing and cultivate service personnel: including the cultivation of the ability in understanding the clients' need, upgrade of the technology level of staff and application level and assessment of project management ability etc.;
2. setting up the standard of service design and delivery: including the design of general module for assessing the demand and risk of implementation, and establishing the duties for quality control etc.;
3. building the management ability for basic projects: including setting up the project management organization, setting up the project management system workflow, setting up the progress tracking and budget allocation and management approach, and setting up approach for verification and monitoring of sub-contractors;
4. setting up and implement the solutions delivery system and knowledge base: including building the accumulated files of project delivery results, and classification and management of service assets etc.

(5) Talent: upgrade talent structure and improve talent management structure

The talent strategy of the business of the Reorganised Group will upgrade the talent structure of sales personnel, technical personnel and service personnel, support the Reorganised Group in achieving the strategic needs in product upgrade, expansion of production capacity, sales upgrade and service upgrade. Meanwhile, regarding the talent management system, position management will continue to be improved and talent planning and training will be worked well.

- Regarding the upgrade of talent structure, the Reorganised Group will
 - upgrade the technique of the research and development personnel from product design towards design and of products and solutions
 - upgrade the technique of the sales personnel from distribution towards paying equal attention to the ability of distribution and direct selling
 - upgrade the technique of service personnel from maintenance and repair for products after sales towards the direction of solutions delivery and maintenance

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- Regarding talent management, the Reorganised Group will
 - improve the position and performance system, satisfy the business need fully and mobilize the staff for enthusiasm at work
 - introduce the direct selling, technical and service talents proactively, and support rapid research and development and service upgrade
 - work well in talent planning, talent introduction and training according to the business development plan

In the future, the plan of the Reorganised Group for the launch of plan in optimization of talent structure will include but not limited to:

1. enriching the definition of position: define the duties and ability needed for the emerging position and enrich the demand for the management of talent ability in Tianhai Industrial
2. introduction, cultivation and retention of talents: combine with cryogenic products/solutions and implement introduction and exploration of internal talents for direct selling talents and service personnel
3. talent training: formulate the path of cultivating sales, technical and solutions delivery talents and conduct training through internal and external resources

(6) Informationalization: strengthen the the management and control over sales, services and cost and enhance operation efficiency

Through the construction of informationalization, the Reorganised Group will upgrade the client management ability, strengthen the management and control over sales process and sales forecast and risk, enhance the level of informationalization in the process of production management, achieve the comprehensive quality and cost management of high quality and high efficiency, implement the informationalized system of management in service delivery projects and enhance the delivery and quality of service delivery.

- Regarding the function of client's information and data management, the Reorganised Group will
 - unify the entry standard of domestic and foreign clients
 - explore the client's data deeply and lay the foundation in understanding the clients' need accurately
- Regarding the function of sales management, the Reorganised Group will
 - increase the business opportunity afflux and tracking system and seize the business opportunity fully
 - strengthen the result management of sales personnel and enhance the degree of the management and control on sales personnel

APPENDIX I INFORMATION ON THE NEW BUSINESS AND THE INCOMING ASSETS

- Regarding the function of solutions delivery, the Reorganised Group will
 - enhance the standardized management on the delivery process of solutions, and track the progress of the projects from time to time and handle the risk that may exist timely
 - establish a database of experience in system solutions
- Meanwhile, the IT personnel of the Reorganised Group will strengthen its function in forecast, tracking and analysis regarding cost management so as to achieve the cost control better, enhance the price competitiveness while instructing the link between the upstream and lower upstream of the value chain more accurately.

At present and in the future, the plan of the Reorganised Group in strengthening the construction of IT system includes but not limited to:

1. strengthening the function of clients' information and data management: include the statistic of information record of domestic and foreign clients, the tracking of purchase demand for long and short-term and implementation of order;
2. strengthening the function of sales management: includes the establishment of business opportunity afflux system and sales revenue forecast system etc.;
3. strengthening the function of solution service delivery: includes establishment of the progress/problems/risks tracking system for the project group and database of system of experience in system solutions etc.
4. strengthening the function of cost management: includes the timely tracking and analysis of cost, critical production index and timely statistics and data linkage between the supply chain and clients etc.

1. THREE YEARS FINANCIAL INFORMATION

Audit reports of the Existing Group for the three financial years ended 31 December 2011 and seven months ended 31 July 2012 is disclosed in Appendix III to this circular.

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2012, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Reorganised Group had outstanding borrowings of approximately RMB539,100,000, of which RMB532,100,000 is short-term borrowings and RMB7,000,000 is long-term borrowings.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Reorganised Group did not, as at the close of business on 31 October 2012, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

3. WORKING CAPITAL

After taking into account the banking facilities available and existing cash and bank balances of the Existing Group, the Directors are of the opinion that the Reorganised Group has sufficient working capital for at least the next 12 months from the date of this circular in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Existing Group since 31 December 2011, the date to which the latest published audited financial statements of the Existing Group were made up.

The following is the full text of the report on audited financial information of the Sale Subsidiaries prepared by ShineWing Certified Public Accountants, a certified public accountant in Beijing, China, for the purpose of inclusion in this circular only.



信永中和會計師事務所
(特殊普通合夥)

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AUDIT REPORT

To the Board of Directors

We set out below our report on the financial information (the “Financial Information”) of **Beiren Printing Machinery Holdings Limited** (“Beiren Printing”) and its subsidiaries (collectively referred to as the “Beiren Printing and its subsidiaries”) for each of three years ended 31 December 2009, 2010 and 2011, and the seven months ended 31 July 2012 (the “Relevant Periods”), prepared on the basis set out in Note 2(1) below, for inclusion in the circular of Beiren Printing Machinery Holdings Limited (the “Circular”).

Beiren Printing was incorporated in July 1993 with limited liability.

Beiren Printing and its subsidiaries have adopted 31 December as their financial year end date. As at the date of this report, **Beiren Printing** is interested in the subsidiaries as set out in Appendix III of this report.

The statutory financial statements of **Beiren Printing and its subsidiaries** prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) and were audited by **ShineWing Certified Public Accountants (special general partnership)**, a certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

For the purpose of this report, the directors of **Beiren Printing** have prepared the financial statements of **Beiren Printing and its subsidiaries** and **Tianhai Industrial** for the Relevant Period that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2(1), for which the management of Tianhai Industrial are solely responsible for. We have carried out the independent audit in accordance with China Auditing Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing

Standards for Certified Public Accountants issued by the Ministry of Finance of the PRC in 2006 and Statement 3.340 Auditing Guideline “Prospectuses and the Reporting Accountant” issued by Hong Kong Institute of Certified Public Accountants.

The directors of Beiren Printing are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of **Beiren Printing and its subsidiaries** and **Beiren Printing** as at 31 December 2009, 2010 and 2011 and 31 July 2012, and of the operating results and cash flows of **Beiren Printing and its subsidiaries** and **Beiren Printing** for the Relevant Periods.

REVIEW ON THE COMPARATIVE FINANCIAL INFORMATION AT THE END OF THE REPORTING PERIOD

We have reviewed the comparative financial information contained in this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of **Beiren Printing, Beiren Printing and its subsidiaries** for the seven months ended 31 July 2011 (“comparative financial information”).

The directors of **Beiren Printing** has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2(1) of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the basis set out in Note 2(1) of this report.

ShineWing Certified Public Accountants
(Special General Partnership)

Beijing, China, 2 November 2012

CONSOLIDATED BALANCE SHEET

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Assets:					
Cash	VII.1	110,791,029.99	161,866,351.06	119,043,008.51	119,427,989.19
Tradable Financial Assets					
Notes Receivable	VII.2	19,808,757.29	20,263,400.00	35,414,560.16	16,707,773.38
Accounts Receivable	VII.3	212,654,765.78	163,969,806.39	203,110,996.56	255,167,926.90
Advances to Suppliers	VII.4	23,641,422.06	30,187,908.20	19,783,787.32	18,600,020.19
Interests Receivable					
Dividends Receivable	VII.5	113,600.00	113,600.00		
Other Accounts Receivable	VII.6	23,034,749.64	17,583,975.31	18,269,692.57	30,339,203.74
Inventory	VII.7	433,463,110.20	422,781,854.19	349,628,293.09	489,304,032.64
Non-current Assets maturing within one year					
Other Current Assets					
Total Current Assets		823,507,434.96	816,766,895.15	745,250,338.21	929,546,946.04
Non-current Assets:					
Financial Assets available for sale					
Holding to Maturity Investment					
Long-term Accounts Receivable					
Long-term Equity Investment	VII.8	15,400,103.44	15,660,364.86	15,567,084.36	15,100,595.32
Investment Property	VII.9	6,634,911.47	6,739,095.77	6,927,332.93	15,047,905.79
Fixed Assets	VII.10	510,537,416.43	526,997,541.58	568,054,568.92	626,730,021.57
Construction in Progress	VII.11	3,854,811.22	3,179,294.90	2,945,090.11	4,279,083.99
Project Materials					
Disposal of Fixed Assets					
Productive biological assets					
Oil and gas assets					
Intangible Assets	VII.12	102,370,982.97	104,020,316.25	106,507,925.87	126,907,626.93
Goodwill					
Research and development expenses					
Long-term Prepayments	VII.13	9,367,320.00	9,367,320.00	9,367,320.00	11,930,291.10
Deferred Income Tax Assets	VII.14	2,846,561.51	2,711,017.52	2,741,017.74	8,240,076.76
Other Non-current Assets					
Total Non-current Assets		651,012,107.04	668,674,950.88	712,110,339.93	808,235,601.46
Total Assets		1,474,519,542.00	1,485,441,846.03	1,457,360,678.14	1,737,782,547.50

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED BALANCE SHEET (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Liabilities:					
Short-term Loan	VII.16	219,000,000.00	220,000,000.00	139,750,000.00	314,850,000.00
Tradable Financial Liabilities					
Notes Payable	VII.17	5,000,000.00	16,950,000.00	14,000,000.00	13,900,000.00
Accounts Payable	VII.18	325,007,951.89	272,997,745.92	298,873,675.48	379,540,583.68
Advances from Customers	VII.19	78,459,201.21	88,449,580.42	97,701,982.19	94,623,242.70
Employee Benefit Payable	VII.20	29,105,875.84	39,091,724.51	50,202,158.38	59,655,647.63
Taxes Payable	VII.21	3,933,123.32	-4,129,380.97	8,844,991.23	15,398,299.09
Interests Payable	VII.22	1,451,419.30	751,944.17	133,487.50	1,096,962.50
Dividends Payable					
Other Payables	VII.23	48,295,636.82	41,361,493.75	48,964,316.34	48,538,528.19
Non-current Liabilities maturing within one year					29,550,000.00
Other Current Liabilities	VII.24	5,903,997.68	2,257,016.55	1,906,616.57	1,149,600.00
Total Current Liabilities		716,157,206.06	677,730,124.35	660,377,227.69	958,302,863.79
Non-Current Liabilities:					
Long-term Loan				18,000,000.00	24,000,000.00
Bonds Payable					
Long-term Accounts Payable					
Special Payable	VII.25	31,068,064.07	31,685,168.05	15,704,528.59	9,100,538.23
Estimated liabilities	VII.26	543,434.72	567,607.38	592,807.38	266,891.98
Deferred Income Tax Liabilities					
Other Non-current Liabilities	VII.27	599,492.00	716,275.66	1,573,292.21	2,803,300.68
Total Non-current Liabilities		32,210,990.79	32,969,051.09	35,870,628.18	36,170,730.89
Total Liabilities		748,368,196.85	710,699,175.44	696,247,855.87	994,473,594.68
Shareholder's Equity:					
Stock	VII.28	422,000,000.00	422,000,000.00	422,000,000.00	422,000,000.00
Capital Reserves	VII.29	522,838,063.63	522,877,777.87	522,877,777.87	523,020,271.06
Less: Treasury Stock					
Special Reserve					
Surplus Reserves	VII.30	43,172,707.88	43,172,707.88	43,172,707.88	43,172,707.88
Undistributed Profit	VII.31	-278,912,641.31	-231,668,177.08	-243,051,077.92	-265,330,459.45
Converted Difference in Foreign Currency Statements					
Total Shareholder's Equity attributed to the Parent		709,098,130.20	756,382,308.67	744,999,407.83	722,862,519.49
Minority Shareholder's Equity	VII.32	17,053,214.95	18,360,361.92	16,113,414.44	20,446,433.33
Total Shareholder's Equity		726,151,345.15	774,742,670.59	761,112,822.27	743,308,952.82
Total Liabilities and Shareholder's Equity		1,474,519,542.00	1,485,441,846.03	1,457,360,678.14	1,737,782,547.50

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED INCOME STATEMENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
1. Total Operating Income		431,599,015.14	464,881,488.47	803,873,926.57	821,357,719.69	767,668,587.26
In which: Operating Income	VII.33	431,599,015.14	464,881,488.47	803,873,926.57	821,357,719.69	767,668,587.26
2. Total Operating Cost		481,714,608.51	467,954,653.53	833,516,231.66	984,532,372.93	959,517,572.80
In which: Operating Cost	VII.33	350,472,112.12	362,818,572.39	640,174,781.71	675,763,338.91	696,576,006.76
Tax and Additional Expense	VII.34	2,781,649.84	2,767,989.77	6,017,580.63	5,564,191.62	5,887,447.78
Sales Expense	VII.35	39,496,893.93	32,082,126.65	59,983,930.02	76,234,466.33	62,853,173.79
Administration Expense	VII.36	63,091,680.00	54,905,474.11	109,017,465.08	134,817,623.08	137,657,853.14
Financial Expense	VII.37	8,061,679.35	5,647,809.75	7,937,550.30	18,043,294.08	21,320,442.95
Assets Impairment Losses	VII.38	17,810,593.27	9,732,680.86	10,384,923.92	74,109,458.91	35,222,648.38
Add: Income of Fair Value Change (loss marked "-")						
Investment Income (loss marked "-")	VII.39	-260,261.42	47,397.88	206,880.50	172,505,755.82	1,252,917.09
Thereinto: Investment Income to						
Subsidiaries and Joint Venture		-260,261.42	47,397.88	206,880.50	466,489.04	622,102.42
3. Operating Profit (loss marked "-")		-50,375,854.79	-3,025,767.18	-29,435,424.59	9,331,102.58	-190,596,068.45
Add: Non-operating Income	VII.40	4,651,588.74	1,877,775.83	44,402,275.63	16,766,285.66	11,778,448.32
Less: Non-operating Expense	VII.41	2,952,603.38	1,254,249.27	1,307,002.50	1,127,810.83	1,172,291.14
In which: Disposal Loss of Non-current Assets		999,713.01	1,181,196.28	1,183,716.93	496,899.73	536,582.61
4. Total Profit (Total loss marked "-")		-48,676,869.43	-2,402,240.62	13,659,848.54	24,969,577.41	-179,989,911.27
Less: Income Tax Expense	VII.42	-135,543.99	143,400.21	30,000.22	5,499,059.02	-472,283.54
5. Net Profit (Net loss marked "-")		-48,541,325.44	-2,545,640.83	13,629,848.32	19,470,518.39	-179,517,627.73
Net Profit Attributed to the Parent's Shareholders		-47,244,464.23	-4,389,843.29	11,382,900.84	22,279,381.53	-174,004,582.85
Minority Shareholder's Equity		-1,296,861.21	1,844,202.46	2,246,947.48	-2,808,863.14	-5,513,044.88
In which: net profit of the merged parties realised before merger						
6. Earnings per Share:						
(1) Basic Earnings per Share		-0.11	-0.01	0.03	0.05	-0.41
(2) Earnings per Diluted Share		-0.11	-0.01	0.03	0.05	-0.41
7. Other Comprehensive Income						
8. Total Comprehensive Income		-48,541,325.44	-2,545,640.83	13,629,848.32	19,470,518.39	-179,517,627.73
In which: Total Comprehensive Income						
of the Parent's Shareholders		-47,244,464.23	-4,389,843.29	11,382,900.84	22,279,381.53	-174,004,582.85
Total Comprehensive Income						
of the Minority Shareholders		-1,296,861.21	1,844,202.46	2,246,947.48	-2,808,863.14	-5,513,044.88

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED CASH FLOW STATEMENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
1. Cash Flow from Operating Activities:						
Cash receipts from the sale of goods and the rendering of services		291,257,105.09	415,911,371.88	698,249,848.82	723,179,036.82	780,471,150.93
Receipts of taxes and levy refunds		361,600.63	728,318.88	830,970.19	163,759.86	1,217,165.41
Other Cash receipts in operating activities	VII.43	12,295,821.48	20,363,112.62	58,168,213.98	33,485,213.41	14,819,277.49
Subtotal Cash Flow-in from Operating Activities		303,914,527.20	437,002,803.38	757,249,032.99	756,830,010.09	796,507,593.83
Cash payments for goods and services acquired		155,826,291.16	286,175,011.86	468,248,461.97	445,848,350.60	374,745,392.67
Cash payments to and on behalf of employees		121,134,383.61	112,918,884.19	199,598,997.58	194,476,773.15	214,815,619.33
Payments of taxes and levy		19,616,793.14	35,006,676.72	55,884,465.57	65,551,649.89	55,560,425.09
Other cash payments from Operating Activities	VII.43	49,926,094.57	31,045,875.22	54,415,236.93	44,435,831.18	30,726,562.14
Subtotal Cash Flow-out from Operating Activities		346,503,562.48	465,146,447.99	778,147,162.05	750,312,604.82	675,847,999.23
Net Cash Flow from Operating Activities		-42,589,035.28	-28,143,644.61	-20,898,129.06	6,517,405.27	120,659,594.60
2. Cash Flow from Investing Activities:						
Cash receipts from return of investments					4,695,247.90	
Cash receipts from investment income						
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets		1,320.00	4,350.00	28,146,285.00	16,427,381.09	384,058.00
Net cash receipts from disposal of subsidiaries and other business units					189,044,834.18	50,000.00
Other cash receipts in investing activities						
Subtotal Cash Flow-in from Investing Activities		1,320.00	4,350.00	28,146,285.00	210,167,463.17	434,058.00
Cash payments to acquired fixed assets, intangible assets and other long-term assets		2,975,375.26	6,275,418.17	7,460,473.06	2,683,349.37	3,779,443.58
Cash payments to acquired investments		50,000.00			18,075,270.64	
Net cash payment to acquired subsidiaries and other business units						
Other cash payments in investing activities	VII.43				872,485.07	
Subtotal Cash Flow-out from Investing Activities		3,025,375.26	6,275,418.17	7,460,473.06	21,631,105.08	3,779,443.58
Net Cash Flow from Investing Activities		-3,024,055.26	-6,271,068.17	20,685,811.94	188,536,358.09	-3,345,385.58

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
3. Cash Flow from Financing Activities:						
Cash proceeds from absorbing investment						
In which: cash receipts from absorbing minority shareholders' investment by subsidiary						
Cash receipts from borrowings		166,000,000.00	140,000,000.00	227,000,000.00	319,250,000.00	414,450,000.00
Other cash receipts in financing activities	VII.43	8,000,000.00				
Subtotal Cash Flow-in from Financing Activities		<u>174,000,000.00</u>	<u>140,000,000.00</u>	<u>227,000,000.00</u>	<u>319,250,000.00</u>	<u>414,450,000.00</u>
Cash repayments of amount borrowed		167,000,000.00	137,750,000.00	164,750,000.00	488,400,000.00	458,657,750.00
Cash payments for distribution of dividends, profits or interest expenses		7,136,213.06	5,220,568.23	10,464,595.41	17,887,765.01	19,687,961.52
Other cash payments in financing activities	VII.43	<u>1,711,809.87</u>	<u>4,838,738.72</u>	<u>5,412,402.69</u>	<u>9,331,111.79</u>	<u>8,051,346.07</u>
Subtotal Cash Flow-out from financing Activities		<u>175,848,022.93</u>	<u>147,809,306.95</u>	<u>180,626,998.10</u>	<u>515,618,876.80</u>	<u>486,397,057.59</u>
Net Cash Flow from Financing Activities		<u>-1,848,022.93</u>	<u>-7,809,306.95</u>	<u>46,373,001.90</u>	<u>-196,368,876.80</u>	<u>-71,947,057.59</u>
4. Effect of exchange rate change on cash and cash equivalent		<u>-51,414.78</u>	<u>-1,171.23</u>	<u>-74,321.76</u>	<u>-29,151.52</u>	<u>-20,802.25</u>
5. Net Increased Cash and Cash Equivalent	VII.43	-47,512,528.25	-42,225,190.96	46,086,363.02	-1,344,264.96	45,346,349.18
Add: the Beginning Balance of Cash and Cash Equivalent	VII.43	<u>156,591,748.37</u>	<u>110,505,385.35</u>	<u>110,505,385.35</u>	<u>111,849,650.31</u>	<u>66,503,301.13</u>
6. The Ending Balance of Cash and Cash Equivalent	VII.43	<u><u>109,079,220.12</u></u>	<u><u>68,280,194.39</u></u>	<u><u>156,591,748.37</u></u>	<u><u>110,505,385.35</u></u>	<u><u>111,849,650.31</u></u>

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY

(Prepared by Beiren Printing Machinery Holdings Limited)

Items	Jan-Jul 2012							Unit: RMB	
	Capital Share	Capital Reserves	Less: Treasury Stock	Shareholder's Equity Attributed to Parent	Undistributed Profit	Others	Subtotal	Minority Shareholder's Equity	Total Shareholder's Equity
1. The ending balance for last year	422,000,000.00	522,877,777.87	-	43,172,707.88	-231,668,177.08	-	756,382,308.67	18,360,361.92	774,742,670.59
Add: Changes in Accounting Policies	-	-	-	-	-	-	-	-	-
Corrections for previous errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. The beginning balance of this year	422,000,000.00	522,877,777.87	-	43,172,707.88	-231,668,177.08	-	756,382,308.67	18,360,361.92	774,742,670.59
3. Increase and decrease for this year (decrease represents as "-")	-	-39,714.24	-	-	-47,244,464.23	-	-47,284,178.47	-1,307,146.97	-48,591,325.44
(1) Net profit	-	-	-	-	-47,244,464.23	-	-47,244,464.23	-1,296,861.21	-48,541,325.44
(2) Other comprehensive income	-	-	-	-	-	-	-	-	-
Subtotal of (1) and (2)	-	-	-	-	-47,244,464.23	-	-47,244,464.23	-1,296,861.21	-48,541,325.44
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-	-	-	-
I. Shareholders investing capital	-	-	-	-	-	-	-	-	-
II. Shares payment in shareholder's equity	-	-	-	-	-	-	-	-	-
III. Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-	-	-	-
I. Provision of Surplus Reserve	-	-	-	-	-	-	-	-	-
II. Distribution for Shareholders	-	-	-	-	-	-	-	-	-
III. Others	-	-	-	-	-	-	-	-	-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-	-	-	-
I. Capital Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-
II. Surplus Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-
III. Surplus Reserve offset losses	-	-	-	-	-	-	-	-	-
IV. Others	-	-	-	-	-	-	-	-	-
(6) Special Reserves	-	-	-	-	-	-	-	-	-
I. Amount provided for the current period	-	-	-	-	-	-	-	-	-
II. Amount expended for the current period	-	-	-	-	-	-	-	-	-
4. The ending balance for this year	422,000,000.00	522,838,063.63	-	43,172,707.88	-278,912,641.31	-	709,098,130.20	17,053,214.95	726,151,345.15

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Jan-Jul 2011							Minority Shareholder's Equity	Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Shareholder's Equity Attributed to Parent	Surplus Reserves	Undistributed Profit		
1. The ending balance for last year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-	-	16,113,414.44	761,112,822.27
Add: Changes in Accounting Policies	-	-	-	-	-	-	-	-	-
Corrections for previous errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. The beginning balance of this year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-	-	16,113,414.44	761,112,822.27
3. Increase and decrease for this year (decrease and increase represents as "-")									
(1) Net profit	-	-	-	-	-	-	-	-	-
(2) Other comprehensive income	-	-	-	-	-	-	-	-	-
Subtotal of (1) and (2)	-	-	-	-	-	-	-	-	-
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-	-	-	-
I. Shareholders investing capital	-	-	-	-	-	-	-	-	-
II. Shares payment in shareholder's equity	-	-	-	-	-	-	-	-	-
III. Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-	-	-	-
I. Provision of Surplus Reserve	-	-	-	-	-	-	-	-	-
II. Distribution for Shareholders	-	-	-	-	-	-	-	-	-
III. Others	-	-	-	-	-	-	-	-	-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-	-	-	-
I. Capital Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-
II. Surplus Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-
III. Surplus Reserve offset losses	-	-	-	-	-	-	-	-	-
IV. Others	-	-	-	-	-	-	-	-	-
(6) Special Reserves	-	-	-	-	-	-	-	-	-
I. Amount provided for the current period	-	-	-	-	-	-	-	-	-
II. Amount expended for the current period	-	-	-	-	-	-	-	-	-
4. The ending balance for this year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-	-	17,957,616.90	758,567,181.44

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2011										Minority Shareholder's Equity	Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Shareholder's Equity Attributed to Parent	Surplus Reserves	Undistributed Profit	Others	Subtotal			
1. The ending balance for last year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-243,051,077.92	-	-	744,999,407.83	16,113,414.44	761,112,822.27	
Add: Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-	
Corrections for previous errors	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	-	
2. The beginning balance of this year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-243,051,077.92	-	-	744,999,407.83	16,113,414.44	761,112,822.27	
3. Increase and decrease for this year (decrease represents as "-")	-	-	-	-	-	-	-	-	-	-	-	
(1) Net profit	-	-	-	-	-	11,382,900.84	-	-	11,382,900.84	2,246,947.48	13,629,848.32	
(2) Other comprehensive income	-	-	-	-	-	11,382,900.84	-	-	11,382,900.84	2,246,947.48	13,629,848.32	
Subtotal of (1) and (2)	-	-	-	-	-	11,382,900.84	-	-	11,382,900.84	2,246,947.48	13,629,848.32	
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-	-	-	-	-	-	
I. Shareholders investing capital	-	-	-	-	-	-	-	-	-	-	-	
II. Shares payment in shareholder's equity	-	-	-	-	-	-	-	-	-	-	-	
III. Others	-	-	-	-	-	-	-	-	-	-	-	
(4) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	
I. Provision of Surplus Reserve	-	-	-	-	-	-	-	-	-	-	-	
II. Distribution for Shareholders	-	-	-	-	-	-	-	-	-	-	-	
III. Others	-	-	-	-	-	-	-	-	-	-	-	
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-	-	-	-	-	-	
I. Capital Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-	-	-	
II. Surplus Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-	-	-	
III. Surplus Reserve offset losses	-	-	-	-	-	-	-	-	-	-	-	
IV. Others	-	-	-	-	-	-	-	-	-	-	-	
(6) Special Reserves	-	-	-	-	-	-	-	-	-	-	-	
I. Amount provided for the current period	-	-	-	-	-	-	-	-	-	-	-	
II. Amount expended for the current period	-	-	-	-	-	-	-	-	-	-	-	
4. The ending balance for this year	422,000,000.00	522,877,777.87	-	-	43,172,707.88	-231,668,177.08	-	-	756,382,308.67	18,360,361.92	774,742,670.59	

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2010										Minority Shareholder's Equity	Total Shareholder's Equity
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Shareholder's Equity Attributed to Parent			Others	Subtotal			
					Surplus Reserves	Undistributed Profit						
1. The ending balance for last year	422,000,000.00	523,020,271.06	-	-	43,172,707.88	-265,330,459.45	-	-	722,862,519.49	20,446,433.33	743,308,952.82	
Add: Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-	
Corrections for previous errors	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	-	
2. The beginning balance of this year	422,000,000.00	523,020,271.06	-	-	43,172,707.88	-265,330,459.45	-	-	722,862,519.49	20,446,433.33	743,308,952.82	
3. Increase and decrease for this year (decrease and increase for this												

Legal Person:

Accounting Director:

Accounting Manager:

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2009										Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Shareholder's Equity Attributed to Parent Surplus Reserves	Undistributed Profit	Others	Subtotal	Minority Shareholder's Equity		
1. The ending balance for last year	422,000,000.00	523,020,271.06	-	-	198,928,288.88	-247,081,457.60	-	896,867,102.34	25,959,478.21		922,826,580.55
Add: Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
Corrections for previous errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. The beginning balance of this year	422,000,000.00	523,020,271.06	-	-	198,928,288.88	-247,081,457.60	-	896,867,102.34	25,959,478.21		922,826,580.55
3. Increase and decrease for this year (decrease represents as "-")	-	-	-	-	-155,755,581.00	-18,249,001.85	-	-174,004,582.85	-5,513,044.88		-179,517,627.73
(1) Net profit	-	-	-	-	-	-174,004,582.85	-	-174,004,582.85	-5,513,044.88		-179,517,627.73
(2) Other comprehensive income	-	-	-	-	-	-	-	-	-		-
Subtotal of (1) and (2)	-	-	-	-	-	-	-	-	-		-
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-	-	-	-		-
I. Shareholders investing capital	-	-	-	-	-	-	-	-	-		-
II. Shares payment in shareholder's equity	-	-	-	-	-	-	-	-	-		-
III. Others	-	-	-	-	-	-	-	-	-		-
(4) Profit distribution	-	-	-	-	-	-	-	-	-		-
I. Provision of Surplus Reserve	-	-	-	-	-	-	-	-	-		-
II. Distribution for Shareholders	-	-	-	-	-	-	-	-	-		-
III. Others	-	-	-	-	-	-	-	-	-		-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-155,755,581.00	155,755,581.00	-	-	-		-
I. Capital Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-	-	-	-		-
II. Surplus Reserve transfer to Capital (or Share Capital)	-	-	-	-	-155,755,581.00	155,755,581.00	-	-	-		-
III. Surplus Reserve offset losses	-	-	-	-	-	-	-	-	-		-
IV. Others	-	-	-	-	-	-	-	-	-		-
(6) Special Reserves	-	-	-	-	-	-	-	-	-		-
I. Amount provided for the current period	-	-	-	-	-	-	-	-	-		-
II. Amount expended for the current period	-	-	-	-	-	-	-	-	-		-
4. The ending balance for this year	422,000,000.00	523,020,271.06	-	-	43,172,707.88	-265,330,459.45	-	722,862,519.49	20,446,433.33		743,308,952.82

Legal Person:

Accounting Director:

Accounting Manager:

BALANCE SHEET OF THE PARENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Assets:					
Cash		78,234,001.57	133,470,663.08	74,222,278.37	86,568,028.75
Tradable Financial Assets					
Notes Receivable		18,520,451.00	16,108,400.00	26,668,560.16	12,097,000.00
Accounts Receivable	XVI.1	137,117,748.07	102,108,162.49	154,601,863.77	207,351,175.53
Advances to Suppliers		5,037,142.42	2,001,561.11	806,136.63	4,489,060.17
Interests Receivable		628,400.16	343,324.17		
Dividends Receivable		113,600.00	113,600.00		
Other Accounts Receivable	XVI.2	13,875,257.41	7,085,647.86	9,406,209.57	7,287,587.74
Inventory		296,905,109.08	289,129,226.98	231,094,440.03	328,286,547.25
Non-current Assets maturing within one year					
Other Current Assets		90,000,000.00	95,000,000.00		
Total Current Assets		640,431,709.71	645,360,585.69	496,799,488.53	646,079,399.44
Non-current Assets:					
Financial Assets available for sale					
Holding to Maturity Investment					
Long-term Accounts Receivable					
Long-term Equity Investment	XVI.3	165,262,802.70	165,473,064.12	165,379,783.62	216,161,294.58
Investment Property		6,634,911.47	6,739,095.77	6,927,332.93	15,047,905.79
Fixed Assets		392,361,751.96	406,098,867.03	443,749,651.03	474,875,268.15
Construction in Progress		3,770,577.50	2,816,487.16	1,580,197.43	1,697,564.49
Project Materials					
Disposal of Fixed Assets					
Productive biological assets					
Oil and gas assets					
Intangible Asset		83,454,852.87	84,638,825.87	86,668,493.77	101,841,698.56
Research and development expenses					
Goodwill					
Long-term Prepayments		9,367,320.00	9,367,320.00	9,367,320.00	11,930,291.10
Deferred Income Tax Assets					
Other Non-current Assets					
Total Non-current Assets		660,852,216.50	675,133,659.95	713,672,778.78	821,554,022.67
Total Assets		1,301,283,926.21	1,320,494,245.64	1,210,472,267.31	1,467,633,422.11

Legal Person:

Accounting Director:

Accounting Manager:

BALANCE SHEET OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Liabilities:					
Short-term Loan		210,000,000.00	210,000,000.00	70,000,000.00	230,000,000.00
Tradable Financial Liabilities					
Notes Payable					
Accounts Payable		184,723,198.87	176,242,675.31	212,325,442.83	267,557,367.34
Advances from Customers		26,915,291.17	12,730,422.05	8,698,989.63	27,758,177.71
Employee Benefit Payable		13,313,268.18	22,320,919.37	29,469,396.62	34,496,556.25
Taxes Payable		1,770,932.08	-4,622,406.84	5,563,471.31	7,866,507.28
Interests Payable		1,392,442.00	751,944.17	133,487.50	1,096,962.50
Dividends Payable					
Other Payables		54,850,041.64	58,521,768.96	60,515,233.00	62,037,936.32
Non-current Liabilities maturing within one year					
Other Current Liabilities		3,803,797.12	1,706,815.99	1,356,816.01	650,000.00
Total Current Liabilities		496,768,971.06	477,652,139.01	388,062,836.90	631,463,507.40
Non-Current Liabilities:					
Long-term Loan					
Bonds Payable					
Long-term Accounts Payable					
Special Payable		26,381,536.64	25,973,413.38	9,618,808.71	9,100,538.23
Estimated liabilities		543,434.72	567,607.38	592,807.38	266,891.98
Deferred Income Tax Liabilities					
Other Non-current Liabilities				656,815.99	1,970,448.01
Total Non-current Liabilities		26,924,971.36	26,541,020.76	10,868,432.08	11,337,878.22
Total Liabilities		523,693,942.42	504,193,159.77	398,931,268.98	642,801,385.62
Shareholder's Equity:					
Stock		422,000,000.00	422,000,000.00	422,000,000.00	422,000,000.00
Capital Reserves		518,165,762.89	518,165,762.89	518,165,762.89	517,456,262.71
Less: Treasury Stock					
Special Reserve					
Surplus Reserves		38,071,282.24	38,071,282.24	38,071,282.24	38,071,282.24
Undistributed Profit		-200,647,061.34	-161,935,959.26	-166,696,046.80	-152,695,508.46
Total Shareholder's Equity attributable to the parent		777,589,983.79	816,301,085.87	811,540,998.33	824,832,036.49
Total Minority Equity					
Total shareholder's equity		777,589,983.79	816,301,085.87	811,540,998.33	824,832,036.49
Total Liabilities and Shareholder's Equity		1,301,283,926.21	1,320,494,245.64	1,210,472,267.31	1,467,633,422.11

Legal Person:

Accounting Director:

Accounting Manager:

INCOME STATEMENT OF THE PARENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
1. Total Operating Income	<i>XVI.4</i>	212,277,060.11	220,371,634.14	369,919,788.94	444,841,323.34	444,517,937.99
Less: Operating Cost	<i>XVI.4</i>	179,177,670.00	172,305,658.80	300,178,592.46	384,570,303.04	428,242,334.18
Tax and Additional Expense		1,811,435.90	1,734,946.30	4,000,154.61	3,919,871.31	4,256,540.51
Sales Expense		12,959,059.43	12,441,905.05	24,818,427.19	39,381,651.43	34,374,499.39
Administration Expense		37,658,307.34	30,418,691.54	63,088,452.00	92,964,899.33	91,868,512.83
Financial Expense		4,158,072.83	2,375,701.28	2,210,606.58	11,720,401.04	13,208,931.53
Assets Impairment Losses		14,933,463.79	10,455,323.53	10,039,314.69	64,876,491.11	30,293,161.69
Add: Income of Fair Value Change (loss marked "-")						
Investment Income (loss marked "-")	<i>XVI.5</i>	-260,261.42	47,397.88	206,880.50	125,610,576.88	-1,861,897.58
Thereinto: Investment Income to Subsidiaries and Joint Venture		-260,261.42	47,397.88	206,880.50	466,489.04	622,102.42
2. Operating Profit (loss marked "-")		-38,681,210.60	-9,313,194.48	-34,208,878.09	-26,981,717.04	-159,587,939.72
Add: Non-operating Income		14,504.08	680,969.30	39,054,367.19	13,809,278.22	6,946,867.77
Less: Non-operating Expense		44,395.56	70,963.10	85,401.56	828,099.52	375,274.84
Thereinto: Disposal Loss of Non-current Assets		44,054.31		45,237.12	482,184.12	198,912.98
3. Total Profit (Total loss marked "-")		-38,711,102.08	-8,703,188.28	4,760,087.54	-14,000,538.34	-153,016,346.79
Less: Income Tax Expense						-320,838.33
4. Net Profit (Net loss marked "-")		-38,711,102.08	-8,703,188.28	4,760,087.54	-14,000,538.34	-152,695,508.46
5. Earnings per Share:						
(1) Basic Earnings per Share						
(2) Earnings per Diluted Share						
6. Other Comprehensive Income						
7. Total Comprehensive Income		-38,711,102.08	-8,703,188.28	4,760,087.54	-14,000,538.34	-152,695,508.46

Legal Person:

Accounting Director:

Accounting Manager:

CASH FLOW STATEMENT OF THE PARENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Item	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
1. Cash Flow from Operating Activities:						
Cash receipts from the sale of goods and the rendering of services		144,106,402.81	204,482,119.90	352,163,873.07	361,787,537.64	439,834,188.80
Receipts of taxes and levy refunds		15,981.49	133,002.96	133,002.96		
Other Cash receipts relating to operating activities		281,481.77	19,108,821.90	53,395,561.01	19,266,956.45	9,670,384.93
Subtotal Cash Inflow from Operating Activities		144,403,866.07	223,723,944.76	405,692,437.04	381,054,494.09	449,504,573.73
Cash payments for goods and services acquired		89,829,453.18	149,133,218.48	218,969,963.92	217,207,928.17	164,242,675.78
Cash payments to and on behalf of employees		72,377,002.00	62,161,363.57	116,026,278.85	121,582,289.40	141,642,833.78
Payments of taxes and levy		10,705,598.40	19,459,696.54	29,834,371.30	39,069,690.14	31,809,184.26
Other cash payments relating to Operating Activities		26,693,983.60	25,379,586.06	47,916,716.56	35,152,105.06	20,998,949.02
Subtotal Cash Outflow from Operating Activities		199,606,037.18	256,133,864.65	412,747,330.63	413,012,012.77	358,693,642.84
Net Cash Flow from Operating Activities		-55,202,171.11	-32,409,919.89	-7,054,893.59	-31,957,518.68	90,810,930.89
2. Cash Flow from Investing Activities:						
Cash receipts from return of investments		95,000,000.00				
Cash receipts from investment income						
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets			4,350.00	28,058,355.00	16,185,081.10	345,058.00
Net cash receipts from disposal of subsidiaries and other business units					195,154,423.09	50,000.00
Other cash receipts in investing activities		3,158,413.05	1,221,005.84	3,691,381.68	15,122,175.00	
Subtotal Cash Inflow from Investing Activities		98,158,413.05	1,225,355.84	31,749,736.68	226,461,679.19	395,058.00
Cash payments to acquired fixed assets, intangible assets and other long-term assets		1,360,977.26	260,280.00	2,050,650.01	338,070.06	892,883.23
Cash payments to acquired investments		90,050,000.00	80,000,000.00	95,000,000.00	18,075,270.64	1,000,000.00
Net cash payment to acquired subsidiaries and other business units						
Other cash payments in investing activities					15,872,485.07	
Subtotal Cash Outflow from Investing Activities		91,410,977.26	80,260,280.00	97,050,650.01	34,285,825.77	1,892,883.23
Net Cash Flow from Investing Activities		6,747,435.79	-79,034,924.16	-65,300,913.33	192,175,853.42	-1,497,825.23

Legal Person:

Accounting Director:

Accounting Manager:

CASH FLOW STATEMENT OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Item	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
3. Cash Flow from Financing Activities:						
Cash proceeds from absorbing investment						
Cash receipts from borrowings		165,000,000.00	135,000,000.00	210,000,000.00	245,000,000.00	315,500,000.00
Other cash receipts in financing activities						
Subtotal Cash Inflow from Financing Activities		<u>165,000,000.00</u>	<u>165,000,000.00</u>	<u>210,000,000.00</u>	<u>245,000,000.00</u>	<u>315,500,000.00</u>
Cash repayments of amount borrowed		165,000,000.00	55,000,000.00	70,000,000.00	405,000,000.00	353,607,750.00
Cash payments for distribution of dividends, profits or interest expenses		6,791,706.83	3,209,997.51	8,324,398.35	12,557,039.90	12,572,564.25
Other cash payments in financing activities						
Subtotal Cash Outflow from financing Activities		<u>171,791,706.83</u>	<u>58,209,997.51</u>	<u>78,324,398.35</u>	<u>417,557,039.90</u>	<u>366,180,314.25</u>
Net Cash Flow from Financing Activities		<u>-6,791,706.83</u>	<u>76,790,002.49</u>	<u>131,675,601.65</u>	<u>-172,557,039.90</u>	<u>-50,680,314.25</u>
4. Effect of exchange rate changes on cash and cash equivalent						
		<u>9,780.64</u>	<u>-1,171.23</u>	<u>-71,410.02</u>	<u>-7,045.22</u>	<u>-6,295.43</u>
5. Net Increased In Cash and Cash Equivalent	<i>XVI.6</i>	-55,236,661.51	-34,656,012.79	59,248,384.71	-12,345,750.38	38,626,495.98
Add: the Beginning Balance of Cash and Cash and Cash Equivalent	<i>XVI.6</i>	<u>133,470,663.08</u>	<u>74,222,278.37</u>	<u>74,222,278.37</u>	<u>86,568,028.75</u>	<u>47,941,532.77</u>
6. The Ending Balance of Cash and Cash Equivalent	<i>XVI.6</i>	<u><u>78,234,001.57</u></u>	<u><u>39,566,265.58</u></u>	<u><u>133,470,663.08</u></u>	<u><u>74,222,278.37</u></u>	<u><u>86,568,028.75</u></u>

Legal Person:

Accounting Director:

Accounting Manager:

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Jan-Jul 2012					Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Surplus Reserves	
1. The ending balance for last year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	816,301,085.87
Add: Changes in Accounting Policies						
Corrections for previous errors						
Others						
2. The beginning balance of this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	816,301,085.87
3. Increase and decrease for this year (decrease represents as "-")						
(1) Net profit	-	-	-	-	-	-
(2) Other comprehensive income	-	-	-	-	-	-
Subtotal of (1) and (2)	-	-	-	-	-	-
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-
I. Shareholders investing capital	-	-	-	-	-	-
II. Shares payment in shareholder's equity	-	-	-	-	-	-
III. Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-
I. Provision of Surplus Reserve	-	-	-	-	-	-
II. Distribution for Shareholders	-	-	-	-	-	-
III. Others	-	-	-	-	-	-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-
I. Capital Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-
II. Surplus Reserve transfer to Capital (or Share Capital)	-	-	-	-	-	-
III. Surplus Reserve offset losses	-	-	-	-	-	-
IV. Others	-	-	-	-	-	-
(6) Special Reserves	-	-	-	-	-	-
I. Amount provided for the current period	-	-	-	-	-	-
II. Amount expended for the current period	-	-	-	-	-	-
4. The ending balance for this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	777,589,983.79
Legal Person:	Accounting Director:					
	Accounting Manager:					

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	Jan-Jul 2011					Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Surplus Reserves	
1. The ending balance for last year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	811,540,998.33
Add: Changes in Accounting Policies						-
Corrections for previous errors						-
Others						-
2. The beginning balance of this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	811,540,998.33
3. Increase and decrease for this year (decrease represents as "-")						
(1) Net profit	-	-	-	-	-	-8,703,188.28
(2) Other comprehensive income	-	-	-	-	-	-8,703,188.28
Subtotal of (1) and (2)	-	-	-	-	-	-8,703,188.28
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	-8,703,188.28
I. Shareholders investing capital						-
II. Shares payment in shareholder's equity						-
III. Others						-
(4) Profit distribution	-	-	-	-	-	-
I. Provision of Surplus Reserve						-
II. Distribution for Shareholders						-
III. Others						-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-
I. Capital Reserve transfer to Capital (or Share Capital)						-
II. Surplus Reserve transfer to Capital (or Share Capital)						-
III. Surplus Reserve offset losses						-
IV. Others						-
(6) Special Reserves	-	-	-	-	-	-
I. Amount provided for the current period						-
II. Amount expended for the current period						-
4. The ending balance for this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	802,837,810.05

Legal Person:

Accounting Director:

Accounting Manager:

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2011						Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Surplus Reserves	Undistributed Profit	
1. The ending balance for last year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	-166,696,046.80	811,540,998.33
Add: Changes in Accounting Policies							-
Corrections for previous errors							-
Others							-
2. The beginning balance of this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	-166,696,046.80	811,540,998.33
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit	-	-	-	-	-	4,760,087.54	4,760,087.54
(2) Other comprehensive income						4,760,087.54	4,760,087.54
Subtotal of (1) and (2)	-	-	-	-	-	4,760,087.54	-
(3) Shareholders Investing and Reducing Capital	-	-	-	-	-	4,760,087.54	4,760,087.54
I. Shareholders investing capital						-	-
II. Shares payment in shareholder's equity						-	-
III. Others						-	-
(4) Profit distribution	-	-	-	-	-	-	-
I. Provision of Surplus Reserve						-	-
II. Distribution for Shareholders						-	-
III. Others						-	-
(5) Shareholder's Equity Internal transfer	-	-	-	-	-	-	-
I. Capital Reserve transfer to Capital (or Share Capital)						-	-
II. Surplus Reserve transfer to Capital (or Share Capital)						-	-
III. Surplus Reserve offset losses						-	-
IV. Others						-	-
(6) Special Reserves	-	-	-	-	-	-	-
I. Amount provided for the current period						-	-
II. Amount expended for the current period						-	-
4. The ending balance for this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	-161,935,959.26	816,301,085.87
Legal Person:	Accounting Director:						Accounting Manager:

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2010						Total Shareholder's Equity
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed Profit	
1. The ending balance for last year	422,000,000.00	517,456,262.71	-	-	38,071,282.24	-152,695,508.46	824,832,036.49
Add: Changes in Accounting Policies							-
Corrections for previous errors							-
Others							-
2. The beginning balance of this year	422,000,000.00	517,456,262.71	-	-	38,071,282.24	-152,695,508.46	824,832,036.49
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit	-	709,500.18	-	-	-	-14,000,538.34	-13,291,038.16
(2) Other comprehensive income						-14,000,538.34	-14,000,538.34
Subtotal of (1) and (2)	-						
(3) Shareholders Investing and Reducing Capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others		709,500.18	-	-	-	-14,000,538.34	-14,000,538.34
(4) Profit distribution							
I. Provision of Surplus Reserve							
II. Distribution for Shareholders							
III. Others							
(5) Shareholder's Equity Internal transfer							
I. Capital Reserve transfer to Capital (or Share Capital)							
II. Surplus Reserve transfer to Capital (or Share Capital)							
III. Surplus Reserve offset losses							
IV. Others							
(6) Special Reserves							
I. Amount provided for the current period							
II. Amount expended for the current period							
4. The ending balance for this year	422,000,000.00	518,165,762.89	-	-	38,071,282.24	-166,696,046.80	811,540,998.33
Legal Person:	Accounting Director:						Accounting Manager:

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beiren Printing Machinery Holdings Limited)

Unit: RMB

Items	2009					Total Shareholder's Equity
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Undistributed Profit	
1. The ending balance for last year	422,000,000.00	517,456,262.71			-155,755,581.00	977,527,544.95
Add: Changes in Accounting Policies						-
Corrections for previous errors						-
Others						-
2. The beginning balance of this year	422,000,000.00	517,456,262.71	-	-	-155,755,581.00	977,527,544.95
3. Increase and decrease for this year (decrease represents as "-")						
(1) Net profit	-	-	-	-	3,060,072.54	-152,695,508.46
(2) Other comprehensive income					-152,695,508.46	-152,695,508.46
Subtotal of (1) and (2)	-	-	-	-	-152,695,508.46	-152,695,508.46
(3) Shareholders Investing and Reducing Capital						
I. Shareholders investing capital						
II. Shares payment in shareholder's equity						
III. Others						
(4) Profit distribution						
I. Provision of Surplus Reserve						
II. Distribution for Shareholders						
III. Others						
(5) Shareholder's Equity Internal transfer						
I. Capital Reserve transfer to Capital (or Share Capital)					155,755,581.00	
II. Surplus Reserve transfer to Capital (or Share Capital)						
III. Surplus Reserve offset losses						
IV. Others						
(6) Special Reserves						
I. Amount provided for the current period						
II. Amount expended for the current period						
4. The ending balance for this year	422,000,000.00	517,456,262.71	-	-	-152,695,508.46	824,832,036.49

Legal Person:

Accounting Director:

Accounting Manager:

NOTES TO THE FINANCIAL STATEMENT*For the period from 1 January 2009 to 31 July 2012*

(Unless otherwise stated, all amounts herein are in RMB)

I. General

Beiren Printing Machinery Holdings Company Limited (the “Company, collectively as the “Group” when the subsidiaries are included”) was established by Beiren Group Corporation in Beijing, the People’s Republic of China (the “PRC”) on 13 July 1993 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 mainland of China and Hong Kong. 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 listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC in 1993 and 1994 respectively.

Upon the approval of General Shareholders’ Meeting on 16 May 2001 and 11 Jun 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, during the period from 26 Dec 2002 to 7 Jan 2003, the Group issued 22,000,000 additional A Shares listed on the Shanghai Stock Exchange, with par value of RMB1 Yuan. After the additional issues, the total outstanding shares of the Group are added up to 422,000,000 shares, among which 250,000,000 shares are state-owned institutional shares, 72,000,000 shares are inland public issues 100,000,000 shares are offshore public issues. All shares are with par value RMB1 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), issued by the Committee of State-owned Assets Supervision and Administration of Beijing Government, Beiren Group Corporation as the sole non-floating shares holder should transfer the original 27,360,000 state-owned shares to the A share holders through the bonus issue on 10 for 3.8, and the registration date related to the share segregation reform was 29 March 2006.

Beiren Group Corporation has sold 21,000,000 unconditioned tradable shares through Shanghai Stock Exchange Bulk Exchange Platform on 6 Jan 2010 and 7 Jan 2010 respectively. On 2 Dec 2010, Beiren Group Corporation has sold 20,000 unconditioned tradable shares to public on 2 Dec.2010, which accounts for 4.98% of total share rights hold by the Group. Up to 31 Jul 2012, Beiren Group Corporation has hold the state-owned institutional shares 201,620,000, as 47.78% of total share rights, which are all unconditioned floating shares; 120,380,000 shares which are 28.52% of the total share rights are unconditioned inland public shares and unconditioned offshore public shares are 100,000,000 shares as 23.70% of the total share rights.

The Group is principally engaged in developing, designing, manufacturing and selling a variety of printing press and related spare parts, as well as the technique consultation and services related to the operating business.

Beiren Group Corporation is the controller of the Group and the ultimate parent company is Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. The Shareholders’ Meeting, as the authority of the Group, in accordance with laws, executes the resolution rights on significant events concerning with operation, financing, investment, profit distribution and etc. The Board of Directors is responsible for the Shareholders’ Meeting, legally executing the decision-making rights on operation; and the Management is responsible for implementation of events resolute by the Shareholders’ Meeting and the Board of Directors, and preside over the operational management of the Group as well.

II. Basis of Preparation of Financial Statement

The financial statements have been prepared on a going concern and actual transaction basis.

The Company has been prepared according to the “Enterprise Accounting Standards — Basic Standards” and 38 accounting standards promulgated by the Ministry of Finance on 15 February 2006 and guidelines, interpretations and other related provisions promulgated afterward for application thereof (“Enterprise Accounting Standards”), and disclosure requirements under the CSRC Public Offering of Securities of the Company Information Disclosure Rule No. 15 — Financial Report of the General Provisions (2010 Amendment).

In addition, these financial statements contain such disclosures as required by the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

III. Declaration of Compliance with Enterprise Accounting Standards

These financial statements are in compliance with requirements of the Enterprise Accounting Standards and give a true view on the entire financial position, operating results and cash flow of the Company.

IV. Significant Accounting Policies, Accounting Estimates and Compilation Method of Consolidated Financial Statements**1. Accounting period**

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

2. Currency for maintaining the book and record

The currency which the Group adopted in preparing the financial statements is Renminbi.

3. Principles of accounting and measurement

The Group uses the accrual method as its basis for maintaining the book and record. All assets are measured at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant rules.

4. Method of preparing consolidated financial statements*Principles in determining the scope of the consolidation*

The scope of consolidation is determined on the basis of control. Control refers to the right that the Group is able to make decisions on financial and operational policies of the invested company, and receiving benefits from the business activities conducted by the invested company. The scope of the consolidation includes the Group and all its subsidiaries. Subsidiary means enterprise or entity that is controlled by the Group.

Method of preparing consolidated financial statements

The Group begins to include a subsidiary in the scope of consolidation from the date that the Group acquires the net assets and effective control over the operation and business decisions of the subsidiary. A subsidiary is excluded out of the scope of the Group's consolidation from the date the Group loses effective control over it. The significant balance, transactions and unrealised profits which fall in the scope of consolidation is offset when prepare consolidation statements. Shareholders' equity of subsidiary and net profit and loss which are not belonging to the Group will be treated as minority shareholders' equity and profit and loss to be presented separately under the shareholder's equity of consolidated report.

When accounting policy or accounting period that subsidiaries adopt are not in accordance with the Group, the Group's will prevail or necessary adjustments need to be made on subsidiaries' financial statements when prepare for consolidation.

For subsidiaries acquired through business combination not under common control: Make adjustments on certain financial statements based on identifiable fair value of net assets at the purchase 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.

5. Cash and cash equivalents

Cash in the cash flow statement indicates the cash on hand and the deposit in bank available for a payment at any time. Cash equivalents in the cash flow statement are short-term (normally matured within 3 months), highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

6. Foreign exchange translation*Transactions in foreign currencies*

Transactions by foreign currency are translated into RMB at the spot exchange rate of the transaction date.

On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized eventually, the exchange difference is accounted into current profit and loss. For non-monetary items measured at fair value and by foreign currency, 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. 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 kept unchanging.

7. Financial Instruments

(1) The classification of financial assets and financial liabilities

According to the investment purpose and economic substance, the Group classifies its financial assets as Financial assets at fair value through profit and loss, Held-to-maturity investments, Loans and receivables and Available-for-sale financial assets.

1) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss includes: held for trading and allows entities to choose to classify other financial instruments as held at fair value with changes in fair value recorded through profit and loss.

Held for trading is acquired principally for purpose of sale, except if the derivative is designated and held as an effective hedging instrument.

2) Held-to-maturity investments is defined as a non-derivative financial asset that has fixed or determinable payments for which an entity has a positive intent and ability to hold to maturity.

3) Loans and receivables is defined as a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market.

4) Available-for-sale financial assets is defined as financial assets that are designated as available for sale are not classified as: 1) 2) and 3).

The Group classifies its financial assets as financial liability at fair value through profit or loss and other financial liabilities.

Other financial liabilities mean a non-derivative financial liability other than financial liabilities at fair value through profit or loss.

(2) Financial assets and financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit and loss includes: held for trading and allows entities to choose to classify other financial instruments as held at fair value with changes in fair value recorded through profit and loss.

The Group determines the classification of financial assets and financial liabilities in the initial recognition.

According to subsequent fair value measurement, financial liabilities at fair value through profit and loss includes: held for trading and choose to classify other financial instruments as held at fair value with changes in fair value recorded through profit and loss, changes in fair value through profit or loss and financial liability related interests gain or loss are accounts into profit and loss for the period.

(3) Recognition of financial assets and financial liability

The Group requires the initial recognition of a financial asset and financial liability when the Group becomes party to the contractual provisions of the instrument.

For financial assets and financial liabilities at fair value through profit or loss, transaction costs are directly attributable to the profit and loss. For financial assets and financial liabilities are not measured at fair value through profit or loss, such transaction costs are added to the fair value for the initial costs.

(4) Subsequent measurement of financial assets and financial liabilities.

After initial recognition, the Group shall measure financial assets and financial liabilities at their fair value, without any deduction for transaction costs it may incur on sale or other disposal, except for the followings:

- Held-to-maturity investments, loans and receivables and other financial liabilities, which shall be measured at amortized cost using the effective interest method;
- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Profit or loss arising from changes in fair value of financial assets or financial liabilities are treated as follows except for those relating to hedge:

- Financial assets and financial liabilities at fair value through profit or loss, which the gain or loss rose by changes of fair value (excluded interest gain or loss), attribute to 'gain or loss of fair value' in the income statement;
- Available for sale financial assets, which the change in fair value subsequent to acquisition is recognized as a component of comprehensive income, except for impairment losses and foreign exchange gains and losses.

(5) Fair value measurement considerations

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

For the financial instruments with active market-quoted prices, the Group adopts market price for a financial instrument without any deduction for transaction costs it may incur on sale or other disposal. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For the financial instruments without active market-quoted prices, the Group uses valuation techniques. Valuation techniques include reference to the market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Such valuation techniques should be assessed by comparison to the actual market prices when these are available used the Group specific data in the minimum level.

The Group would assess the valuation techniques at fixed period, and test the effectiveness.

(6) Derecognition of financial assets and financial liabilities

The Group shall derecognize a financial asset (or a part of a group of similar financial assets) when a financial asset (or a group of similar financial assets) satisfied one of the followings:

- The contractual rights to the cash flows from the financial asset expire;
- The Group transfers all the related risk and rewards of a financial asset, either transfer nor retain the rights of risk and rewards, but the Group transfer the contractual rights for the financial assets.

The Group shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – that is, when the obligation specified in the contract is discharged or cancelled or expires.

(7) Impairment of financial assets

Except for the financial assets at fair value through profit or loss, the Group shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall determine the amount of any impairment loss. The changes in fair value were previously recognized in equity now recognized in other comprehensive income,

when there is a significant and extemporary decline in the fair value of the held for trading financial assets. Financial assets that are remeasured when the fair value is increased, reversed the changes in fair value were previously recognized into part of the equity.

For the financial assets carried at amortized cost, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluded the future credit risk), and attributes to the comprehensive income for the period. Financial assets that are remeasured when the fair value is increased, reversed the changes in fair value were previously recognized into part of the equity.

Investments in equity instruments that do not have a quoted market price in an active market, an impairment loss recognized for such instruments is not be reversed while the instrument continues to be recognized.

8. Accounts receivable

The Group assesses the book value of receivables on balance sheet date, and the bad debt expense is made into the current profit and loss when any of the following circumstances occur: (1) There is the existence of the withdrawal, bankrupt, insolvency, stoppage due to a natural disaster or weak solvency within foreseeable period from debt enterprises. (2) Debt enterprises have not satisfied debts past the due date for more than 3 years. (3) There are other substantial evidences showing that receivables are difficult to be collected.

The provision is adopted for the possible bad debts. The impairment test is made separately or grouped at the ending period and recorded into the current profit and loss. For the receivables which cannot be collected with solid evidence, the loss of bad debts will be recognized after the approval through the Group's process, and written-off against the provision of the bad debts.

(1) Individual Receivables above Significant Level

The basis or standard for judging the significant level of individual receivable	Consider individual receivables above RMB20,000,000.00 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.

(2) Receivables for which provision of bad debts made by groups

The basis of defining combinations	
Combination based on age of accounts	Consider aging of receivables as credit risk characteristics
Method on making provision of bad debts based on combinations	
Combination based on age accounts	Provision of bad debts is made by aging analysis
The rate of bad debts provision according to aging analysis is as follows:	

Aging	Rate (%)
Within 1 year	0
1-2 years	30
2-3 years	60
Above 3 years	100

(3) The provision of bad debts made for individual receivables below significant level

Reason for making provision separately	Individual receivables below significant level and the aging analysis can not reflect its risk characteristics
Method for making provision	Provision of bad debts is made by difference between the present value of future cash flows and the book value of receivables

9. Inventory

The inventory of the Group covers goods in delivering, raw material, work in process, finished goods, low-valued consumables, self-made semi-products, and outside processing materials, etc.

The inventory is measured at historical cost which covers purchase cost, processing cost and other expenditures for the purpose of inventory available for current location and status, when acquired. When inventories are issued, the weighted average method will be applied for the actual issuing cost. Low-valued consumables and packing materials on cyclic use should be amortized in full amount.

At the end of period, inventory is measured as lower of historical cost and net realizable value. For inventories of which value is impaired due to the physical damage or technology obsolete or selling price lower than cost, the provision of impairment for inventory will be made. The provision of impairment for finished goods and raw materials in a large amount is made on the basis of the difference of the cost of the individual inventory item over its net realizable value. The provision of impairment for the auxiliary materials with a large quantity and low cost is withdrawn in terms of classification.

The net realizable value of these inventories, such as finished goods, work in process and materials for selling, is the estimated price after estimated sales expenses and relevant taxes. The net realizable value of materials which are for production is estimated price of relevant finished goods after estimated cost for finished goods, estimated sales expenses and relevant taxes.

The perpetual inventory system is applied by the Group to the inventory physically stocktaking.

10. Long-term equity investment

The item of long-term equity investment includes equity investments which are either with the control, common control or significance influence over investees, or without those control or influence over investees and no offer or fair value can be measured reliably in the 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 Company has power to decide invested entities' financial and operating policy and will benefit for their operating activities. When determine whether Company has control over the invested entities, their convertible corporate bonds and executive share options for the current period should been taken into consideration as well.

Common control indicates the sharing control according to the contract. Any parties involved cannot control the production and operation activities of the joint venture. All decisions related to principal operation activities need the agreement from all parties.

Significant influence indicates the rights to be involved into the decision-making on financial and operational policies in investees but no control or common control on these policies-making. The evidence of significant influence is the direct ownership or indirect ownership through subsidiaries of from 20% up to 50% voting rights from investees otherwise there must be solid evidences showing investors cannot be involved in investees' decision making under such conditions.

(2) Initial measurement

For the merger of enterprises under the same control, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.

For a business combination realised by a transaction of exchange, 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 business reputation. The acquirer is treated the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquire:

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

The initial cost of a long-term equity investment obtained by recombination of liabilities or the exchange of nonmonetary assets shall be ascertained in accordance with Accounting Standards for Enterprises.

(3) Subsequent measurement

The Group recognizes the investment on subsidiaries by cost method and adjusts into equity method in compilation of consolidated statements. The Group applies the equity method on accounting the investment of joint ventures and associated companies, and the cost method on accounting the long-term equity investment without control, common control and significant influence as well as no pricing and no reliable fair value in the market. The Group accounts the long-term equity investment, which is without the control, the common control or significant influence but with pricing and reliable fair value in the marked, as financial assets available-for-sale.

Under the cost method, the long-term equity investment is measured at initial investment cost. The investment income is subject to the distribution of accumulative net profit from investees after the investment. Then the apportioned profit or cash dividends acquired from investees will be written off against the book value of the investment as a withdrawal of initial investment cost.

For equity method: The current period's profit and loss is the entitled portion of investee's profit or loss for the period. Determine gain or loss of investment and adjust book value of long-term investment; factors rather than net profit or losses that have impacts on investee's change of equity; when share percentage maintains unchanged, calculate gain or loss on the investment and adjust book value of long-term investment; determine capital reserve. When Group determines entitled amount of net profit or loss from investee: the fair value of investee's assets at the acquisition date should be applied as calculation basis; in accordance with Group's accounting policy and period, set off internal transactions between joint-ventures and associated enterprises; adjust investee's net profit and loss. Calculate entitled amount based on declared dividends and cash dividends of investee and lower book value of long-term investment accordingly. When Group determines investee's net loss: uses the book value of long-term investment as basis and impair the value as low as nil, contractual obligation to undertake additional loss is exclusive. In addition, in the case that Group has contractual obligation to undertake additional loss, then, estimated liability should be determined by the contractual amount and accounted into current period profit and loss. In the case that investee achieve net profit in following periods, Group begins to recognize return of investment after compensate undetermined share of loss.

The long-term equity investment for which that Group doesn't have common control or significant influence over the investee any more 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 cannot be reliably measured, the cost method shall be adopted for valuation; Equity method will be adopted under the following circumstances: investee that Group has common control or significant influence but not control due to increased additional investment; due to reasons such as disposal of long-term investment Group no longer has control but only common control and significant influence over investee.

(4) Disposal of a Long-term equity investment

The difference between the book value and the disposal gain on the long-term equity investment is accounted into the current profit and loss. For the long-term equity investment measured under equity method, those were recorded into the equity on the changes in the equity which is excluding the net profit by the invested company, the amount was recorded into the equity will be transferred into the investment profit for the period.

(5) Impairment test and provision for the impairment loss

At the balance date, Company estimates the recoverable amounts of long-term investments of subsidiaries, joint-ventures and associated enterprise if there is an indication of possibility that impairment may occur. In the case that recoverable amount is less than book value then confirms impairment loss and account into current period's profit and loss. Also account provision for long-term investment impairment loss.

11. Investment in real estate

The investment in real estate includes the land use right that is rented to other parties, the land use right held for and prepared for transfer after appreciation, and buildings that are rented to other parties.

The investment in real estate is recognized at its cost. The cost of an investment real estate by acquisition consists of the acquisition price, relevant taxes, and other expenses directly relegated to the asset. The cost of a self-built investment real estate composes of the necessary expenses for building the asset to the hoped condition for use.

The Group makes a follow-up measurement to the investment in real estate through the cost pattern on the date of the balance sheet. The investment in real estate is amortized and depreciated basing on its useful life and the salvage value. The life time and the rate of salvage value applied by the Group are as follows:

Classification	Useful life (year)	The rate of salvage value (%)	Amortization rate (%)
Land use right	50	0	2.000
Buildings	40	3	2.425

The Group will review the useful life, the estimated salvage value and the amortization method of investment in real statement on each balance sheet date, and make an appropriate adjustment if necessary.

When the investment in real estate is changed for owner occupied, it is recognized as fixed assets or intangible assets since the date when changed. When the real estate for owner occupied is changed for generating rents or capital appreciation, it is recognized as the investment in real estate since the date when changed. The book value of the real estate prior to the conversion shall be entry value after conversion

If an investment in real estate is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the recognition of it as an investment in real estate shall be terminated. When an enterprise sells, transfers or disposes of any investment in real estate, or when any investment in real estate of an enterprise is damaged or destroyed, the enterprise shall deduct the book value of the investment in real estate as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

When the recoverable value of investment in real estate is lower than its book value, the carrying amount will be subject to the recoverable value. The impairment loss of investment in real estate shall not been reversed in subsequent accounting periods once confirmed.

12. Fixed assets

Fixed assets are defined by the Group as the tangible assets which are held for the purpose of producing goods, rendering services, leasing for operation & management. The useful life of fixed assets is more than one year.

Fixed assets include buildings, machinery, transportation equipments, administrative equipments and others.

When economic benefit in relation to fixed assets can be probably flow into the Group and the corresponding cost can be measured reliably, the fixed assets shall be recognized. Purchased or newly-built fixed assets are initially measured at their acquisition cost. The cost of purchased fixed assets includes the purchasing price, import duty and other relevant taxes and expenses, as well as other expenditures attributable to assets for their availability of use. The cost of self-made fixed assets covers all expenditures for their availability to 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 lower of the fair value and the minimum payment of leasing on leasing date.

The subsequent measurement of fixed assets comprises maintenance expenses and renewal and renovation expenses etc. Expenses which meet the criteria of fixed assets are accounted into the cost of fixed assets otherwise are accounted into current profit and 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 withdraws depreciation for fixed assets by straight-line method and the depreciations are accounted into current profit and loss in accordance with the purposes of fixed assets. The estimated depreciation rate and the useful life applied by the Group are as follows:

No.	Classification	Useful life (year)	The rate of salvage value (%)	Depreciation rate (%)
1	Building	40	3	2.425
2	Machinery	8-14	3	12.125-6.929
3	Transportation Equipment	8	3	12.125
4	Administrative equipments and others	8	3	12.125

The Group assesses the useful life, the depreciation rate and the method of depreciation for fixed assets at the end of period yearly. If any changes occur, they will be regarded as changes on accounting estimates.

For the fixed assets of financial lease nature, if the ownership can be determined reasonably at the end of lease, then 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 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 which 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.

When the recoverable value of fixed assets is lower than their book value, the carrying amount will be subject to the recoverable value. The impairment loss of fixed assets shall not be reversed in subsequent accounting periods once confirmed.

13. Construction in progress

Construction in progress is recognized at actual cost. Self-construction project is recognized at the cost of direct material, labor cost and construction expenses. Contracted construction is recognized at actual project price paid. Installed construction is recognized at the value of equipments, expenses of installation and assembly and expenditures of pilot run. Besides above, the cost of construction in progress comprises the borrowing cost which can be capitalized and foreign exchange gains and losses.

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 will be withdrawn since the month after carrying down 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.

When the recoverable value of construction in progress is lower than its book value, the carrying amount will be subject to the recoverable value. The impairment loss of construction in progress shall not be reversed in subsequent accounting periods once confirmed.

14. 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 cost which directly attributes to purchasing or constructing assets is to be capitalized when expenditures for assets and borrowing cost occur and the activities of purchasing or constructing made the assets available for use or sale commences. When assets reach the status available for use or sale, the capitalization of borrowing cost ceases. The rest of borrowing cost will be accounted into current profit and loss.

The current actual interest expenses from specific borrowings are capitalized, after deducting interest income as deposit in bank or short-term investment gains. The capitalized amount for the general borrowing is calculated as weighted average of the general borrowing (excluding any specific borrowings for qualified asset) times the weighted average of the interest rate of the general borrowing.

During capitalization period, exchange differences of specific foreign currency borrowing will be capitalized; exchange differences for general foreign currency borrowing will be accounted for the current period profit and loss.

The qualified assets refer to the assets of investment in real estate and inventories which only can arrive at status of available for use or sale after purchasing and constructing in more than one year generally.

If a suspending takes place during the purchasing and constructing on the qualified assets for more than three months, the capitalization of borrowing cost is suspend until the purchasing and constructing of assets restart.

15. 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 at the contract or agreement, except for those with unfair value in the contract or agreement. For the contract or agreement that failed to present fair value of intangible assets, intangible assets will be measured at the fair value.

For intangible assets with limited useful lives, the Group adopts straight line method at the month of acquisition. The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. The 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 accounted into current profit and 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 adjustment if needed.

The Group assesses the estimated useful life of intangible assets with uncertain useful life during each accounting period. If there are evidences 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 lifetime.

When there is evidence to indicate impairment loss of intangible assets, Group will perform impairment test at the year end. For the intangible assets without certain useful life, Group will perform impairment test regardless whether there is evidence to indicate impairment loss.

The carrying amount of intangible assets shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

16. R&D expense

For the R&D 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.

Research expenses are accounted to the current period profit and loss when occurred.

Development expenses are treated as intangible assets when satisfy following requirements:

- (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 market is available for products from the intangible asset or the intangible asset itself.
- (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 into the profit and loss of the period. The expenditures expensed in previous accounting period cannot be recognized as the asset in later accounting period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

17. Impairment of non-financial assets

The Group makes the assessment on the long-term equity investment, fixed assets, construction in progress and intangible assets with useful life at each balance sheet date. Indicators of impairment are as follows:

- (1) During the period, the market value of an asset has declined significantly and the decrease is far more than the decrease caused by timing or practice or by normal use.
- (2) Significant changes, in terms of economic, technical or legal environment and the market, with a negative effect on the Group have taken place during the period, or will take place in the near future.
- (3) Market interest rates or other market rates of return on investments have increased during the period and the increase of rates are likely to affect the discount rate used in calculating the NPV of future cash flow of assets and lead to the decrease in the recoverable amount of assets in substance.
- (4) Evidences are available for the obsolescence or physical damage of an asset.
- (5) An asset has been idle or is becoming idle, discontinued, or planned to be disposed in advance.
- (6) Evidences from internal reporting indicate that the economic performance of an asset is or will be, worse than expectations. For instance, the net cash flow or net profit generated by an asset is far lower than the amount expected.
- (7) Other evidences indicate the impairment of assets.

In the case of result of impairment test indicates book value of assets is greater than retrievable amount, then, the difference is recognized as impairment loss. Assts' retrievable amount is whichever is higher of either difference between fair value and disposal expense or 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 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 indication of impairment loss. The book value of good will is distributed to assets portfolio or combination of assets portfolio which is expected to benefit from business combination agreement. Loss needs to be recognized when the result of the test indicates that 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.

18. Long-term prepayments

The long-term prepaid expense of the Group refers 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 method within beneficial periods.

If the long-term prepaid expense cannot benefit the later periods, the amortized price will be accounted into current profit and loss.

19. Employee compensation

Employee compensation comprises salary, bonus, allowance, welfare, social insurance, housing fund, labor union expenditure, employee education expenditure and other relevant expenditures on service rendered by the employees.

During the accounting period of an employee' providing services to an enterprise, the enterprise shall recognize the compensation payable as liabilities. The compensations for the termination of the labor relationship with the employee with employees are accounted into current profit and loss.

For severance offered when Group decides to terminate employment contract prior its due date or to encourage employees to accept voluntary redundancy will be treated as estimated liability and accounted into current period profit and loss when Group has established formal lay-off plan or offered voluntary redundancy plan and Group can't withdraw the plan unilaterally.

20. 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 liabilities. The requirements mentioned above are as follows: The assumed responsibilities are actual and real. The fulfilment 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 relative risks, uncertainties and timing factor etc. If the effect from time value of currency is significant, the most appropriate estimation will be discounted into present value.

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.

21. 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 reorganisation are as follows:

(1) Revenue from sales of goods

The revenue from sale of goods shall be recognized, when main risks and rewards related to the ownership of goods have been transferred to buyers, and the Group doesn't hold continuing management rights or effective control rights of goods, and the relevant economic benefits may flow into the Group, and the amount of this relevant revenue can be measured reliably.

(2) Revenue from rendering service

The revenue from rendering service 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) Revenue from the property alienation

The revenue from the property alienation will be recognized, when the economic benefits related to transactions may flow into the Group, and the amount of this relevant revenue can be measured reliably.

22. Government subsidies

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 in the light of the received or 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 (RMB1).

The government subsidies pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life.

The government subsidies pertinent to incomes are treated respectively in accordance with the indications as follows: 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 is 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 doesn't constitute as deferred income then account into current profit and loss directly.

23. Deferred tax assets and deferred tax liability

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. On the balance sheet date, deferred tax assets and deferred tax liability are measured at applicable tax rate.

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 which 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 set off:

- (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.

24. Lease

The Group categorizes the lease into the financial lease and the operating lease.

The financial lease is the lease in which all risks and returns related to the ownership of assets are transferred in substance. The Group as a lease holder, on the date of lease, the financial lease is recognized as the fixed asset at lower cost of fair value of the rental asset and the NPV of minimum payment of leasing. The minimum payment of leasing is recognized as long-term payable and the difference is accounted into unrecognized financing expense.

The operating lease is the lease apart from the financial lease.

The Group, as a lease holder, accounts the rents into current period by straight line method during the term of the lease. Direct initial costs are put under current profit and loss. Contingent rents are put under current profit and loss when occurred.

The Group, as a leaser, accounts the rental income into current period by straight line method during the term of the lease. Direct initial costs of significant amount are capitalized when occurred and amortized into current profit and loss on the same basis rental income is recognized during the whole leasing term.

25. Income tax accounting

The Group recognizes income tax by balance sheet method. The income taxes of the current period and deferred income tax of the Group are treated as income tax expenses for the current period, and are accounted into current profit and loss, excluding the income taxes incurred in following circumstances: the deferred tax arising from consolidation and accounted as the adjustment on the book value of goodwill; the income taxes of the current period and deferred income tax related to the transactions or events directly recognized into owners' equity are accounted into owners' equity.

The income tax expenses for the current period are the amount payable to the Tax Office which are calculated and recognized according to the tax law and transactions and events of the current period, i.e. income taxes payable. The deferred income taxes refer to the differences recognized between the amount at the end of period and amount recognized originally of the deferred tax assets and deferred tax liability by the balance sheet liability method.

26. Accounting policies, estimate and errors

There is no change in the use of accounting policies, estimate and errors within the financial year

27. Significant accounting estimation and materiality judgment

The administration is responsible for making the judgments for the future uncertainty of the effects at the balance date. They are also responsible for the implementing for the hypothesis and uncertainty.

V. TAXATION

Major taxes and relevant tax rates applicable to the Company are as follows:

1. The Main Taxation Category And Tax Rate

Category	Tax Base	Tax Rate (%)
VAT	Goods sale revenue	17%
Business Tax	Taxable revenue	5%
Urban Construction & Maintenance Tax	VAT or Business tax payable	5-7%
Education Surcharges	VAT or Business tax payable	3%
Estate Tax	Lease income and 70-80% of the estate's original value	1.2 & 12%
Enterprise Income Tax	Taxable income	25%

Enterprise income tax rates for subsidiaries are as following:

Company	Tax Rate (%)
Shaanxi Beiren Printing Machinery Co., Ltd.	15%
Beijing Beiren Fuji Printing Machinery Co., Ltd.	25%
Beijing Beiren Jingyan Printing Machinery Co., Ltd.	25%

2. Taxation Benefits and Approval

Shaanxi Beiren Printing Machinery Co., Ltd. (hereinafter called "Shaanxi Beiren") as the subsidiary of the Company was certified as High and New Technology Enterprise on 9 Oct 2011, and the certificate with No. GF201161000113 was jointly issued by Technology Office of Shaanxi Province, Financial Office of Shaanxi Province, National Taxation Bureau of Shaanxi Province, and Local Taxation Bureau of Shaanxi Province. The certificate is with three-year validation. By the approval of the certificate, Shaanxi Beiren applies 15% as the rate for enterprise income tax.

VI. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Major subsidiaries

Company	Nature	Registration Location	Business Type	Registered Capital (RMB0'000)	Operating Scope	Investment Amount (RMB0'000)	Accounts Balance of the Net Investment to the Subsidiary	Shareholding (%)	Voting Right (%)	Consolidated (Yes/Not)
Subsidiaries acquired under non-common control										
Shaanxi Beiren Printing Machinery Co., Ltd.	Limited company	Weinan City, Shaanxi Province	Manufacture	11,500	Printing, packaging, engineering machinery, electric equipments and accessories manufacture, sales, maintenance, typing and printing machinery	9,918.00	0.00	86.24	86.24	Yes
Other Acquired Subsidiaries										
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Chaoyang District, Beijing City	Manufacture	USD 510	Manufacture printing machine, selling self manufactured products	2,963.27	0.00	70.00	70.00	Yes
Beijing Beiren Jingyuan Printing Machinery Co., Ltd.	Joint stock company	Yanqing County, Beijing City	Manufacture	2,105	Manufacturing printing machine and relevant components, providing relevant technical consulting services	2,105.00	0.00	100.00	100.00	Yes
Balance after the Parent's Equity written-off the Current Loss Borne by Minority Shareholders which is over the Percentage Borne of the Beginning Equity (RMB0'000)										
Company	Amount for Written-off Income/ Loss in Minority Interest (RMB0'000)				Percentage Borne of the Beginning Equity (RMB0'000)					
	31 December 2009	31 December 2010	31 December 2011	31 December 2012	31 December 2009	31 December 2010	31 December 2011	31 December 2012	31 July 2012	31 July 2012
Subsidiaries acquired under non-common control										
Shaanxi Beiren Printing Machinery Co., Ltd.	780.44	884.22	1,048.13	956.59	0.00	0.00	0.00	0.00	0.00	0.00
Other Acquired Subsidiaries										
Beijing Beiren Fuji Printing Machinery Co., Ltd.	1,108.69	725.19	786.51	748.73	0.00	0.00	0.00	0.00	0.00	0.00
Beijing Beiren Jingyuan Printing Machinery Co., Ltd.	3.09	1.94	1.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00

2. The change of the scope of consolidated financial statements

1. Subsidiaries added during the reporting period

Name	Reasons for addition	Shareholding (%)	Year merged
Beiren Yixin (Beijing) Technology Development Co., Ltd.	Newly established	100.00	2009

2. Subsidiaries no longer consolidated during the reporting period

Name	Reasons for exclusion	Shareholding (%)	Net assets as at date of disposal	Net profit from 1 Jan 2009 to date of disposal	Date of disposal
Hebei Beiren Paper-feeding Machinery Company Limited	Sale of equity	50.68	-580,814.67	188,375.48	31 March 2009

Name	Reasons for exclusion	Shareholding (%)	Net assets as at date of disposal	Net profit from 1 Jan 2010 to date of disposal	Date of disposal
Beiren Yixin (Beijing) Technology Development Co., Ltd.	Sale of equity	100.00	22,108,286.79	-258,462.79	31 October 2010
Beijing Beiren Yuxin Offset Printing Co., Ltd.	Sale of equity	68.66	58,786.59	1,057.96	31 January 2010
Haimen Beirenfuji Printing Machinery Company Limited	Sale of equity	100.00	10,624,144.70	-2,618,881.21	30 September 2010

VII. NOTES OF MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Monetary fund

Item	Original currency	31 Jul 2012		Original currency	31 Dec 2011	
		Exchange rate	Amount (RMB)		Exchange rate	Amount (RMB)
Cash on hand	–	–	239,443.84	–	–	10,449.33
Inc.CHY	239,371.58		239,371.58	10,377.07	–	10,377.07
JPY	891.00	0.0810	72.26	891.00	0.0811	72.26
Cash in bank	–	–	108,839,776.28	–	–	156,581,299.04
Inc.CHY	104,336,166.27	–	104,336,166.27	55,947,530.11	–	155,947,530.11
USD	693,487.47	6.3320	4,391,162.65	82,754.89	6.3009	521,430.30
JPY	616,865.00	0.0810	49,966.07	620,262.00	0.0811	50,305.11
HKD	76,425.48	0.8165	62,400.64	76,413.85	0.8107	61,948.71
EUR	10.39	7.7630	80.65	10.39	8.1625	84.81
Other	–	–	1,711,809.87	–	–	5,274,602.69
CHY	1,711,809.87	–	1,711,809.87	5,274,602.69	–	5,274,602.69
Total	–	–	110,791,029.99	–	–	161,866,351.06

Item	Original currency	31 Dec 2010		Original currency	31 Dec 2009	
		Exchange rate	Amount (RMB)		Exchange rate	Amount (RMB)
Cash on hand	–	–	9,019.13	–	–	20,238.66
RMB	8,946.73	–	8,946.73	17,273.21	–	17,273.21
USD	–	–	–	429.00	6.8282	2,929.30
JPY	890.97	0.0813	72.40	489.84	0.0738	36.15
Cash in bank	–	–	110,496,366.22	–	–	112,120,067.06
RMB	107,491,207.80	–	107,491,207.80	111,472,782.44	–	111,472,782.44
USD	431,376.52	6.6227	2,884,591.52	78,009.09	6.8282	532,661.67
HKD	76,402.21	0.8509	65,010.64	76,386.73	0.8805	67,258.52
JPY	663,946.00	0.0813	54,044.72	641,794.44	0.0738	47,364.43
EUR	0.26	8.8065	1,511.54	–	–	–
Other	–	–	8,537,623.16	–	–	7,287,683.47
RMB	8,537,623.16	–	8,537,623.16	7,287,683.47	–	7,287,683.47
Total	–	–	119,043,008.51	–	–	119,427,989.19

Of which, details of restricted cash are as follows:

Category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Deposits for bank acceptance notes	1,711,809.87	5,274,602.69	4,207,623.16	7,087,683.47
Frozen bank deposits	–	–	4,330,000.00	200,000.00
Total	1,711,809.87	5,274,602.69	8,537,623.16	7,287,683.47

2. Notes receivable

(1) Category

Category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Bank acceptance notes	19,808,757.29	20,263,400.00	35,414,560.16	16,707,773.38

(2) Notes receivables which are used for collateral at the end of each period are as follow:

At the end of 2010

Category	Issuing Company	Issuing date	Maturing date	Amount
Bank Acceptance notes	Yichang Hongyu Plastic Co., Ltd.	2010.9.16	2011.3.16	500,000.00
Bank Acceptance notes	Yichang Hongyu Plastic Co., Ltd.	2010.9.16	2011.3.16	500,000.00
Bank Acceptance notes	Yichang Hongyu Plastic Co., Ltd.	2010.9.16	2011.3.16	500,000.00
Bank Acceptance notes	Yichang Hongyu Plastic Co., Ltd.	2010.9.16	2011.3.16	500,000.00
Bank Acceptance notes	Yichang Hongyu Plastic Co., Ltd.	2010.9.16	2011.3.16	526,000.00
Total	—	—	—	2,526,000.00

Except for the end of 2010, there are no note receivables which are used for collateral at the end of July 2012 and at the end of year 2011 and 2009.

(3) At the end of July 2012 and at the end of year 2011, 2010 and 2009, there is no notes receivables transferred to accounts receivables, because of the drawer's inability to perform.

(4) At the end of each period, large Notes has endorsed to the other party but not yet due

At the end of July 2012

Category	Issuing Company	Issuing date	Maturity date	Amount
Bank acceptance notes	Jiangxi Lanhai International Trading Co., Ltd. (江西藍海國際貿易有限公司)	2012-07-02	2013-01-02	3,530,000.00
Bank acceptance notes	Foshan Zhongtian Decoration Material Co., Ltd	2012-05-10	2012-11-10	2,800,000.00
Bank acceptance notes	Hefei Yuandong Print Co., Ltd	2012-05-22	2012-11-22	1,000,000.00
Bank acceptance notes	Jiaozuo City Jinlsu Colored Printing Co., Ltd	2012-03-12	2012-09-12	1,000,000.00
Bank acceptance notes	Yiwu City Wanda Glass Co., Ltd. (義烏市萬達玻璃有限公司)	2012-03-30	2012-09-29	1,000,000.00
Total	—	—	—	9,330,000.00

At the end of 2011

Category	Issuing Company	Issuing date	Maturing date	Amount
Bank Acceptance notes	Yiwu Desheng Stationery Co., Ltd. (義烏市得勝文具有限公司)	2011-8-23	2012-2-23	1,200,000.00
Bank Acceptance notes	Hunan Province Meitian Culture Communication Co., Ltd. (湖南省美天文化傳播有限公司)	2011-10-27	2012-4-27	1,180,000.00
Bank Acceptance notes	Changsha Kaicheng Paper Co., Ltd. (長沙市凱程紙業有限公司)	2011-8-17	2012-2-17	1,100,000.00
Bank Acceptance notes	Xiamen Yuanfengda Trade Co., Ltd. (廈門市元豐達貿易有限公司)	2011-11-28	2012-2-28	1,007,500.00
Bank Acceptance notes	Jinhua Kaida Printing Machinery Co., Ltd. (金華市凱達印刷機械有限公司)	2011-11-23	2012-5-23	1,770,000.00
Total	—	—	—	6,257,500.00

At the end of 2010

Category	Issuing Company	Issuing date	Maturing date	Amount
Bank Acceptance notes	Jinyu (Henan) Packaging Co., Ltd. (金譽(河南)包裝有限公司)	2010.11.23	2011.5.23	5,000,000.00
Bank Acceptance notes	Yuan Dong Gou Ji Leasing Co., Ltd. (遠東國際租賃有限公司)	2010.9.21	2011.3.21	2,620,000.00
Bank Acceptance notes	Ningbo Newspaper Printing Development Co., Ltd. (寧波報業印刷發展有限公司)	2010.9.8	2011.3.8	2,283,000.00
Bank Acceptance notes	Zhengzhou Luolan Industrial Co., Ltd. (鄭州羅蘭實業有限公司)	2010.12.1	2011.6.1	2,150,000.00
Bank Acceptance notes	Henan Ruiyang Printing Co., Ltd. (河南瑞陽印務有限公司)	2010.8.25	2011.2.25	2,000,000.00
Total	—	—	—	<u>14,053,000.00</u>

At the end of 2009

Category	Issuing Company	Issuing date	Maturing date	Amount
Bank Acceptance notes	Zhejiang Wuyi Zhang Packaging Industrial Co., Ltd. (浙江武義張氏包裝實業有限公司)	2009-11-25	2010-5-24	2,880,000.00
Bank Acceptance notes	Kunming Furui Packing Co., Ltd. (昆明市福瑞包裝有限公司)	2009-9-8	2010-3-8	2,000,000.00
Bank Acceptance notes	Jiangxi Province Printing Materials Corporation (江西省印刷物資總公司)	2009-11-25	2010-5-25	1,770,000.00
Bank Acceptance notes	Shanghai Zhong Teng Concrete Limited (上海眾騰混凝土有限公司)	2009-11-23	2010-5-23	1,500,000.00
Bank Acceptance notes	Beijing Hui Lin Printing Co., Ltd. (北京匯林印務有限公司)	2009-11-27	2010-05-27	1,460,000.00
Total	—	—	—	<u>9,610,000.00</u>

3. Accounts receivable

(1) Classification for accounts receivable by risk

Item	31 July 2012				31 Dec 2011			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)
Individual receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	—	—	—	—	—	—	—	—
Combination based on age accounts	314,038,072.39	98.48	105,541,156.01	33.61	233,755,982.82	88.97	90,390,459.29	38.67
Individual receivables below significant level	<u>4,852,825.41</u>	<u>1.52</u>	<u>694,976.01</u>	<u>14.32</u>	<u>28,993,358.87</u>	<u>11.03</u>	<u>8,389,076.01</u>	<u>28.93</u>
Total	<u>318,890,897.80</u>	<u>100.00</u>	<u>106,236,132.02</u>	<u>—</u>	<u>262,749,341.69</u>	<u>100.00</u>	<u>98,779,535.30</u>	<u>—</u>

Item	31 Dec 2010				31 Dec 2009			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)
Individual receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	-	-	-	-	-	-	-	-
Combination based on age accounts	260,684,283.53	86.69	74,086,765.53	28.42	305,231,966.68	88.37	77,394,430.52	25.36
Individual receivables below significant level	40,020,404.03	13.31	23,506,925.47	58.74	40,182,606.09	11.63	12,852,215.35	31.98
Total	300,704,687.56	100.00	97,593,691.00	-	345,414,572.77	100.00	90,246,645.87	-

- 1) Individual receivables above significant level, or below significant level but had impairment test individually at the end of each period

At the end of July 2012

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Note 1	1,124,882.41	694,976.01	61.78	Difficult to collect
Note 2	3,727,943.00	0.00	0.00	-
Total	4,852,825.41	694,976.01	-	-

Note 1: A subtotal amount of RMB1,124,882.41 accounts receivable comprising 5 long-aged items, is judged as difficult to fully collect and the bad debts provision amounted RMB694,976.01 is made correspondingly by method of individual identification.

Note 2: Several long-term customers are in frequent transactions with the Company and adopt the order trade, hence those accounting receivable are in shorter age. There are accounting receivables which amount to RMB3,727,943.00 and the provision of bad debts has not been made on them.

At the end of 2011

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Note 1	9,593,957.33	8,389,076.01	87.44	Difficult to collect
Note 2	19,399,401.54	0.00	0.00	-
Total	28,993,358.87	8,389,076.01	-	-

Note 1: A subtotal amount of RMB9,593,957.33 accounts receivable comprising 13 longaged items, is judged as difficult to fully collect and the bad debts provision amounted RMB8,389,076.01 is made correspondingly by method of individual identification.

Note 2: Several long-term customers are in frequent transactions with the Company and adopt the order trade, hence those accounting receivable are in shorter age. There are 76 items of accounting receivables which amount to RMB19,399,401.54 and the provision of bad debts has not been made on them.

At the end of 2010

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Note 1	27,257,584.79	23,506,925.47	86.24	Difficult to collect
Note2	12,762,819.24	0.00	92.13	Difficult to collect
Total	40,020,404.03	23,506,925.47	-	-

Note 1: A subtotal amount of RMB27,257,584.79 accounts receivable comprising 102 longaged items, is judged as difficult to fully collect and the bad debts provision amounted RMB23,506,925.47 is made correspondingly by method of individual identification

Note 2: Several long-term customers are in frequent transactions with the Company and adopt the order trade, hence those accounting receivable are in shorter age. There are 62 items of accounting receivables which amount to RMB12,762,819.24 and the provision of bad debts has not been made on them.

At the end of 2009

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Note	40,182,606.09	12,852,215.35	31.98	Difficult to collect

Note: A subtotal amount of RMB40,182,606.09 accounts receivable is judged as difficult to fully collect and the bad debts provision amounted RMB12,852,215.35 is made correspondingly by method of individual identification

- 2) Individual receivables below significant level, but shows high level of risk in the light of credit risk characteristics combination (aging combination)

Item	31 July 2012			31 Dec 2011		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	180,210,691.79	0.00	0.00	113,750,998.36	0.00	0.00
1-2 years	36,104,633.82	30.00	10,831,390.15	29,185,159.71	30.00	8,755,547.91
2-3 years	7,532,452.30	60.00	4,519,471.38	22,962,283.42	60.00	13,777,370.05
Above 3 years	90,190,294.48	100.00	90,190,294.48	67,857,541.33	100.00	67,857,541.33
Total	314,038,072.39	-	105,541,156.01	233,755,982.82	-	90,390,459.29

Item	31 Dec 2010			31 Dec 2009		
	Amount	Percent (%)	Bad debts provision	Amount	Percent (%)	Bad debts provision
Within 1 year	144,764,618.09	0.00	0.00	172,858,981.25	0.00	0.00
1-2 years	47,549,397.53	30.00	14,264,819.26	57,782,121.58	30.00	17,334,636.47
2-3years	21,370,804.09	60.00	12,822,482.45	36,327,674.49	60.00	21,796,604.69
Above3years	46,999,463.82	100.00	46,999,463.82	38,263,189.36	100.00	38,263,189.36
Total	260,684,283.53	-	74,086,765.53	305,231,966.68	-	77,394,430.52

(2) *Writing back of provision for bad debts in each period*

There are no provision for bad debts in January to July 2012 and in the year 2011 was written back.

Accounts receivable with provision for bad debts amounts to RMB1,161,100.00 was written back in 2010 and the corresponding bad debts provision recovered.

Accounts receivable with provision for bad debts amounts to RMB591,374.08 was written back in 2009 and the corresponding bad debts provision recovered.

(3) *Accounts receivable written off in each period*

Item	Jan-Jul 2012	2011	2010	2009
Accounts receivable written off	216,289.63	373,273.62	668,927.50	388,803.42

(4) The accounts receivable at the end of July 2012, the year 2011, 2010 and 2009 exclude the amounts due from the shareholders who hold 5% or more of the Group's share.

(5) *The top five of accounts receivable:*

At the end of July 2012

Company Name	Relationship	Amount	Age	Receivable (%)
Taian Daily	Customer	15,168,000.00	Within 1 year	4.76
Zhongti (Beijing) Colour Printing Co., Ltd. (中體(北京)彩印有限公司)	Customer	13,180,000.00	Over 3 years	4.13
Linyi Daily	Customer	8,285,000.00	Within 2 year	2.60
Hunan Printing Material Co., Ltd.	Customer	7,280,938.95	Within 1 year	2.28
Ningbo Newspapering Printing & Development Co., Ltd.	Customer	5,340,000.00	1-2 year	1.67
Total	–	49,253,938.95	–	15.44

At the end of 2011

Company Name	Relationship	Amount	Age	Receivable (%)
Zhongti (Beijing) Colour Printing Co., Ltd. (中體(北京)彩印有限公司)	Customer	13,180,000.00	2 to 3 years	5.02
Suzhou Daily (蘇州日報社)	Customer	7,618,800.00	Within 1 year	2.90
Linyi Daily (臨沂日報社)	Customer	6,485,000.00	Within 1 year	2.47
3M special materials (Shanghai) Co., Ltd. (3M特殊材料(上海)有限公司)	Customer	6,401,500.01	Within 1 year	2.44
Ningbo Newspaper Printing Development Co., Ltd. (寧波報業印刷發展有限公司)	Customer	5,340,000.00	1 to 2 years	2.03
Total	–	39,025,300.01	–	14.86

At the end of 2010

Company Name	Relationship	Amount	Age	Receivable (%)
Zhongti (Beijing) Colour Printing Co., Ltd. (中體(北京)彩印有限公司)	Customer	19,360,000.00	1 to 2 years	6.44
Jiangxi Daily Printing Center (江西日報社印務中心)	Customer	9,860,000.00	Within 1 year	3.28
Chengdu Beiren Printing Materials Company (成都北人印刷物資公司)	Customer	8,029,999.94	2 to 3 years	2.67
Suzhou Daily (蘇州日報社)	Customer	6,086,000.00	1 to 2 years	2.02
Linyi Daily (臨沂日報社)	Customer	5,780,000.00	Within 1 year	1.92
Total	–	49,115,999.94	–	16.33

At the end of 2009

Company Name	Relationship	Amount	Age	Receivable (%)
Sports newspaper (Donghua Han Lin) (體育報社 (東華翰霖))	Customer	24,920,000.00	Within 1 year	7.21
Suzhou Daily (蘇州日報社)	Customer	12,476,000.00	Within 1 year	3.61
Beijing Hui Lin Printing Co., Ltd. (北京匯林印務有限公司)	Customer	8,240,000.00	1 to 2 years	2.39
Chengdu Beiren Printing Materials Company (成都北人印刷物資公司)	Customer	6,400,000.00	1 to 2 years	1.85
Wuxi Daily (無錫日報社)	Customer	6,290,000.00	1 to 2 years	1.82
Total	—	<u>58,326,000.00</u>	—	<u>16.88</u>

(6) Accounts receivable from related parties at the end of the period

At the end of July 2012

Company Name	Relationship	Amount	Receivable (%)
Beijing Jingcheng Industry Logistics	Other company under same controlling party	<u>1,040,000.00</u>	0.33

There is no accounts receivable due from related parties at the end of 2011.

At the end of 2010

Company Name	Relationship	Amount	Receivable (%)
Haimen Beiren Fuji Printing Machinery Co., Ltd.	Other company controlled by the same parent company	232,896.78	0.08
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	Associate	1,793,559.08	0.60
Total	—	<u>2,026,455.86</u>	<u>0.68</u>

At the end of 2009

Company Name	Relationship	Amount	Receivable (%)
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	Associate	218,337.63	0.06
Beijing Monigraf Automations Co., Ltd.	Associate	<u>25,061.40</u>	<u>0.01</u>
Total	—	<u>243,399.03</u>	<u>0.07</u>

(7) *The balance of accounts receivable in foreign currencies:*

Foreign currency	Original currency	31 Jul 2012 Exchange rate	RMB	Original currency	31 Dec 2011 Exchange Rate	RMB
USD	662,606.00	6.3320	4,195,621.55	611,033.00	6.3009	3,857,628.35
Foreign currency	Original currency	31 Dec 2010 Exchange rate	RMB	Original currency	31 Dec 2009 Exchange rate	RMB
USD	468,610.00	6.6227	3,103,463.45	894,751.80	6.8282	6,109,544.26

4. **Advance to suppliers**(1) *Aging of advances to suppliers*

Item	31 Jul 2012		31 Dec 2011	
	Amounts	Percentage (%)	Amounts	Percentage (%)
Within 1 year	22,416,972.84	94.82	28,554,361.99	94.59
1-2 years	972,981.56	4.12	1,370,283.53	4.54
2-3 years	59,900.00	0.25	5,445.02	0.02
Over 3 years	191,567.66	0.81	257,817.66	0.85
Total	23,641,422.06	100.00	30,187,908.20	100.00

Item	31 Dec 2010		31 Dec 2009	
	Amounts	Percentage (%)	Amounts	Percentage (%)
Within 1 year	19,026,250.35	96.17	17,245,236.87	92.72
1 to 2 years	254,948.99	1.29	718,652.08	3.86
2 to 3 years	311,020.32	1.57	444,563.58	2.39
Over 3 years	191,567.66	0.97	191,567.66	1.03
Total	19,783,787.32	100.00	18,600,020.19	100.00

(2) *The main units of advance to suppliers (Top five)*

At the end of July 2012

Name	Relationship with the Company	Amount	Aging	Reasons for pending
Japan Zhongben Packaging Co., Ltd. (日本中本包装株式会社)	Supplier	5,905,376.30	within a year	Transaction not completed
Shaanxi Chaoyu Casting Co., Ltd	Supplier	2,156,000.00	within a year	Transaction not completed
Beijing Webcon science and technology development Co., Ltd	Supplier	1,768,879.16	within a year	Transaction not completed
Beigil Industry automate international trading (Shanghai) Co., Ltd	Supplier	1,436,771.71	within a year	Transaction not completed
Sanxing Company (三新公司)	Supplier	744,746.60	within a year	Transaction not completed
Total	—	12,011,773.77	—	—

At the end of 2011

Company Name	Relationship	Amount	Age	Reason for pending
Beigil Industry automate international trading (Shanghai) Co., LTD	Supplier	1,357,490.45	Within 1 year	Transaction not completed
Shaanxi Chaoyu Casting Co., LTD	Supplier	1,356,000.00	Within 1 year	Transaction not completed
Beijing Webco-Tech Development Co., LTD	Supplier	1,292,411.22	Within 1 year	Transaction not completed
Rossini Trading (Shenzhen) Limited	Supplier	1,039,319.00	Within 1 year	Transaction not completed
Gao De Ke (Shanghai) Trading Co., Ltd.	Supplier	892,500.00	Within 1 year	Transaction not completed
Total	—	5,937,720.67	—	—

At the end of 2010

Company Name	Relationship	Amount	Age	Reason for pending
Gao De Ke (Shanghai) Trading Co., Ltd.	Supplier	1,742,000.00	Within 1 year	Transaction not completed
Beigil Industry automate international trading (Shanghai) Co., LTD	Supplier	1,738,174.47	Within 1 year	Transaction not completed
Shanghai Lihong Printing Material Co., Ltd.	Supplier	874,050.00	Within 1 year	Transaction not completed
Shanghai Bosch Rexroth Hydraulics and Automation Ltd.	Supplier	866,878.97	Within 1 year	Transaction not completed
Foshan Kar Ming Industrial Equipment Co., Ltd.	Supplier	854,500.00	Within 1 year	Transaction not completed
Total	—	6,075,603.44	—	—

At the end of 2009

Company Name	Relationship	Amount	Age	Reason for pending
Henry Yuan Packing Technology Co., Ltd	Supplier	3,956,784.07	Within 1 year	Transaction not completed
Gao De Ke (Shanghai) Trading Co., Ltd.	Supplier	1,620,500.00	Within 1 year	Transaction not completed
B&R Industrial Automation International Trade Company	Supplier	824,174.52	Within 1 year	Transaction not completed
IMC Joint Beijing Equipment Co., Ltd.	Supplier	495,000.00	Within 1 year	Transaction not completed
KAWAHONGPACKAGING Company	Supplier	492,457.16	Within 1 year	Transaction not completed
Total	—	7,388,915.75	—	—

(3) The accounts receivable at the end of July 2012, the year 2011, 2010 and 2009 exclude the amounts due from the shareholders who hold 5% or more of the Group's share.

(4) *The balance of advance to suppliers in foreign currencies:*

Foreign currency	Foreign currency	31 July 2012 Exchange rate	RMB	Foreign currency	31 Dec 2011 Exchange Rate	RMB
JPY	7,787,600.00	0.0810	630,797.26	1,530,000.00	0.0811	127,684.62

(Continued)

Currency	Currency	31 Dec 2010 Exchange rate	RMB	Currency	31 Dec 2009 Exchange rate	RMB
USD	—	—	0	72,121.08	6.8282	492,457.16
EUR	24,931.00	8.8065	215,586.76	—	—	—
JPY	18,488,865.00	0.08126	1,468,909.98	1,935,776.56	0.0738	142,860.31
Total	—	—	1,684,496.74	—	—	635,317.47

5. Dividends receivable

Items	31 Dec 2011	Increase	Decrease	31 July 2012
Beijing Beiyong Casting Co., LTD	113,600.00	0.00	0.00	113,600.00

(Continued)

Items	31 Dec 2010	Increase during the year	Decrease during the year	31 Dec 2011
Beijing Beiyong Casting Co., LTD	0.00	113,600.00	0.00	113,600.00

(Continued)

Items	31 Dec 2008	Increase during the year	Decrease during the year	31 Dec 2009
Beijing Monigraf Automations Co., Ltd	622,300.00	0.00	622,300.00	0.00

6. Other receivables

(1) Classification for other receivables

Item	31 July 2012				31 Dec 2011			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Individual other receivables below significant level	34,959,940.72	100.00	11,925,191.08	34.11	32,212,079.45	100.00	14,628,104.14	45.41
Total	34,959,940.72	100.00	11,925,191.08	-	32,212,079.45	100.00	14,628,104.14	-

(Continued)

Item	31 December 2010				31 December 2011			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Individual other receivables below significant level	33,286,493.07	100.00	15,016,800.50	45.11	45,550,358.57	100.00	15,211,154.83	33.39
Total	33,286,493.07	100.00	15,016,800.50	-	45,550,358.57	100.00	15,211,154.83	-

- 1) At the end of period, significant individual other receivables or insignificant other receivables which require for the individual impairment test.

As at the end of July 2012

Company Name	Amount	Bad debts provision	Rate (%)	Reason for bad debts provision
Note 1	11,925,191.08	11,925,191.08	100.00	Expected difficult to collect
Note 2	23,034,749.64	0.00	0.00	–
Total	34,959,940.72	11,925,191.08	–	–

Note 1: The Group made provisions on 19 items of other receivables amounting to RMB11,925,191.00 which are in longer age and difficult to collect.

Note 2: For reservation fund of employees, receivables from China Huarong Asset Management Corporation Xi'an Branch for equity repurchasing, amounting to RMB23,034,749.64; there are no corresponding provisions for bad debts made.

As at the end of 2011

Company Name	Nature of other receivables	Bad debts provision	Rate (%)	Reasons for bad debts provision
Note 1	14,628,104.14	14,628,104.14	100.00	Expected difficult to collect
Note 2	17,583,975.31	0.00	0.00	32,212,079.45
Total	32,212,079.45	14,628,104.14	–	–

Note 1: The Group made provisions on 26 items of other receivables amounting to RMB14,628,104.14 which are in longer age and difficult to collect.

Note 2: For reservation fund of employees, receivables from China Huarong Asset Management Corporation Xi'an Branch for equity repurchasing, amounting to RMB17,583,975.31; there are no corresponding provisions for bad debts made.

As at the end of 2010

Company Name	Nature of other receivables	Bad debts provision	Rate (%)	Reasons for bad debts provision
Note 1	15,016,800.50	15,016,800.50	100.00	Expected difficult to collect
Note 2	18,269,692.57	0.00	0.00	–
Total	33,286,493.07	15,016,800.50	–	–

Note 1: The Group made provisions on 27 items of other receivables amounting to RMB15,016,800.50 which are in longer age and difficult to collect.

Note 2: For reservation fund of employees, receivables from China Huarong Asset Management Corporation Xi'an Branch for equity repurchasing, amounting to RMB18,269,692.57; there are no corresponding provisions for bad debts made.

As at the end of 2009

Company Name	Nature of other receivables	Bad debts provision	Rate (%)	Reasons for bad debts provision
Beijing Print Factory	14,721,293.44	0.00	0.00	Note 2
Southeast Asia	9,088,241.00	9,088,241.00	100.00	Expected difficult to collect
China Huarong Asset Management Corporation Xi'an Branch	6,328,000.00	0.00	0.00	Note 1
Others	15,412,824.13	6,122,913.83	39.73	Part of the receivables is of longer age, expected difficult to collect
Total	45,550,358.57	15,211,154.83	-	-

Note 1: Item of Xi'an Office of Huarong Assets Management Company is share redemption funds. According to the article of Shaanxi Beiren Printing Machinery Company Limited, Xi'an Office of Huarong Assets Management Company acquired shares in a debt-share transfer way and share disposal could be in forms of transfer, replacement or Xi'an Office of Huarong Assets Management Company acquired shares of RMB15,820,000.00 yuan in a debt-share transfer way with a five-year repurchase period. The equity purchase should be completed by the end of 2006. Xi'an Office of Huarong Assets Management Company totally repurchased RMB6,328,000.00 yuan for year 2003 and 2004, and did not write-off against the investment in Huarong Assets Management Company under the equity withdrawal method.

Note 2: Item of Offset Printing Limited is trade funds between the Company's subsidiary Beiren Yuxin and its minority shareholder Beijing Offset Printing Limited. The amount payable to Beijing Print Factory by the Company was RMB29,550,000 yuan, the amount of payables was greater than receivables and the problem of misappropriation of capital of Beiren Yuxin by Beijing Print Factory did not exist.

(2) *Reversal of provision of bad debts for each of the period*

During Jan-July 2012

Company Name	Nature of other receivables	Reversal amount	Reason of reversal	Arising from related transactions or not
Hubei Beiren liquidation amount	Amounts due	249,051.91	Collected	No
Others	Loan	27,160.68	Collected	No
Total	-	276,212.59	-	-

There are no bad debts prepared in 2011 and 2010 reversed and recovered.

Provision of bad debts of other receivables amounted to RMB69,858.21 yuan was collected in 2009 and corresponding provision of bad debts was reversed.

(3) *The other receivables written-off for each of the period*

During Jan-July 2012

Company Name	Nature of other receivables	Written-off amount	Reason of written-off	Arising from related transactions or not
Jiangxi Yichun court	Loan	1,769,000.00	Unable to collect	No
Ningxia divestment amount	Equity transfer	657,700.47	Unable to collect	No
Total		2,426,700.47		

In 2011

Company Name	Nature of other receivables	Reversal amount	Reason of reversal	Arising from related transactions or not
Contracted debugging expense	Loan	337,700.00	Unable to collect	No
Audit expense	Loan	50,000.00	Unable to collect	No
Others	Loan	996.36	Unable to collect	No
Total	-	388,696.36	-	-

There was no other receivable written off in 2010.

Other receivable written off in 2009 amounted to RMB9,808.00.

(4) The loan amount include shareholders who hold 5% or more of the Group's shares at the end of each of the period

Company Name	31-Jul-2012	31-Dec-2011	31-Dec-2010	31-Dec-2009
Beiren Group Corporation	86,839.58	0.00	1,629,191.08	0.00

The amount of receivables from Beiren Group Corporation at the end of 2010 was other receivables. The amount payable of RMB1,247,319.56 from the Group to Beiren Group Corporation is audited in other payables. After offsetting, the amount receivable from Beiren Group Corporation is RMB381,871.52, which was paid in 2011.

(5) The top companies in other receivables at the end of each of the period are listed as follows:

As at the end of July 2012

Company Name	Relationship	Amount	Age	Proportion in accounts receivable (%)	Nature
Southeast Asia	Customer	9,088,241.00	Above 3 years	26.00	Note1
China Huarong Asset Management Corporation Xi'an Branch	Minority shareholders of subsidiary	6,328,000.00	Above 3 years	18.10	Note 2
Total	-	15,416,241.00	-	44.10	-

Note 1: Other receivables from Southeast Asia are investment money paid to Hong Kong Southeast Asia Group Investment & Development Co., Ltd in previous years. The Group has adapted active measures collecting those receivables. However, collection is difficult due to poor management of the above mentioned company. Therefore, the Group has prepared 100% provision for bad debts.

Note 2: Other receivables from China Huarong Asset Management Corporation Xi'an Branch are for equity repurchasing. China Huarong Asset Management Corporation acquired shares by debt-to-equity swap and could be able to quit by transferring, replacement or repurchasing in accordance with company rules of Shaanxi Beiren, the subsidiary of the Company. The equity repurchasing should be complemented before the end of 2006 and in equal amount each year; and China Huarong Asset Management Corporation Xi'an Branch made debt-to-equity swap of RMB15,820,000 and repurchase in five years. RMB6,328,000 in total should be returned in 2003 and 2004 and didn't write-off its investment by way of equity exit.

At the end of 2011

Company Name	Relationship	Amount	Age	Proportion in accounts receivable (%)	Nature
Southeast Asia	Customer	9,088,241.00	Above 3 years	28.21	Note 1
China Huarong Asset Management Corporation Xi'an Branch	Minority shareholders of subsidiary	6,328,000.00	Above 3 years	19.64	Note 2
Total	–	15,416,241.00	–	47.85	–

At the end of 2010

Company Name	Relationship	Amount	Age	Proportion in accounts receivable (%)	Nature
Southeast Asia	Customer	9,088,241.00	Above 3 years	27.30	Note 1
China Huarong Asset Management Corporation Xi'an Branch	Minority shareholders of subsidiary	6,328,000.00	Above 3 years	19.01	Note 2
Total	–	15,416,241.00	–	46.31	–

At the end of 2009

Company Name	Relationship	Amount	Age	Proportion in accounts receivable (%)	Nature
China Huarong Asset Management Corporation Xi'an Branch	Minority shareholders of subsidiary	6,328,000.00	Above 3 years	13.89	Note 2
Southeast Asia	Customer	9,088,241.00	Above 3 years	19.95	Note 1
Beijing Print Factory	Minority shareholders of subsidiary	14,721,293.44	Within 1 year	32.32	Note 3
Total	–	30,137,534.44	–	66.16	–

Note 3: Item of Offset Printing Limited is trade funds between The Company's subsidiary Beiren Yuxin and its minority shareholder Beijing Offset Printing Limited. The amount of RMB29,500,000 of payables was greater than receivables and the problem of misappropriation of capital of Beiren Yuxin by Beijing Print Factory did not exist.

(6) *The accounts receivable from related parties at the end of each of the period*

Company Name	Relationship with the Company	Amount	Proportion of total amount (%)
Beijing National Capital Mechanical And Electrical Holding Company Limited	Beneficial controller	28,059.00	0.08
Beiren Group Corporation	Controlling shareholder	86,839.58	0.25
Beijing Jingcheng Industry Logistics	Under same controlling parties	17,885.00	0.05
Beijing Monigraf Automations Co. Ltd.	Associate	8,388.50	0.02
Beijing Beiyong Casting Co. Ltd.	Associate	367,255.39	1.05
Beijing Jingcheng Changye Construction Machinery Co., Ltd.	Under same controlling parties	506,952.30	1.45
Total	–	1,015,379.77	2.90

There was no accounts receivable at the end of 2011.

As at the end of 2010

Company Name	Relationship with the Company	Amount	Proportion of total amount (%)
Beiren Group Corporation	Parent company of the Company	1,629,191.08	4.89
Haimen Beirenfuji Printing Machinery Company Limited	Other enterprises under the control of the same parent company	145,832.93	0.44
Beijing Monigraf Automations Co., Ltd	Associate of the Company	150,993.00	0.45
Total	–	1,926,017.01	5.78

As at the end of 2009

Company Name	Relationship with the Company	Amount	Proportion of total amount (%)
Beijing Monigraf Automations Co., Ltd	Associate	50,331.00	0.11

(7) *The balance of other receivables in foreign currencies:*

Foreign currency	Foreign currency	31 Jul 2012 Exchange Rate	Amount (RMB)	Foreign currency	31 Dec 2011 Exchange Rate	Amount (RMB)
HKD	10,305,296.52	0.8165	9,088,241.00	10,305,296.52	0.8107	9,088,241.00
USD	2,417.14	6.3320	15,281.94	0.00	6.3009	0.00
Total	–	–	9,103,522.94	–	–	9,088,241.00

(Continued)

Foreign Currency	Foreign Currency	31 Dec 2012 Exchange Rate	Amount (RMB)	Foreign Currency	31 Dec 2009 Exchange Rate	Amount (RMB)
HKD	10,305,296.52	0.8509	9,088,241.00	10,305,296.52	0.8805	9,088,241.00

7. Inventory

(1) Categories of inventory

Item	31 Jul 2012			31 Dec 2011		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	72,774,524.91	4,979,065.44	67,795,459.47	70,571,264.98	4,979,065.44	65,592,199.54
Work in progress	295,501,934.31	38,522,020.44	256,979,913.87	273,132,729.17	40,726,799.30	232,405,929.87
Finished goods	122,192,311.84	32,340,139.46	89,852,172.38	134,906,207.01	30,081,308.28	104,824,898.73
Low-value consumables	3,530,012.20	0.00	3,530,012.20	3,437,680.22	0.00	3,437,680.22
Self made semi finished goods	9,291,657.35	0.00	9,291,657.35	8,843,882.62	0.00	8,843,882.62
Work in process –outsourced	6,013,894.93	0.00	6,013,894.93	7,677,263.21	0.00	7,677,263.21
Total	509,304,335.54	75,841,225.34	433,463,110.20	498,569,027.21	75,787,173.02	422,781,854.19

(Continued)

Item	31 Dec 2010			31 Dec 2009		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	78,666,382.30	5,627,635.08	73,038,747.22	79,638,996.02	3,081,015.39	76,557,980.63
Work in progress	249,407,524.82	58,955,487.41	190,452,037.41	349,398,405.22	70,221,424.41	279,176,980.81
Finished goods	99,419,493.83	31,490,500.83	67,928,993.00	142,329,401.85	34,352,313.11	107,977,088.74
Low-value consumables	324,238.49	0.00	324,238.49	1,826,160.40	0.00	1,826,160.40
Self made semi finished goods	11,047,041.76	0.00	11,047,041.76	19,057,157.13	329,265.24	18,727,891.89
Work in process – outsourced	6,837,235.21	0.00	6,837,235.21	5,037,930.17	0.00	5,037,930.17
Total	445,701,916.41	96,073,623.32	349,628,293.09	597,288,050.79	107,984,018.15	489,304,032.64

(2) Impairment provision for inventory

Item	31 Dec 2011	Increase in this period	Decrease in this period		31 Jul 2012
			Reversal	Transferred out	
Raw materials	4,979,065.44	0.00	0.00	0.00	4,979,065.44
Work in progress storage goods	40,726,799.30	5,032,674.11	0.00	7,237,452.97	38,522,020.44
	30,081,308.28	5,381,245.40	0.00	3,122,414.22	32,340,139.46
Total	75,787,173.02	10,413,919.51	0.00	10,359,867.19	75,841,225.34

(Continued)

Item	31 Dec 2010	Increase in the year	Decrease in the year		31 Dec 2011
			Reversal	Transferred out	
Raw materials	5,627,635.08	0.00	0.00	648,569.64	4,979,065.44
Work in progress	58,955,487.41	5,364,554.45	0.00	23,593,242.56	40,726,799.30
Finished goods	31,490,500.83	3,461,251.55	0.00	4,870,444.10	30,081,308.28
Total	96,073,623.32	8,825,806.00	0.00	29,112,256.30	75,787,173.02

(Continued)

Item	31 Dec 2009	Increase in the year	Decrease in the year		31 Dec 2010
			Reversal	Transferred out	
Raw materials	3,081,015.39	2,761,617.56	0.00	214,997.87	5,627,635.08
Work in progress	70,221,424.41	43,771,160.79	0.00	55,037,097.79	58,955,487.41
Finished goods	34,352,313.11	10,935,873.64	0.00	13,797,685.92	31,490,500.83
Self made semi finished goods	329,265.24	0.00	0.00	329,265.24	0.00
Total	107,984,018.15	57,468,651.99	0.00	69,379,046.82	96,073,623.32

(Continued)

Item	31 Dec 2008	Increase in the year	Decrease in the year		31 Dec 2009
			Reversal	Transferred out	
Raw materials	3,022,074.01	256,410.26	0.00	197,468.88	3,081,015.39
Work in progress	52,698,719.17	26,115,663.16	0.00	8,592,957.92	70,221,424.41
Finished goods	65,890,467.77	6,685,472.13	0.00	38,223,626.79	34,352,313.11
Self made semi finished goods	329,265.24	0.00	0.00	0.00	329,265.24
Total	121,940,526.19	33,057,545.55	0.00	47,014,053.59	107,984,018.15

(3) The movement of the impairment provision for inventory for each of the period

The amount of impairment provision prepared previously written-off during January to July 2012 for the reason of sales out, is RMB10,359,990.

In 2011, the Group made much more efforts on selling those overstocked products. The amount of impairment provision prepared previously written-off for the reason of sales out, is RMB29,112,300. The Group made impairment test on those unsold overstocked products and unfinished work in process in 2011 and prepared impairment provisions for inventory of RMB8,825,800.

In 2010, due to changes in the consolidation scope of financial statement, the impairment provision for inventory decreased by RMB496,500. In 2010, the Group made much more efforts on selling those overstocked products. The amount of impairment provision prepared previously written-off for the reason of sales out, is RMB68,882,500. In 2010, the Company performed impairment tests on those unsold overstocked products and unfinished work in progress and prepared impairment provisions for inventory of RMB34,274,900. The Company made product transformation in 2010 and some new products will be in small-batch trial production in 2011, hence the cost will be higher than that in normal batch and the net realizable value and hence the Company made inventory falling price reserves of RMB20,432,200.

At the end of 2009, the Company's closing stock impairment testing, according to the amount of future recoverable RMB33,060,000 provision for decline in value of inventories. Other roll-out for the disposal of the backlog of inventory write-offs that have been a corresponding decline in value of provision for inventory.

(4) The impairment provision method for inventory is referred to Note IV.9.

(5) No inventory has been mortgaged or frozen at the end of July 2012 and the year of 2011, 2010 and 2009.

8. Long-term equity investments**(1) Categories of long-term equity investments**

Item	31 Jul 2012	31 Dec 2011
Accounted in cost method	50,000.00	50,000.00
Accounted in equity method	15,400,103.44	15,660,364.86
Total	15,450,103.44	15,710,364.86
Less: provision for impairment on long-term equity investments	50,000.00	50,000.00
Net book value	15,400,103.44	15,660,364.86

(Continued)

Item	31 Dec 2010	31 Dec 2009
Accounted in cost method	50,000.00	50,000.00
Accounted in equity method	15,567,084.36	15,100,595.32
Total	15,617,084.36	15,150,595.32
Less: provisions for impairment on long-term equity investments	50,000.00	50,000.00
Net book value	15,567,084.36	15,100,595.32

(2) Long-term equity investments accounted in cost and equity method

Name of invested companies	Share holding (%)	Voting right (%)	Original amounts	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012	Cash dividends for the period
In cost method	-	-	-	-	-	-	-	-
Ying Shen Associated Co., Ltd.	-	-	50,000.00	50,000.00	0.00	0.00	50,000.00	0.00
Sub-total	-	-	50,000.00	50,000.00	0.00	0.00	50,000.00	0.00
In equity method	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co. Ltd.	49.00	49.00	3,675,000.00	8,971,923.43	9,263.83	0.00	8,981,187.26	0.00
Beijing Beiyong Moulding Co., Ltd.	20.00	20.00	1,136,000.00	6,688,441.43	0.00	269,525.25	6,418,916.18	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49.00	49.00	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,660,364.86	9,263.83	269,525.25	15,400,103.44	0.00
Total	-	-	27,401,000.00	15,710,364.86	9,263.83	269,525.25	15,450,103.44	0.00

(Continued)

Name of invested companies	Share holding (%)	Voting right (%)	Original amounts	31 December 2010	Increase for the period	Decrease for the period	Equity adjustment	Cash dividends for the year	31 Dec 2011
In cost method	-	-	-	-	-	-	-	-	-
Ying Shen Associated Co., Ltd.	-	-	50,000.00	50,000.00	0.00	0.00	0.00	0.00	50,000.00
Sub-total	-	-	50,000.00	50,000.00	0.00	0.00	0.00	0.00	50,000.00
In equity method	-	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co. Ltd.	49	49	3,675,000.00	8,957,839.15	0.00	0.00	14,084.28	0.00	8,971,923.43
Beijing Beiyong Moulding Co., Ltd.	20	20	1,136,000.00	6,609,245.21	0.00	0.00	192,796.22	113,600.00	6,688,441.43
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,567,084.36	0.00	0.00	206,880.50	113,600.00	15,660,364.86
Total	-	-	27,401,000.00	15,617,084.36	0.00	0.00	206,880.50	113,600.00	15,710,364.86

(Continued)

Name of invested companies	Share holding (%)	Voting right (%)	Original amounts	31 December 2009	Increase for the period	Decrease for the period	31 Dec 2010	Cash dividends for the year
In cost method	-	-	-	-	-	-	-	-
Ying Shen Associated Co., Ltd	-	-	50,000.00	50,000.00	0.00	0.00	50,000.00	0.00
Sub-total	-	-	-	-	-	-	-	-
In equity method	49	49	3,675,000.00	8,879,213.01	78,626.14	0.00	8,957,839.15	0.00
Beijing Monigraf Automations Co. Ltd.	20	20	1,136,000.00	6,221,382.31	387,862.90	0.00	6,609,245.21	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,100,595.32	466,489.04	0.00	15,567,084.36	0.00
Total	-	-	27,401,000.00	15,150,595.32	466,489.04	0.00	15,617,084.36	0.00

(Continued)

Name of invested companies	Share holding (%)	Voting right (%)	Original amounts	31 December 2008	Increase for the period	Decrease for the period	31 Dec 2009	Cash dividends for the year
In cost method	-	-	-	-	-	-	-	-
Ying Shen Associated Co., Ltd	-	-	50,000.00	50,000.00	0.00	0.00	50,000.00	0.00
Sub-total	-	-	-	-	-	-	-	-
In equity method	49	49	3,675,000.00	8,794,891.76	84,321.25	0.00	8,879,213.01	0.00
Beijing Monigraf Automations Co. Ltd.	20	20	1,136,000.00	5,683,601.14	537,781.17	0.00	6,221,382.31	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	14,478,492.90	622,102.42	0.00	15,100,595.32	0.00
Total	-	-	27,401,000.00	14,528,492.90	622,102.42	0.00	15,150,595.32	0.00

(3) Investment in associated companies and joint ventures

Name of invested entity	Registration	Business Type	Share holding (%)	Voting right (%)
Associated Company	-	-	-	-
Beijing Monigraf Automations Co. Ltd.	Beijing	The development/design/manufacturing/sale of printing machine ink control system, sales of print consumables and relative services r.t. self-made products	49.00	49.00
Beijing Beiyong Casting Co. Ltd.	Beijing	Processing and selling the standardised parts during the corresponding system	20.00	20.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	Beijing	Printing machine production and sales, as well as the technical services	49.00	49.00

(Table continued)

At the end of July 2012

Name of invested entity	Total assets at the year end	Total liabilities at the year end	Total net assets at the year end	Total operating revenue for the year	Net profit for the year
Associate Company	—	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	22,224,164.76	3,895,211.17	18,328,953.59	9,841,569.51	18,905.77
Beijing Beiyong Casting Co. Ltd.	65,782,610.78	33,688,029.88	32,094,580.90	21,372,665.16	-1,347,626.23
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	—	—	—	—	—
Total	<u>88,006,775.54</u>	<u>37,583,241.05</u>	<u>50,423,534.49</u>	<u>31,214,234.67</u>	<u>-1,328,720.46</u>

Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd. had entered liquidation proceedings, as at 31 July 2012, the liquidation was still in progress.

At the year end of 2011

Name of invested entity	Total assets at the year end	Total liabilities at the year end	Total net assets at the year end	Total operating revenue for the year	Net profit for the year
Associate Company	—	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	23,989,900.00	6,001,800.00	17,988,100.00	16,579,500.00	28,700.00
Beijing Beiyong Casting Co. Ltd.	75,426,700.00	42,962,600.00	32,464,100.00	90,123,000.00	964,000.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	147,100.00	138,000.00	9,100.00	433,400.00	1,300.00
Total	<u>99,563,700.00</u>	<u>49,102,400.00</u>	<u>50,461,300.00</u>	<u>107,135,900.00</u>	<u>994,000.00</u>

At the year end of 2010

Name of invested entity	Total assets at the year end	Total liabilities at the year end	Total net assets at the year end	Total operating revenue for the year	Net profit for the year
Associate Company	—	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	23,616,057.32	5,641,120.45	17,974,936.87	18,699,235.50	160,461.52
Beijing Beiyong Casting Co. Ltd.	76,994,768.21	43,948,542.21	33,046,226.00	109,107,086.82	1,939,314.51
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	90,140,777.78	149,870,096.92	-59,729,319.14	76,916,734.68	-28,081,399.04
Total	<u>190,751,603.31</u>	<u>199,459,759.58</u>	<u>-8,708,156.27</u>	<u>204,723,057.00</u>	<u>-25,981,623.01</u>

At the year end of 2009

Name of invested entity	Total assets at the year end	Total liabilities at the year end	Total net assets at the year end	Total operating revenue for the year	Net profit for the year
Associate Company	—	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	26,554,332.22	8,433,489.34	18,120,842.88	13,967,328.82	172,084.19
Beijing Beiyong Casting Co. Ltd.	85,561,619.95	54,454,708.46	31,106,911.49	102,649,871.92	2,688,905.83
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	178,285,766.88	209,933,686.98	-31,647,920.10	23,178,396.56	-12,073,196.84
Total	<u>290,401,719.05</u>	<u>272,821,884.78</u>	<u>17,579,834.27</u>	<u>139,795,597.30</u>	<u>-9,212,206.82</u>

(4) Provision for impairment on long-term equity investments

Name of invested entity	31 Dec 2011	Increase	Decrease	31 Jul 2012
Ying Shen Associated Company Limited	50,000.00	0.00	0.00	50,000.00

(Table continued)

Name of invested entity	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011
Ying Shen Associated Company Limited	50,000.00	0.00	0.00	50,000.00

(Table continued)

Name of invested entity	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010
Ying Shen Associated Company Limited	50,000.00	0.00	0.00	50,000.00

(Table continued)

Name of invested entity	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009
Ying Shen Associated Company Limited	50,000.00	0.00	0.00	50,000.00

9. Investment in real estate**(1) Accounted in cost method**

Item	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
Original Cost	7,986,177.80	0.00	0.00	7,986,177.80
Buildings	7,986,177.80	0.00	0.00	7,986,177.80
Accumulated depreciation and amortization	1,247,082.03	104,184.30	0.00	1,351,266.33
Buildings	1,247,082.03	104,184.30	0.00	1,351,266.33
Impairment provision	0.00	0.00	0.00	0.00
Buildings	0.00	0.00	0.00	0.00
Book value	6,739,095.77	—	—	6,634,911.47
Buildings	6,739,095.77	—	—	6,634,911.47

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year	31 Dec 2011
Original Cost	7,986,177.80	—	—	7,986,177.80
Buildings	7,986,177.80	—	—	7,986,177.80
Accumulated depreciation and amortization	1,058,844.87	188,237.16	—	1,247,082.03
Buildings	1,058,844.87	188,237.16	—	1,247,082.03
Impairment provision	—	—	—	—
Buildings	—	—	—	—
Book value	6,927,332.93	—	—	6,739,095.77
Buildings	6,927,332.93	—	—	6,739,095.77

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2010
Original Cost	23,046,189.70	–	15,060,011.90	7,986,177.80
Buildings	23,046,189.70	–	15,060,011.90	7,986,177.80
Accumulated depreciation and amortization	7,998,283.91	518,320.97	7,457,760.01	1,058,844.87
Buildings	7,998,283.91	518,320.97	7,457,760.01	1,058,844.87
Impairment provision	–	–	–	–
Buildings	–	–	–	–
Book value	15,047,905.79	–	–	6,927,332.93
Buildings	15,047,905.79	–	–	6,927,332.93

(Table continued)

Item	31 Dec 2008	Increase for the year	Decrease for the year	31 Dec 2009
Original Cost	23,046,189.70	–	–	23,046,189.70
Buildings	23,046,189.70	–	–	23,046,189.70
Accumulated depreciation and amortization	7,243,993.48	754,290.43	–	7,998,283.91
Buildings	7,243,993.48	754,290.43	–	7,998,283.91
Impairment provision	–	–	–	–
Buildings	–	–	–	–
Book value	15,802,196.22	–	–	15,047,905.79
Buildings	15,802,196.22	–	–	15,047,905.79

10. Fixed assets**(1) Fixed assets category**

Item	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
Original Cost	1,070,084,090.74	2,758,863.11	1,308,848.00	1,071,534,105.85
Buildings	547,537,454.88	176,976.00	717,118.00	546,997,312.88
Machinery	457,017,510.48	2,155,257.08	16,490.00	459,156,277.56
Transportation facilities	15,060,453.14	151,591.40	220,000.00	14,992,044.54
Office equipment	48,993,782.77	275,038.63	355,240.00	48,913,581.40
Others	1,474,889.47	–	–	1,474,889.47
Accumulated depreciation	522,587,936.49	18,451,922.72	541,782.46	540,498,076.75
Buildings	138,292,350.32	8,397,472.05	–	146,689,822.37
Machinery	332,868,793.74	8,672,772.89	8,666.46	341,532,900.17
Transportation facilities	8,716,354.13	577,315.89	213,400.00	9,080,270.02
Office equipment	41,940,620.00	717,490.74	319,716.00	42,338,394.74
Others	769,818.30	86,871.15	–	856,689.45
Total net book value	547,496,154.25	–	–	531,036,029.10
Buildings	409,245,104.56	–	–	400,307,490.51
Machinery	124,148,716.74	–	–	117,623,377.39
Transportation facilities	6,344,099.01	–	–	5,911,774.52
Office equipment	7,053,162.77	–	–	6,575,186.66
Others	705,071.17	–	–	618,200.02
Impairment provision	20,498,612.67	–	–	20,498,612.67
Buildings	–	–	–	–
Machinery	20,383,612.67	–	–	20,383,612.67
Transportation facilities	115,000.00	–	–	115,000.00
Office equipment	–	–	–	–
Others	–	–	–	–
Net book value	526,997,541.58	–	–	510,537,416.43
Buildings	409,245,104.56	–	–	400,307,490.51
Machinery	103,765,104.07	–	–	97,239,764.72
Transportation facilities	6,229,099.01	–	–	5,796,774.52
Office equipment	7,053,162.77	–	–	6,575,186.66
Others	705,071.17	–	–	618,200.02

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year	31 Dec 2011
Total original cost	1,091,717,861.11	6,325,170.39	27,958,940.76	1,070,084,090.74
Buildings	570,145,982.99	872,621.26	23,481,149.37	547,537,454.88
Machinery	457,357,874.82	3,179,246.55	3,519,610.89	457,017,510.48
Transportation facilities	13,857,023.18	2,161,610.46	958,180.50	15,060,453.14
Office equipment	48,882,090.65	111,692.12	–	48,993,782.77
Others	1,474,889.47	–	–	1,474,889.47
Total accumulated depreciation	503,164,679.52	34,066,842.75	14,643,585.78	522,587,936.49
Buildings	134,436,260.35	15,359,415.47	11,503,325.50	138,292,350.32
Machinery	320,499,277.71	14,855,919.23	2,486,403.20	332,868,793.74
Transportation facilities	8,071,878.31	1,298,332.90	653,857.08	8,716,354.13
Office equipment	39,602,924.66	2,337,695.34	–	41,940,620.00
Others	554,338.49	215,479.81	–	769,818.30
Total net book value	588,553,181.59	–	–	547,496,154.25
Buildings	435,709,722.64	–	–	409,245,104.56
Machinery	136,858,597.11	–	–	124,148,716.74
Transportation facilities	5,785,144.87	–	–	6,344,099.01
Office equipment	9,279,165.99	–	–	7,053,162.77
Others	920,550.98	–	–	705,071.17
Total impairment provision	20,498,612.67	–	–	20,498,612.67
Buildings	–	–	–	–
Machinery	20,383,612.67	–	–	20,383,612.67
Transportation facilities	115,000.00	–	–	115,000.00
Office equipment	–	–	–	–
Others	–	–	–	–
Total net book value	568,054,568.92	–	–	526,997,541.58
Buildings	435,709,722.64	–	–	409,245,104.56
Machinery	116,474,984.44	–	–	103,765,104.07
Transportation facilities	5,670,144.87	–	–	6,229,099.01
Office equipment	9,279,165.99	–	–	7,053,162.77
Others	920,550.98	–	–	705,071.17

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2010
Original cost	1,185,250,083.22	8,119,702.51	101,651,924.62	1,091,717,861.11
Buildings	580,678,226.55	2,992,032.42	13,661,829.16	570,008,429.81
Machinery	532,524,289.96	4,739,255.95	76,305,985.95	460,957,559.96
Transportation facilities	17,802,759.42	35,686.41	4,051,806.51	13,786,639.32
Office equipment	48,500,130.68	352,727.73	3,362,515.86	45,490,342.55
Others	5,744,676.61	–	4,269,787.14	1,474,889.47
Accumulated depreciation	537,634,722.74	36,549,022.06	71,019,065.28	503,164,679.52
Buildings	120,521,523.54	16,095,634.73	2,180,897.93	134,436,260.34
Machinery	366,034,986.91	16,071,290.67	61,606,999.87	320,499,277.71
Transportation facilities	9,548,976.93	1,528,314.92	3,005,413.54	8,071,878.31
Office equipment	39,772,086.00	2,699,151.11	2,868,312.45	39,602,924.66
Others	1,757,149.36	154,630.63	1,357,441.49	554,338.50
Net book value	647,615,360.48	–	–	588,553,181.59
Buildings	460,156,703.01	–	–	435,572,169.47
Machinery	166,489,303.05	–	–	140,458,282.25
Transportation facilities	8,253,782.49	–	–	5,714,761.01
Office equipment	8,728,044.68	–	–	5,887,417.89
Others	3,987,527.25	–	–	920,550.97
Impairment provision	20,885,338.91	–	386,726.24	20,498,612.67
Buildings	–	–	–	–
Machinery	20,770,338.91	–	386,726.24	20,383,612.67
Transportation facilities	115,000.00	–	–	115,000.00
Office equipment	–	–	–	–
Others	–	–	–	–
Net book value	626,730,021.57	–	–	568,054,568.92
Buildings	460,156,703.01	–	–	435,572,169.47
Machinery	145,718,964.14	–	–	120,074,669.58
Transportation facilities	8,138,782.49	–	–	5,599,761.01
Office equipment	8,728,044.68	–	–	5,887,417.89
Others	3,987,527.25	–	–	920,550.97

(Table continued)

Item	31 Dec 2008	Increase for the year	Decrease for the year	31 Dec 2009
Original cost	1,206,501,512.79	3,500,546.55	24,751,976.12	1,185,250,083.22
Buildings	581,941,605.27	866,011.40	2,129,390.12	580,678,226.55
Machinery	544,525,460.91	1,399,613.53	13,400,784.48	532,524,289.96
Transportation facilities	20,245,218.73	1,005,120.08	3,447,579.39	17,802,759.42
Office equipment	54,030,451.99	212,963.93	5,743,285.24	48,500,130.68
Others	5,758,775.89	16,837.61	30,936.89	5,744,676.61
Accumulated depreciation	513,829,881.20	44,697,777.71	20,892,936.17	537,634,722.74
Buildings	103,451,670.09	17,726,357.28	656,503.84	120,521,523.53
Machinery	355,635,942.77	22,082,520.40	11,813,505.69	365,904,957.48
Transportation facilities	10,680,482.01	1,640,918.06	2,772,423.24	9,548,976.83
Office equipment	42,439,302.44	3,090,866.29	5,628,053.20	39,902,115.53
Others	1,622,483.89	157,115.68	22,450.20	1,757,149.37
Net book value	692,671,631.59	–	–	647,615,360.48
Buildings	478,489,935.18	–	–	460,156,703.02
Machinery	188,889,518.14	–	–	166,619,332.48
Transportation facilities	9,564,736.72	–	–	8,253,782.59
Office equipment	11,591,149.55	–	–	8,598,015.15
Others	4,136,292.00	–	–	3,987,527.24
Impairment provision	20,868,981.71	290,071.82	273,714.62	20,885,338.91
Buildings	–	–	–	–
Machinery	20,753,981.71	290,071.82	273,714.62	20,770,338.91
Transportation facilities	115,000.00	–	–	115,000.00
Office equipment	–	–	–	–
Others	–	–	–	–
Net book value	671,802,649.88	–	–	626,730,021.57
Buildings	478,489,935.18	–	–	460,156,703.02
Machinery	168,135,536.43	–	–	145,848,993.57
Transportation facilities	9,449,736.72	–	–	8,138,782.59
Office equipment	11,591,149.55	–	–	8,598,015.15
Others	4,136,292.00	–	–	3,987,527.24

1) *The provision for the period among the increase in accumulated depreciation in each period*

Item	Jan-Jul 2012	2011	2010	2009
Depreciation provision	18,451,922.72	34,066,842.75	36,549,022.06	44,697,777.71

2) At the end of July 2012, part of the buildings in the fixed assets with the original cost of RMB8,533,337.00 and net book value of RMB7,384,373.76 were pledged to the bank as a guarantee for issuing bank acceptance notes.

At the year end of 2011, part of the buildings in the fixed assets with the original cost of RMB8,533,337.00 and net book value of RMB7,505,193.62 were pledged to the bank as a guarantee for issuing bank acceptance notes.

At the year end of 2010, part of the buildings in the fixed assets with the original cost of RMB68,115,699.76 and net book value of RMB60,021,956.09 were pledged to the bank as a guarantee for short-term loans.

At the year end of 2009, part of the buildings and machinery in the fixed assets were pledged to the bank as a guarantee for short-term loans. The buildings were with the original cost of RMB73,565,024.71 and net book value of RMB68,037,344.24 while the machinery was with the original cost of RMB7,396,860.00 and net book value of RMB1,282,100.85.

3) There was no idle fixed asset at the end of July 2012, the year end of 2011, 2010 and 2009.

4) There was no financing lease of fixed assets of the Group at the end of July 2012, the year end of 2011, 2010 and 2009.)

5) *Fixed assets leased out through an operating lease:*

Category of assets leased out through an operating lease	31 Jul 2012	31 Dec 2011
Buildings	95,935,844.65	79,686,801.04

(Table continued)

Category of assets leased out through an operating lease	31 Dec 2010	31 Dec 2009
Buildings	88,021,389.01	63,670,779.83
Machinery	0.00	2,379,758.16
Transportation facilities	0.00	42,873.30
Total	88,021,389.01	66,093,411.29

6) There was no fixed asset held for sale at the end of July 2012, the year end of 2011, 2010 and 2009.

7) There was no fixed asset of which the ownership certificate was not obtained yet at the end of July 2012, the year end of 2011, 2010 and 2009.

11. Construction in progress

Item	Book balance	31 Jul 2012 provision	Book value	Book balance	31 Dec 2011 provision	Book value
Equipments in installation	2,029,131.62	0.00	2,029,131.62	1,353,615.30	0.00	1,353,615.30
Others	1,825,679.60	0.00	1,825,679.60	1,825,679.60	0.00	1,825,679.60
Total	3,854,811.22	0.00	3,854,811.22	3,179,294.90	0.00	3,179,294.90

(Table continued)

Item	Book balance	31 Dec 2010 Impairment provision	Book value	Book balance	31 Dec 2009 Impairment provision	Book value
Construction in progress	41,538.00	0.00	41,538.00	654,522.00	0.00	654,522.00
Equipments in installation	1,753,452.38	0.00	1,753,452.38	2,366,924.26	0.00	2,366,924.26
Others	1,150,099.73	0.00	1,150,099.73	1,257,637.73	0.00	1,257,637.73
Total	2,945,090.11	0.00	2,945,090.11	4,279,083.99	0.00	4,279,083.99

12. Intangible assets

Item	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
Original Cost	127,643,801.77	0.00	223,986.00	127,419,815.77
Land use right	127,643,801.77	0.00	223,986.00	127,419,815.77
Accumulated depreciation	23,623,485.52	1,449,612.43	24,265.15	25,048,832.80
Land use right	23,623,485.52	1,449,612.43	24,265.15	25,048,832.80
Net book value	104,020,316.25	–	–	102,370,982.97
Land use right	104,020,316.25	–	–	102,370,982.97
Impairment provision	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00
Book value	104,020,316.25	–	–	102,370,982.97
Land use right	104,020,316.25	–	–	102,370,982.97

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year	31 Dec 2011
Original Cost	127,643,801.77	0.00	0.00	127,643,801.77
Land use right	127,643,801.77	0.00	0.00	127,643,801.77
Accumulated depreciation	21,135,875.90	2,487,609.62	0.00	23,623,485.52
Land use right	21,135,875.90	2,487,609.62	0.00	23,623,485.52
Net book value	106,507,925.87	—	—	104,020,316.25
Land use right	106,507,925.87	—	—	104,020,316.25
Impairment provision	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00
Book value	106,507,925.87	—	—	104,020,316.25
Land use right	106,507,925.87	—	—	104,020,316.25

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2010
Original Cost	148,336,721.77	0.00	20,692,920.00	127,643,801.77
Land use right	147,677,951.77	0.00	20,034,150.00	127,643,801.77
Software	658,770.00	0.00	658,770.00	0.00
Accumulated depreciation	21,429,094.84	2,722,453.18	3,015,672.12	21,135,875.90
Land use right	20,944,532.84	2,722,453.18	2,531,110.12	21,135,875.90
Software	484,562.00	0.00	484,562.00	0.00
Net book value	126,907,626.93	—	—	106,507,925.87
Land use right	126,733,418.93	—	—	106,507,925.87
Software	174,208.00	—	—	0.00
Impairment provision	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	126,907,626.93	—	—	106,507,925.87
Land use right	126,733,418.93	—	—	106,507,925.87
Software	174,208.00	—	—	0.00

(Table continued)

Item	31 Dec 2008	Increase for the year	Decrease for the year	31 Dec 2009
Original Cost	149,428,150.16	511,908.00	1,603,336.39	148,336,721.77
Land use right	147,166,043.77	511,908.00	0.00	147,677,951.77
Non-patent technology	1,603,336.39	0.00	1,603,336.39	0.00
Software	658,770.00	0.00	0.00	658,770.00
Accumulated depreciation	19,872,895.49	2,963,785.74	1,407,586.39	21,429,094.84
Land use right	18,049,691.10	2,894,841.74	0.00	20,944,532.84
Non-patent technology	1,407,586.39	0.00	1,407,586.39	0.00
Software	415,618.00	68,944.00	0.00	484,562.00
Net book value	129,555,254.67	—	—	126,907,626.93
Land use right	129,116,352.67	—	—	126,733,418.93
Non-patent technology	195,750.00	—	—	0.00
Software	243,152.00	—	—	174,208.00
Impairment provision	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00
Non-patent technology	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	129,555,254.67	—	—	126,907,626.93
Land use right	129,116,352.67	—	—	126,733,418.93
Non-patent technology	195,750.00	—	—	0.00
Software	243,152.00	—	—	174,208.00

1) *The amortization for the period among the accumulated amortization increased in each period*

Item	Jan-Jul 2012	2011	2010	2009
Amortization for the period	1,449,612.43	2,487,609.62	2,722,453.18	2,963,785.74

2) At the end of July 2012, the Group pledged part of the land use rights with the original cost of RMB6,292,266.84 and net book value of RMB5,460,206.98 to the bank as a guarantee for issuing bank acceptance notes.

At the end of 2011, the Group pledged part of the land use rights with original cost of RMB6,292,266.84 and net book value of RMB5,533,851.39 to the bank as a guarantee for issuing short-term loans.

At the end of 2010, the Group pledged part of the land use rights with the original cost of RMB18,863,256.00 and net book value of RMB17,018,814.50 to the bank as a guarantee for issuing short-term loans.

At the end of 2009, the Group pledged part of the land use rights with the original cost of RMB23,974,056.00 and net book value of RMB21,991,273.97 to the bank as a guarantee for issuing short-term loans.

13. Long-term prepayments

Item	31 Dec 2011	Increase	Decrease	Other decrease	31 Jul 2012	Reasons for other decrease
The land development fee	9,367,320.00	0.00	0.00	0.00	9,367,320.00	
(Table continued)						

Item	31 Dec 2010	Increase for the period	Amortization for the period	Decrease for the period	31 Dec 2011	Other reasons for the decrease
The land development fee	9,367,320.00	0.00	0.00	0.00	9,367,320.00	–
(Table continued)						

Item	31 Dec 2009	Increase for the year	Amortization for the year	Decrease for the year	31 Dec 2010	Other reasons for the decrease
The land development fee	11,930,291.10	0.00	44,000.00	2,518,971.10	9,367,320.00	Transfer
(Table continued)						

Item	31 Dec 2008	Increase for the year	Amortization for the year	Decrease for the year	31 Dec 2009	Other reasons for the decrease
The land development fee	11,996,291.10	0.00	66,000.00	0.00	11,930,291.10	–

14. Deferred income tax asset and deferred income tax liabilities

(1) Recognized Deferred tax asset and deferred tax liabilities

Item	31 Jul 2012	31 Dec 2011
Deferred income tax asset	—	—
Provision for assets impairment	2,846,561.51	2,711,017.52
(Table continued)		
Item	31 Dec 2010	31 Dec 2009
Deferred tax asset	—	—
Provision for assets impairment	2,741,017.74	7,723,350.72
Depreciation of fixed assets	0.00	158,543.66
Employee compensation payable	0.00	358,182.38
Total	2,741,017.74	8,240,076.76

(2) Details of the unrecognized deferred income tax assets

Items	31 Jul 2012	31 Dec 2011
Deductible temporary differences	195,574,084.32	191,669,974.91
Deductible loss	318,850,840.80	318,850,840.80
Total	514,424,925.12	510,520,815.71

Except for the subsidiary of the Company, Shaanxi Beiren Printing Machinery Company Limited which is earning profits stably, the Company as well as other subsidiaries are not stably profitable. The taxable profit against deductible loss in the estimated periods shall not be expected sufficient. Therefore, except for Shaanxi Beiren, all of other subsidiaries didn't recognize deferred income tax assets.

(Table continued)

Item	31 Dec 2010	31 Dec 2009
Deductible temporary differences	210,949,275.81	195,646,268.56
Deductible loss	331,939,462.02	364,889,744.98
Total	542,888,737.83	560,536,013.54

(3) Deductible loss unrecognized as deferred income tax assets will be expired in the following years:

Item	31 Jul 2012
2012	1,741,787.83
2013	133,813,242.84
2014	168,868,795.78
2015	12,192,889.89
2016	2,234,124.46
Total	318,850,840.80

(Table continued)

Item	31 Dec 2011
2012	1,741,787.83
2013	133,813,242.84
2014	168,868,795.78
2015	12,192,889.89
2016	2,234,124.46
Total	318,850,840.80

(Table continued)

Item	31 Dec 2010
2011	9,232,332.73
2012	6,501,875.37
2013	134,815,673.71
2014	168,868,795.78
2015	12,520,784.43
Total	331,939,462.02

(Table continued)

Item	31 Dec 2009
2010	532,092.08
2011	22,964,295.72
2012	7,030,176.21
2013	160,236,266.18
2014	174,126,914.79
Total	364,889,744.98

(4) Details of temporary differences

Items	Amount
31 Jul 2012	—
Deductible differences	—
Provision for bad debts	14,509,600.84
Provision for impairment of inventory	4,417,475.95
Provision for Impairment of long-term equity investment	50,000.00
Total	18,977,076.79
31 Dec 2011	—
Deductible differences	—
Provision for bad debts	14,250,823.82
Provision for impairment of inventory	3,772,626.40
Provision for Impairment of long-term equity investment	50,000.00
Total	18,073,450.22

Items	Amount
31 Dec 2010	—
Deductible differences	—
Provision for bad debts	14,450,825.28
Provision for impairment of inventory	3,772,626.40
Provision for Impairment of long-term equity investment	50,000.00
Total	18,273,451.68
31 Dec 2009	—
Deductible differences	—
Provision for bad debts	15,598,534.06
Provision for impairment of inventory	23,082,355.14
Provision for impairment of inventory	50,000.00
Impairment of fixed assets	634,174.62
Employee compensation payable	1,432,729.52
Total	40,797,793.34

15. Provision for impairment of assets:

Item	31 Dec 2011	Increase for the year	Decrease for the year		31 Jul 2012
			Reversal	Other transfers out	
Provision for bad debts	113,407,639.44	7,396,673.76	0.00	2,642,990.10	118,161,323.10
Provision for impairment of inventory	75,787,173.02	10,413,919.51	0.00	10,359,867.19	75,841,225.34
Provision for Impairment of long-term equity investment	50,000.00	0.00	0.00	0.00	50,000.00
Provision for Impairment of investment in real estate	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of fixed assets	20,498,612.67	0.00	0.00	0.00	20,498,612.67
Provision for Impairment of construction materials	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of construction in progress	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of intangible assets	0.00	0.00	0.00	0.00	0.00
Total	209,743,425.13	17,810,593.27	0.00	13,002,857.29	214,551,161.11

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year		31 Dec 2011
			Reversals	Other transfers out	
Provision for bad debts	112,610,491.50	1,559,117.92	0.00	761,969.98	113,407,639.44
Provision for impairment of inventory	96,073,623.32	8,825,806.00	0.00	29,112,256.30	75,787,173.02
Provision for Impairment of long-term equity investment	50,000.00	0.00	0.00	0.00	50,000.00
Provision for Impairment of investment in real estate	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of fixed assets	20,498,612.67	0.00	0.00	0.00	20,498,612.67
Provision for Impairment of construction materials	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of construction in progress	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of intangible assets	0.00	0.00	0.00	0.00	0.00
Total	229,232,727.49	10,384,923.92	0.00	29,874,226.28	209,743,425.13

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year		31 Dec 2010
			Reversals		
Provision for bad debts	105,457,800.70	17,801,906.92	1,161,100.00	9,488,116.12	112,610,491.50
Provision for impairment of inventory	107,984,018.15	57,468,651.99	0.00	69,379,046.82	96,073,623.32
Provision for Impairment of long-term equity investment	50,000.00	0.00	0.00	0.00	50,000.00
Provision for Impairment of investment in real estate	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of fixed assets	20,885,338.91	0.00	0.00	386,726.24	20,498,612.67
Provision for Impairment of construction materials	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of construction in progress	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of intangible assets	0.00	0.00	0.00	0.00	0.00
Total	234,377,157.76	75,270,558.91	1,161,100.00	79,253,889.18	229,232,727.49

(Table continued)

Item	31 Dec 2008	Increase for the year	Decrease for the year		31 Dec 2009
			Reversals		
Provision for bad debts	104,005,919.09	1,978,031.01	0.00	526,149.40	105,457,800.70
Provision for impairment of inventory	121,940,526.19	33,057,545.55	0.00	47,014,053.59	107,984,018.15
Provision for Impairment of long-term equity investment	50,000.00	0.00	0.00	0.00	50,000.00
Provision for Impairment of investment in real estate	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of fixed assets	20,868,981.71	290,071.82	0.00	273,714.62	20,885,338.91
Provision for Impairment of construction materials	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of construction in progress	0.00	0.00	0.00	0.00	0.00
Provision for Impairment of intangible assets	0.00	0.00	0.00	0.00	0.00
Total	246,865,426.99	35,325,648.38	0.00	47,813,917.61	234,377,157.76

16. Short-term loans

Type	31 Jul 2012	31 Dec 2011
Guaranteed loans – due within one year	9,000,000.00	10,000,000.00
Unsecured loans – due within one year	210,000,000.00	210,000,000.00
Total	219,000,000.00	220,000,000.00

- (1) The guaranteed loans at the end of July 2007, which is amounting to RMB9 million, are the borrowings by the subsidiary Beijing Beiren Fuji Printing Machine Co., LTD., among which a six-month period loan of RMB1 million is guaranteed by Fuji Co., LTD and a one-year period loan of RMB8,000,000 is guaranteed by the Company.
- (2) The unsecured loans at the end of July 2012 include a one-year period loan of RMD210 million borrowed by the Company from Bank of Beijing Jinyun Branch entrusted by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd..
- (3) The guaranteed loans at the end of 2011, which is amounting to RMB10 million, are the borrowings by the subsidiary Beijing Beiren Fuji Printing Machine Co., LTD., among which a six-month period loan of RMB2 million is guaranteed by Fuji Co., LTD and a one-year period loan of RMB8 million is guaranteed by the Company.
- (4) The unsecured loans at the end of 2011 include a one-year period loan of RMD180 million borrowed by the Company from Bank of Beijing Jinyun Branch entrusted by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.; among which a six-month period loan of RMB30 million is borrowed to Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. by the Company at an interest rate not higher than the bank borrowing rate of the same period. At the end of the year, Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. undertook that it would provide the Company with the necessary capital support if the company encountered any financial difficulties in 2012 and would not require the Company to repay the borrowings during time of capital difficulties in 2012.

(Table continued)

Type of loan	31 Dec 2010	31 Dec 2009
Secured loans	56,000,000.00	69,450,000.00
Guaranteed loans	13,750,000.00	15,400,000.00
Unsecured loans	70,000,000.00	230,000,000.00
total	139,750,000.00	314,850,000.00

- (1) The secured loans at the end of 2010 is secured by fixed assets with a net value of RMB60,021,956.09 and land use rights with a net value of RMB17,018,814.50.
- (2) The unsecured loans at the end of 2010 include a one-year period loan of RMD70 million borrowed by the Company from Bank of Beijing Jinyun Branch entrusted by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. at an interest rate not higher than the bank borrowing rate of the same period.
- (3) The secured loans at the end of 2009 is secured by fixed assets with a net value of RMB69,319,445.09 and land use rights with a net value of RMB21,991,273.97.
- (4) The unsecured loans at the end of 2009 include one-year period loans of RMB85 million, RMB50 million and RMB15 million, totaled at RMB150 million, borrowed by the Company from Bank of Beijing Jinyun Branch entrusted by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. at an interest rate not higher than the bank borrowing rate of the same period; the Company borrowed a two-month period loan of RMB80 million from Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. at an interest rate not higher than the bank borrowing rate of the same period, which was fully repaid in January 2010.

17. Notes payable

Type of notes	31 July 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Bank acceptance note	5,000,000.00	16,950,000.00	14,000,000.00	13,900,000.00

Each balance at the year end will matured in January to June in next financial year.

18. Accounts payable**(1) Accounts payable**

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	325,007,951.89	272,997,745.92	298,873,675.48	379,540,583.68
Of which: within one year	39,794,741.18	55,372,824.73	86,029,729.32	98,239,307.88

- (2) At the end of July 2012, the year end of 2011 and 2010, the Company did not have accounts payable to shareholders who hold 5% or more of the Group's voting shares.

The Company's accounts payable to shareholders who hold 5% or more of the Group's voting shares at the year end of 2009.

Name of unit	31 Dec 2009
Beiren Group Corporation	1,997,780.00

- (3) There has been no accounts payable in foreign currencies

Foreign currency	31 July 2012			31 Dec 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Japanese Yen	0.00	—	0.00	0.00	—	0.00

(Table continued)

Foreign currency	31 Dec 2010			31 Dec 2009		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
JPY	1,583,910.04	0.08126	128,708.53	1,498,134.42	0.0738	110,562.32

19. Advance from customers**(1) Advance from customers**

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	78,459,201.21	88,449,580.42	97,701,982.19	94,623,242.70
Of which: more than 1 year	13,625,721.42	15,074,375.01	12,336,059.34	10,095,261.43

Advance from customers which is more than 1 year is caused by contracts which have not been fulfilled and the corresponding goods have not been fully delivered yet.

(2) At the end of July 2012, the year end of 2011, 2010 and 2009, the advance from customers did not include advances from shareholders who hold 5% or more of the Group's voting shares.

(3) The balance of the advance from customers in foreign currency:

Foreign currency	31 Jul 2012			31 Dec 2011		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	1,050,225.00	6.3320	6,650,024.04	157,833.00	6.3009	1,108,530.81
EUR	0.00	—	0.00	12,198.00	8.1625	107,449.86
Total	—	—	6,650,024.04	—	—	1,215,980.67

(Table continued)

Foreign currency	31 Dec 2010			31 Dec 2009		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	797,049.88	6.6227	5,278,934.59	298,894.11	6.8282	2,040,908.78
EUR	12,198.00	8.8065	107,421.69	0.00	—	0.00
Total	—	—	5,386,356.28	—	—	2,040,908.78

20. Employee compensation payable

Item	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
Salary, bonus, subsidy and allowance	4,200,097.91	71,217,802.87	75,417,900.78	0.00
Welfare	0.00	10,974,866.28	10,974,866.28	0.00
Social insurance	14,844,692.14	20,914,430.85	21,567,868.06	14,191,254.93
Including: Medical insurance	4,265,606.73	6,976,185.24	9,277,099.63	1,964,692.34
Basic endowment insurance	10,003,980.08	12,329,835.40	10,938,367.26	11,395,448.22
Unemployment insurance	389,394.16	706,540.58	389,428.12	706,506.62
Industrial injury insurance	75,503.60	490,018.35	570,161.29	-4,639.34
Fertility insurance	110,207.57	411,851.28	392,811.76	129,247.09
Housing fund	688,304.20	4,970,225.00	4,480,391.00	1,178,138.20
Labour union expenditure and employee education expenditure	2,230,434.71	1,758,317.38	1,568,474.04	2,420,278.05
Severance welfare	16,912,342.55	248,995.53	6,060,986.42	11,100,351.66
Others	215,853.00	1,182,256.29	1,182,256.29	215,853.00
Total	39,091,724.51	111,266,894.20	121,252,742.87	29,105,875.84

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year	31 Dec 2011
Salary, bonus, subsidy and allowance	3,117,680.84	121,191,330.34	120,108,913.27	4,200,097.91
Welfare	0.00	16,888,880.01	16,888,880.01	0.00
Social insurance	14,842,112.15	35,422,080.30	35,419,500.31	14,844,692.14
Including: Medical insurance	4,759,935.15	12,588,629.77	13,082,958.19	4,265,606.73
Basic endowment insurance	10,042,235.99	20,170,021.24	20,208,277.15	10,003,980.08
Unemployment insurance	15,097.72	1,133,100.10	758,803.66	389,394.16
Industrial injury insurance	14,214.69	897,803.53	836,514.62	75,503.60
Fertility insurance	10,628.60	632,525.66	532,946.69	110,207.57
Housing Fund	725,498.20	8,316,089.00	8,353,283.00	688,304.20
Labour union expenditure and employee education expenditure	2,594,836.97	2,996,118.94	3,360,521.20	2,230,434.71
Non-monetary welfare	0.00	11,604,700.61	11,604,700.61	0.00
Expense for employee retirement	28,753,816.98	17,099.00	11,858,573.43	16,912,342.55
Others	168,213.24	2,062,193.39	2,014,553.63	215,853.00
Total	50,202,158.38	198,498,491.59	209,608,925.46	39,091,724.51

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2011
Salary, bonus, subsidy and allowance	826,643.00	109,288,189.65	106,997,151.81	3,117,680.84
Welfare	0.00	10,970,552.61	10,970,552.61	0.00
Social insurance	19,297,065.09	31,192,336.53	35,647,289.47	14,842,112.15
Including: Medical insurance	7,646,116.92	9,246,930.70	12,133,112.47	4,759,935.15
Basic endowment insurance	11,468,290.44	19,298,705.60	20,724,760.05	10,042,235.99
Unemployment insurance	68,981.05	1,095,572.05	1,149,455.38	15,097.72
Industrial injury insurance	63,118.36	885,132.72	934,036.39	14,214.69
Fertility insurance	50,558.32	665,995.46	705,925.18	10,628.60
Housing Fund	1,080,029.20	8,699,152.12	9,053,683.12	725,498.20
Labour union expenditure and employee education expenditure	2,347,245.36	3,760,213.68	3,512,622.07	2,594,836.97
Non-monetary welfare	0.00	14,264,703.63	14,264,703.63	0.00
Severance welfare	-1,500.00	376,765.00	375,265.00	0.00
Expense for employee retirement	35,943,007.74	6,560,886.55	13,750,077.31	28,753,816.98
Others	163,157.24	66,987.00	61,931.00	168,213.24
Total	59,655,647.63	185,179,786.77	194,633,276.02	50,202,158.38

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2010
Salary(including bonus, subsidy and allowance)	640,574.00	112,417,013.35	112,230,944.35	826,643.00
Welfare	0.00	10,599,699.07	10,599,699.07	0.00
Social insurance	17,598,975.42	45,798,519.46	44,100,429.79	19,297,065.09
Including: Medical insurance	8,276,617.22	18,451,093.56	19,081,593.86	7,646,116.92
Basic endowment insurance	8,740,232.43	24,155,493.27	21,427,435.26	11,468,290.44
Unemployment insurance	461,322.83	1,324,545.20	1,716,886.98	68,981.05
Industrial injury insurance	67,422.91	1,124,492.51	1,128,797.06	63,118.36
Fertility insurance	53,380.03	742,894.92	745,716.63	50,558.32
Housing Fund	1,525,733.78	18,462,830.56	18,908,535.14	1,080,029.20
Labour union expenditure and employee education expenditure	1,822,279.45	4,034,609.21	3,509,643.30	2,347,245.36
Other welfare	0.00	10,145,531.67	10,145,531.67	0.00
Severance welfare	1,960,691.00	1,413,079.99	3,373,770.99	0.00
Expense for employee retirement	43,316,681.60	5,880,808.25	13,254,482.11	35,943,007.74
Others	175,428.41	18,096.00	31,867.17	161,657.24
Total	67,040,363.66	208,770,187.56	216,154,903.59	59,655,647.63

21. Tax payable

Item	31 Jul 2012	31 Dec 2011
Value added tax	2,219,116.85	-5,876,913.92
Business tax	247,399.90	1,547,763.26
Individual income tax	100,628.13	137,371.97
Urban maintenance and construction tax	174,639.79	-465,825.77
Property tax	460,773.06	0.00
Land usage tax	122,524.17	0.00
Educational surcharge	95,037.32	-157,479.47
Regional education surcharge	30,078.92	0.00
Stamp tax	0.00	87,690.59
Water conservancy fund	482,925.18	598,012.37
Total	3,933,123.32	-4,129,380.97

(Table continued)

Item	31 Dec 2010	31 Dec 2009
Value added tax	6,444,557.76	8,727,807.17
Business tax	169,300.86	174,318.77
Corporate income tax	-102,651.31	1,904,453.43
Individual income tax	553,074.43	367,681.05
Urban maintenance and construction tax	610,196.03	655,483.77
Property tax	-0.04	192,634.57
Land usage tax	47,136.18	1,921,218.49
Educational surcharge	525,139.45	759,697.74
Stamp tax	5,730.12	109,047.10
Water conservancy fund	592,507.75	585,957.00
Total	8,844,991.23	15,398,299.09

22. Interest payable

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Short-term borrowings interest payable	1,451,419.30	751,944.17	133,487.50	1,096,962.50

23. Other payables**(1) Other payables**

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	48,295,636.82	41,361,493.75	48,964,316.34	48,538,528.19
Of which: more than 1 year	21,268,667.32	21,602,109.24	17,773,263.11	33,511,865.84

(2) Other payables to shareholders who hold 5% or more of the Group's share at the end of the period are as follow:

Name of entity	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Beiren Group Corporation	8,155,529.91	0.00	1,247,319.56	13,641,380.51

(3) Other payables in large amount at the end of the period:

At the end of July 2012

Item	Amount outstanding	Aging	Nature or content
Land remise fund payable	9,330,922.61	More than 3 years	Remise price

The amount is the land remise fund owed to the local government where Beijing Casting Co. Ltd. located. As of 31 July 2012, the Company has not acquired the certificate of land use right in Daxing, Beijing, with an area of 92.126 acreage.

At the year end of 2011

Item	Amount	Aging	Nature of content
Land remise fund payable	9,330,922.61	More than 3 years	Remise price payable

At the year end of 2010

Item	Amount	Aging	Nature of content
Land remise fund payable (<i>Note 1</i>)	9,330,922.61	More than 3 years	Remise price payable
Beiren Group Corporation	1,247,319.56	Within 1 year	Trademark usage fee
Total	<u>10,578,242.17</u>	—	—

At the year end of 2009

Item	Amount	Aging	Nature of content
Beiren Group Corporation (<i>Note 1</i>)	12,365,033.14	More than 3 years	Acquisition price
Beiren Group Corporation	1,162,559.09	Within 1 year	Trademark usage fee
Beiren Group Corporation	113,788.28	Within 1 year	Rent
Land remise fund payable	9,330,922.61	2 to 3 years	Remise price payable
Total	<u>22,972,303.12</u>	—	—

Note 1: The payable to Beiren Group Corporation is the payment for the merge with No.4 Print Machine Factory which belongs to Beiren Group Corporation.

24. Other current liabilities

Item	31 Jul 2012	31 Dec 2011
Interest discount of advanced flexo printing machine technology transformation project	115,673.98	115,673.98
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	84,526.58	84,526.58
Relocation compensation	656,815.99	656,815.99
Estimated compensation loss	1,900,000.00	0.00
Other accrued expenses	<u>3,146,981.13</u>	<u>1,400,000.00</u>
Total	<u>5,903,997.68</u>	<u>2,257,016.55</u>

(Table continued)

Item	31 Dec 2010	31 Dec 2009
Interest discount of advanced flexo printing machine technology transformation project	115,673.98	0.00
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	84,526.58	0.00
Relocation compensation	656,816.01	0.00
Other accrued expenses	<u>1,049,600.00</u>	<u>1,149,600.00</u>
Total	<u>1,906,616.57</u>	<u>1,149,600.00</u>

Other current liabilities accounts for government subsidy acquired in previous years relating to assets.

25. Long-term loan

(1) Long-term loan category

Loan category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Guaranteed loan	0.00	0.00	18,000,000.00	24,000,000.00

The long-term loans at the year end of 2010 and 2009 are the fixed assets loans of the Company's subsidiary Shaanxi Beiren for the purpose of technology reform of advanced packing print machine, which was guaranteed by Shaanxi Xinda Real Estate Development Co., Ltd., with a term of five years.

(2) Long-term loan at year end

Lending entity	Starting Date	Maturity Date	Currency	Rate(%)	Amount at the year end		Amount at the beginning of the year	
					Foreign currency amount	RMB amount	Foreign currency amount	RMB amount
Agricultural Bank of China Weinan branch	23 Jan 2007	22 Jan 2012	RMB	Floating rate	0.00	24,000,000.00	0.00	27,000,000.00

26. Specific payables

Item	31 Dec 2011	Increase	Decrease	31 Jul 2012	Notes
Medium newspaper printing machine core unit technology and half-way commercial product	4,751,414.58	76,827.36	0.00	4,828,241.94	Note 1
Folio single paper print machine series with multiple colours – new style 1050	5,230,314.97	109,267.34	0.00	5,339,582.31	Note 2
Digital single piece of paper split polychrome offset machine product	5,091,683.83	222,028.56	0.00	5,313,712.39	Note 3
Digital single piece of paper split polychrome offset machine industry project	10,900,000.00	0.00	0.00	10,900,000.00	Note 4
Wide satellite super-speed flexible printing machine industry project	3,185,652.30	0.00	42,275.00	3,143,377.30	Note 5
Relocation compensation	2,526,102.37	0.00	1,402,196.81	1,123,905.56	Note 6
Experts working station	0.00	728,000.00	308,755.43	419,244.57	Note 7
Total	31,685,168.05	1,136,123.26	1,753,227.24	31,068,064.07	–

Note 1: The Company and its ultimate controller Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. has signed “national capital holding strategy product and the technical research and development project funds support contract” on 17 December 2008. A financial support of RMB5,000,000 has been injected into the medium newspaper printing machine core unit technology and half-way commercial product project. The Company in, will return the fund to the national capital holding on 30 November 2011 and 30 November 2012 with the amount of RMB1,500,000 and RMB3,500,000 respectively. In order to manifest the time value for the current market, the total amount of current value from different phases is used to recognize the book value of the Account payable for special Item. Loan datum interest rate of 3 year time (5.4%) and 5 year time (5.76%) are used as discount rate. It has not been returned within the period. Interest expense calculated on actual interest rate basis is recognized as financial expense this period.

Note 2: The Company and Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. has signed “national capital holding strategy product and the technical research and development project funds support contract” on 24 June 2009. A financial support of RMB5,500,000 has been injected into this company to the development of folio single paper print machine series with multiple colors new styles 1050. The Company in, will return the fund to the national capital holding on 30 November 2011 and 30 November 2012 with the amount of RMB1,650,000 and RMB3,850,000 respectively. In order to manifest the time value for the current market, the total amount of current value from different phases is used to recognize the book value of the Account payable for special Item. It has not been returned within the period. Loan datum interest rate of 3 year time (5.4%) is used as discount rate. Interest expense calculated

on actual interest rate basis is recognized as financial expense this period. It has not been returned within the period. Interest expense calculated on actual interest rate basis is recognized as financial expense this period.

- Note 3: The Company and Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd. has signed “national capital holding strategy product and the technical research and development project funds support contract” on 22 December 2011. A financial support of RMB6,500,000 has been given to this company to carry on the development of folio single paper print machine series with multiple colors-new styles 1050. The Company in, will return the fund to the national capital holding on 1 December 2014 and 1 December 2015 with the amount of RMB1,950,000 and RMB4,550,000 respectively. In order to manifest the time value for the current market, the total amount of current value from different phases is used to recognize the book value of the Account payable for special Item. Loan datum interest rate of 3 year time (6.65%) and 4 year time (6.90%) are used as discount rate. It has not been returned within the period. Interest expense calculated on actual interest rate basis is recognized as financial expense this period.
- Note 4: According to Beijing eco-tech Open Economic Zone department of finance JK CJ (2011) No. 86, JCJE (2011) No. 362 and government investment plan 2011 of Beijing Municipality, subsidy digital single piece of paper split polychrome offset machine industry project for RMB10,900,000.
- Note 5: According to “The Adjustment Of Industry structure project investment plan within the budget in 2010” the subsidiary of the Company, Shaanxi Beiren Printing Machinery Company Limited received RMB3,300,000 in the Wide satellite super-speed flexible printing machine industry project.
- Note 6: During 2010, the Company transferred real estate which located at Fatou Factory area to its parent company, Beiren Group Corporation; hence Beiren Fuji relocated its production area into factory area of the Company and the Beiren Group issued RMB10,746,900 payments to Beiren Fuji as relocations compensations. As at 31 July 2012, there is a RMB1,123,905.56 balance has not been paid.
- Note 7: The subsidiary of the Company, Shaanxi Beiren Printing Machinery Company Limited received RMB728,000 from the administration committee of Shannxi Province, Weinan Hi-tech zone for the constanction of experts working station in 2012.

(Table continued)

Item	31 Dec 2010	Increase for the year	Decrease for the year	31 Dec 2011	Note
Medium newspaper printing machine core unit technology and half-way commercial product	4,575,809.19	175,605.39	0.00	4,751,414.58	-
Folio single paper print machine series with multiple colours – new style 1050	5,042,999.52	187,315.45	0.00	5,230,314.97	-
Digital single piece of paper split polychrome offset machine product	0.00	5,091,683.83	0.00	5,091,683.83	-
Digital single piece of paper split polychrome offset machine industry project	0.00	10,900,000.00	0.00	10,900,000.00	-
Wide satellite super-speed flexible printing machine industry project	0.00	3,300,000.00	114,347.70	3,185,652.30	-
Relocation compensation	6,085,719.88	0.00	3,559,617.51	2,526,102.37	-
Total	15,704,528.59	19,654,604.67	3,673,965.21	31,685,168.05	-

(Table continued)

Item	31 Dec 2009	Increase for the year	Decrease for the year	31 Dec 2010	Note
Medium newspaper printing machine core unit technology and half-way commercial product	4,327,223.76	248,585.43	0.00	4,575,809.19	–
Folio single paper print machine series with multiple colours – new style 1050	4,773,314.47	269,685.05	0.00	5,042,999.52	–
Relocation compensation	0.00	10,746,900.00	4,661,180.12	6,085,719.88	–
Total	<u>9,100,538.23</u>	<u>11,265,170.48</u>	<u>4,661,180.12</u>	<u>15,704,528.59</u>	–

(Table continued)

Item	31 Dec 2008	Increase for the year	Decrease for the year	31 Dec 2009	Note
Medium newspaper printing machine core unit technology and half-way commercial product	4,078,638.33	248,585.43	0.00	4,327,223.76	–
Folio single paper print machine series with multiple colours – new style 1050	0.00	4,773,314.47	0.00	4,773,314.47	–
Total	<u>4,078,638.33</u>	<u>5,021,899.90</u>	<u>0.00</u>	<u>9,100,538.23</u>	–

27. Estimated liabilities

Item	31 Dec 2011	Increase	Carry Forward	31 Jul 2012
Employee Compensation	567,607.38	0.00	24,172.66	543,434.72

The Company estimated employee injury compensation in comply with the court judgment. The decrease is the payment which is the optimum estimated number confirmed by discounting future cash flow out.

(Table continued)

Item	31 Dec 2010	Increase	Carry Forward	31 Dec 2011
Employee Compensation	592,807.38	0.00	25,200.00	567,607.38

The Company estimated employee injury compensation in comply with the court judgment in 2010. The decrease is the payment which is the optimum estimated number confirmed by discounting future cash flow out.

(Table continued)

Item	31 Dec 2009	Increase	Carry Forward	31 Dec 2010
Employee Compensation	266,891.98	325,915.40	0.00	592,807.38

The Company estimated employee injury compensation in comply with the court judgment in this year. The increase is the payment which is the optimum estimated number confirmed by discounting future cash flow out.

(Table continued)

Item	31 Dec 2008	Increase	Carry Forward	31 Dec 2009
Employee Compensation	266,891.98	0.00	0.00	266,891.98

28. Other non-current liabilities

Item	31 Jul 2012	31 Dec 2011
Interest discount of advanced flexo printing machine technology transformation project	395,219.44	462,695.93
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	204,272.56	253,579.73
Total	599,492.00	716,275.66
Item	31 Dec 2010	31 Dec 2009
Relocation compensation	656,815.99	1,970,448.01
Interest discount of advanced flexo printing machine technology transformation project	578,369.91	832,852.67
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	338,106.31	0.00
Total	1,573,292.21	2,803,300.68

(2) Government subsidy

At the end of July 2012

Category	Closing Balance			Return this year	Reason for return
	Those listed into other non-current liabilities	Those listed into other current liabilities	Those listed into current gain and loss		
Interest discount of advanced flexo printing machine technology transformation project	395,219.44	115,673.98	67,476.49	0.00	–
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	204,272.56	84,526.58	49,307.17	0.00	–
Total	599,492.00	200,200.56	116,783.66	0.00	–

At the end 2011

Category	Closing Balance			Return this year	Reason for return
	Those listed into other non-current liabilities	Those listed into other current liabilities	Those listed into current gain and loss		
Interest discount of advanced flexo printing machine technology transformation project	462,695.93	115,673.98	115,673.98	0.00	–
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	253,579.73	84,526.58	84,526.58	0.00	–
Total	716,275.66	200,200.56	200,200.56	0.00	–

At the end of 2010

Category	Closing Balance			Return this year	Reason for return
	Those listed into other non-current liabilities	Those listed into other current liabilities	Those listed into current gain and loss		
Interest discount of advanced flexo printing machine technology transformation project	578,369.91	115,673.98	138,808.78	0.00	-
Shaanxi Packaging & Printing Machinery Engineering Technology Research Centre	338,106.31	84,526.58	0.00	0.00	-
Total	916,476.22	200,200.56	138,808.78	0.00	-

At the end of 2009

(Table continued)

Category	Closing Balance			Return this year	Reason for return
	Those listed into other non-current liabilities	Those listed into other current liabilities	Those listed into current gain and loss		
Interest discount of advanced flexo printing machine technology transformation project	832,852.67	0.00	104,106.58	0.00	-

29. Share capital

Unit: RMB '000

Shareholder's Name/Regimentation	1 Jan 2009		Current changes accumulation					31 Dec 2009	
	Amount	Ratio (%)	Issue new stock	Gifts share	funds to equity	Others	Subtotal	Amount	Ratio (%)
Conditioning Stock	-	-	-	-	-	-	-	-	-
State-owned Holdings	180,440.00	42.76	0.00	0.00	0.00	-180,440.00	-180,440.00	0.00	0.00
Subtotal	180,440.00	42.76	0.00	0.00	0.00	-180,440.00	-180,440.00	0.00	0.00
Un-conditioning Stock	-	-	-	-	-	-	-	-	-
Common Stock (RMB)	141,560.00	33.55	0.00	0.00	0.00	180,440.00	180,440.00	322,000.00	76.31
Stock listed over-sea	100,000.00	23.69	0.00	0.00	0.00	0.00	0.00	100,000.00	23.69
Subtotal	241,560.00	57.24	0.00	0.00	0.00	180,440.00	180,440.00	422,000.00	100.00
Total	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00

Shareholder's Name/Regimentation	1 Jan 2010		Current changes accumulation					31 Dec 2010	
	Amount	Ratio (%)	Issue new stock	Gifts share	funds to equity	Others	Subtotal	Amount	Ratio (%)
Conditioning Stock	-	-	-	-	-	-	-	-	-
State-owned Holdings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Un-conditioning Stock	-	-	-	-	-	-	-	-	-
Common Stock (RMB)	322,000.00	76.30	0.00	0.00	0.00	0.00	0.00	322,000.00	76.30
Stock listed over-sea	100,000.00	23.70	0.00	0.00	0.00	0.00	0.00	100,000.00	23.70
Subtotal	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00
Total	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00

Beiren Group Corporation has sold 21,000,000 unconditioned tradable shares through Shanghai Stock Exchange Bulk Exchange Platform on 6 January 2010 and 7 January 2010, representing 4.98% of the total share capital of the Company. After this reduction, Beiren Group Corporation holds 201,640,000 unconditioned tradable shares of the Company, representing 47.78% of the total share capital of the Company. Beiren Group Corporation is still the major shareholder of the Company after the aforesaid reduction of shareholding.

Shareholder's Name/Regimentation	1 Jan 2011		Issue new stock	Gifts share	Current changes accumulation		Others	Subtotal	31 Dec 2011	
	Amount	Ratio (%)			funds to equity				Amount	Ratio (%)
Conditioning Stock	-	-	-	-	-	-	-	-	-	-
State-owned Holdings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Un-conditioning Stock	-	-	-	-	-	-	-	-	-	-
Common Stock (RMB)	322,000.00	76.30	0.00	0.00	0.00	0.00	0.00	0.00	322,000.00	76.30
Stock listed over-sea	100,000.00	23.70	0.00	0.00	0.00	0.00	0.00	0.00	100,000.00	23.70
Subtotal	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00
Total	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00

Shareholder's Name/Regimentation	1 Jan 2012		Issue new stock	Gifts share	Current changes accumulation		Others	Subtotal	31 Jul 2012	
	Amount	Ratio (%)			funds to equity				Amount	Ratio (%)
Conditioning Stock	-	-	-	-	-	-	-	-	-	-
State-owned Holdings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Un-conditioning Stock	-	-	-	-	-	-	-	-	-	-
Common Stock (RMB)	322,000.00	76.30	0.00	0.00	0.00	0.00	0.00	0.00	322,000.00	76.30
Stock listed over-sea	100,000.00	23.70	0.00	0.00	0.00	0.00	0.00	0.00	100,000.00	23.70
Subtotal	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00
Total	422,000.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	422,000.00	100.00

30. Capital reserve

Item	1 Jan 2009	Increase	Decrease	31 Dec 2009
Capital premium	517,305,478.93	0.00	0.00	517,305,478.93
Other capital reverse	5,714,792.13	0.00	0.00	5,714,792.13
Total	523,020,271.06	0.00	0.00	523,020,271.06

Item	1 Jan 2010	Increase	Decrease	31 Dec 2010
Capital premium	517,305,478.93	0.00	0.00	517,305,478.93
Other capital reverse	5,714,792.13	709,500.18	851,993.37	5,572,298.94
Total	523,020,271.06	709,500.18	851,993.37	522,877,777.87

Decrease of capital reserve in 2011 was due to disposal of subsidiary, Haimen Beiren Fuji Co., Ltd. which wrote off capital reserve confirmed according to equity method.

Item	1 Jan 2011	Increase	Decrease	31 Dec 2011
Capital premium	517,305,478.93	0.00	0.00	517,305,478.93
Other capital reverse	5,572,298.94	0.00	0.00	5,572,298.94
Total	522,877,777.87	0.00	0.00	522,877,777.87

Item	1 Jan 2012	Increase	Decrease	31 Jul 2012
Capital premium	517,305,478.93	0.00	39,714.24	517,265,764.69
Other capital reverse	5,572,298.94	0.00	0.00	5,572,298.94
Total	522,877,777.87	0.00	39,714.24	522,838,063.63

Decrease of capital reserve this period was due to the acquirers of 0.24% minority equity in our subsidiary, Beijing Beiren Jinyun Printing Machinery Co., Ltd.. The purchase price higher than the new shareholding ratio calculation should be entitled to a share of the identifiable net assets of subsidiaries counted since the merger day, corresponding offset the capital reserve.

31. Surplus reserve

Item	1 Jan 2009	Increase	Decrease	31 Dec 2009
Statutory surplus reserve	198,928,288.88	0.00	155,755,581.00	43,172,707.88

On 26 May 2009, based on the approval of AGM for the year 2008, RMB155,755,581.00 of the surplus reserve was used to cover the loss.

Item	1 Jan 2010	Increase	Decrease	31 Dec 2010
Statutory surplus reserve	43,172,707.88	0.00	0.00	43,172,707.88

Item	1 Jan 2011	Increase	Decrease	31 Dec 2011
Statutory surplus reserve	43,172,707.88	0.00	0.00	43,172,707.88

Item	1 Jan 2012	Increase	Decrease	31 Jul 2012
Statutory surplus reserve	43,172,707.88	0.00	0.00	43,172,707.88

32. Undistributed profits

(1) Ratio of distributed profits

Item	Basis	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Provision on statutory surplus fund	Net profit	0.00	0.00	0.00	0.00	0.00

(2) Breakdown of distributed profits

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
At beginning of period	-231,668,177.08	-243,051,077.92	-243,051,077.92	-265,330,459.45	-247,081,457.60
Add: net profit for the period/year	-47,244,464.23	-4,389,843.29	11,382,900.84	22,279,381.53	-174,004,582.85
Loss covered by surplus reserve	0.00	0.00	0.00	0.00	155,755,581.00
Less: provision on statutory surplus fund	0.00	0.00	0.00	0.00	0.00
provision on arbitrary surplus fund	0.00	0.00	0.00	0.00	0.00
distribution of ordinary share's dividend	0.00	0.00	0.00	0.00	0.00
transferred to share capital	0.00	0.00	0.00	0.00	0.00
At end of period	-278,912,641.31	-247,440,921.21	-231,668,177.08	-243,051,077.92	-265,330,459.45

33. Minority interest

Name of Subsidiary	Proportion of Minority Interest (%)	31 Dec 2010	31 Dec 2009
Haimen Beiren	0.00	0.00	1,505,732.03
Beiren Fuji	30.00	7,251,866.64	11,086,858.68
Beiren Jingyan	0.24	19,384.75	30,903.95
Beiren Yuxin	31.34	0.00	18,530.14
Shaanxi Beiren	13.76	8,842,163.05	7,804,408.53
Beiren Yixin	0.00	0.00	0.00
Total	—	16,113,414.44	20,446,433.33

Name of Subsidiary	Proportion of Minority Interest (%)	31 Jul 2012	31 Jul 2011	31 Dec 2011
Beiren Fuji	30.00	7,487,337.75	7,487,337.75	7,865,054.51
Beiren Jingyan	0.00	0.00	15,637.14	14,022.85
Shaanxi Beiren	13.76	9,565,877.2	9,963,512.99	10,481,284.56
Total	—	17,053,214.95	17,957,616.90	18,360,361.92

34. Operating income and operating costs

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Main operating income	423,666,394.55	452,894,467.29	784,850,138.73	805,587,594.10	753,349,102.31
Other operating income	7,932,620.59	11,987,021.18	19,023,787.84	15,770,125.59	14,319,484.95
Total	431,599,015.14	464,881,488.47	803,873,926.57	821,357,719.69	767,668,587.26
Main operating costs	348,391,487.84	359,734,367.03	634,798,440.59	668,504,304.28	691,212,985.75
Other operating costs	2,080,624.28	3,084,205.36	5,376,341.12	7,259,034.63	5,363,021.01
Total	350,472,112.12	362,818,572.39	640,174,781.71	675,763,338.91	696,576,006.76

(1) Main operating income and costs (classified by products)

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Main operating income	—	—	—	—	—
Sales of hectograph machine	201,914,156.95	189,391,086.33	327,543,008.42	431,053,389.36	448,572,601.58
Sales of intaglio printing machine	187,172,945.54	204,674,966.69	363,587,203.39	299,370,754.59	233,438,692.09
Sales of form machinery	26,229,567.31	34,747,863.24	62,445,299.14	44,799,531.00	26,685,627.24
Sales of spares parts	7,736,175.50	16,157,864.22	22,937,152.71	26,471,764.45	18,813,818.92
others	613,549.25	7,922,686.81	8,337,475.07	3,892,154.70	25,838,362.48
Total	<u>423,666,394.55</u>	<u>452,894,467.29</u>	<u>784,850,138.73</u>	<u>805,587,594.10</u>	<u>753,349,102.31</u>
Main operating costs	—	—	—	—	—
Sales of hectograph machine	175,322,726.53	152,976,225.97	275,915,772.60	378,251,455.31	425,499,245.67
Sales of intaglio printing machine	145,601,912.18	156,376,598.18	282,445,229.50	226,786,556.05	191,016,579.67
Sales of form machinery	21,312,256.92	29,066,459.60	52,090,730.64	40,306,447.44	25,344,804.67
Sales of spares parts	5,335,964.40	13,363,891.92	17,743,461.15	20,200,475.04	24,164,218.72
others	818,627.81	7,951,191.36	6,603,246.70	2,959,370.44	25,188,137.02
Total	<u>348,391,487.84</u>	<u>359,734,367.03</u>	<u>634,798,440.59</u>	<u>668,504,304.28</u>	<u>691,212,985.75</u>

(2) The total sales income from the Group's top 5 clients are RMB52,141,880.35, RMB55,472,408.87, RMB98,426,495.73, RMB91,294,780.31 and RMB78,982,051.28 in January to July 2012, January to July 2011, 2011, 2010 and 2009 respectively, accounted 12.08%, 11.93%, 12.54%, 11.11% and 10.48% of the total sales income of the year respectively.

35. Business tax

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Business tax	537,761.38	1,037,092.01	2,860,469.24	603,620.86	586,825.36
Urban maintenance and construction tax	1,403,599.12	1,188,149.08	2,059,781.78	3,301,183.34	3,348,613.39
Educational surcharge	806,747.39	509,206.73	1,030,245.72	1,416,299.43	1,459,700.67
Real estate tax	33,541.95	33,541.95	67,083.89	193,587.99	393,308.36
Land use fee	0.00	0.00	0.00	49,500.00	99,000.00
Total	<u>2,781,649.84</u>	<u>2,767,989.77</u>	<u>6,017,580.63</u>	<u>5,564,191.62</u>	<u>5,887,447.78</u>

36. Sales expenses

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Salary	10,690,499.92	10,397,015.17	16,704,486.88	17,208,510.62	18,134,893.51
Exhibition fee	2,807,741.11	1,992,888.34	3,034,457.52	4,217,101.85	3,678,019.09
Travelling fee	3,278,732.87	2,763,299.78	5,350,125.63	5,251,933.04	4,924,103.25
Staff going abroad fee	135,356.00	131,091.73	144,492.02	608,632.41	1,321,210.28
Entertainment expenses	1,522,051.17	1,210,811.53	2,123,306.36	2,560,565.75	2,775,980.68
Transportation and commissioning fee	6,423,115.80	4,186,957.46	11,000,046.80	12,764,938.12	12,504,236.92
Office and administrative fee	2,657,957.43	2,516,668.48	4,358,102.02	4,076,347.22	1,390,595.99
Commissions	4,244,321.68	4,144,733.69	7,835,974.69	17,941,169.57	9,690,607.57
Warranty maintenance cost	3,927,283.07	4,655,837.60	9,085,854.95	8,376,547.88	4,690,011.96
Technical services fee	3,278,877.26	0.00	0.00	0.00	0.00
Others	530,957.62	82,822.87	347,083.15	3,228,719.87	3,743,514.54
Total	<u>39,496,893.93</u>	<u>32,082,126.65</u>	<u>59,983,930.02</u>	<u>76,234,466.33</u>	<u>62,853,173.79</u>

37. Administration expenses

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Salary	26,274,492.81	22,167,022.19	44,386,569.90	45,671,738.71	46,078,255.63
Depreciation	5,447,617.88	6,514,677.53	10,849,279.46	12,790,104.36	13,958,854.98
Office and administrative fee	6,298,718.35	5,904,976.61	10,119,645.31	11,114,195.01	9,345,425.40
Amortisation of intangible assets	1,234,651.81	1,357,800.08	2,834,209.43	3,280,349.39	2,963,785.74
Entertainment and meetings fee	1,744,325.73	2,301,836.84	3,555,143.22	7,557,579.46	4,847,190.96
Tax expense	4,694,179.35	4,926,683.38	8,594,034.34	7,523,193.27	8,371,763.40
Agency fee	4,660,836.10	1,330,643.74	4,081,006.80	6,066,886.81	4,669,599.99
Research and development fee	8,789,127.30	6,998,700.30	18,095,333.88	24,317,416.63	35,321,429.95
Trademark usage fee	1,579,413.70	1,795,622.87	3,372,149.51	4,146,453.94	3,802,754.55
Allowance	0.00	0.00	257,834.31	272,111.93	2,190,684.94
Abandon loss	0.00	0.00	0.00	9,008,522.48	0.00
Others	2,368,316.97	1,607,510.57	2,872,258.92	3,069,071.09	6,108,107.60
Total	<u>63,091,680.00</u>	<u>54,905,474.11</u>	<u>109,017,465.08</u>	<u>134,817,623.08</u>	<u>137,657,853.14</u>

38. Financial expenses

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Interest payment	7,835,688.19	5,621,307.40	10,718,000.05	18,022,224.89	20,388,548.77
less: Interest income	417,691.15	461,180.35	867,005.58	773,251.36	446,758.37
Add: exchange loss	121,500.79	9,568.11	-56,760.49	-243,969.09	11,961.41
Add: other payment	522,181.52	478,114.59	-1,856,683.68	1,038,289.64	1,366,691.14
Total	<u>8,061,679.35</u>	<u>5,647,809.75</u>	<u>7,937,550.30</u>	<u>18,043,294.08</u>	<u>21,320,442.95</u>

39. Impairment loss of assets

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Bad debt loss	7,396,673.76	1,507,114.80	1,559,117.92	16,640,806.92	1,875,031.01
Impairment loss on inventory	10,413,919.51	8,225,566.06	8,825,806.00	57,468,651.99	33,057,545.55
Impairment loss on fixed assets	0.00	0.00	0.00	0.00	290,071.82
Total	<u>17,810,593.27</u>	<u>9,732,680.86</u>	<u>10,384,923.92</u>	<u>74,109,458.91</u>	<u>35,222,648.38</u>

40. Investment income**(1) Resources of investment income**

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Equity method of accounting for long-term equity investment income	-260,261.42	47,397.88	206,880.50	466,489.04	622,102.42
Investment income of disposal of long-term equity investment	0.00	0.00	0.00	172,039,266.78	630,814.67
Total	<u>-260,261.42</u>	<u>47,397.88</u>	<u>206,880.50</u>	<u>172,505,755.82</u>	<u>1,252,917.09</u>

There is no significant limit for the remittance back of investment income of the Company.

(2) *Equity method of accounting for long-term equity investment income*

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Total	-260,261.42	47,397.88	206,880.50	466,489.04	622,102.42
Including:	—	—	—	—	—
Beijing Beiyong Casting Company Limited	-269,525.25	35,988.38	192,796.22	387,862.90	537,781.17
Beijing Monigraf Automations Co., Ltd.	9,263.83	11,409.50	14,084.28	78,626.14	84,321.25
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	0.00	0.00	0.00	0.00	0.00

41. **Non-operating income**(1) *Non-Operating Income*

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Gains from non-current capital disposal	0.00	4,350.00	16,142,272.05	4,776,650.21	1,301,276.10
Among which: Gains from fixed assets	0.00	4,350.00	16,142,272.05	4,776,650.21	1,301,276.10
Gain of debt restructure	0.00	96,281.69	96,281.69	1,583,495.15	22,577.81
Government subsidy	4,581,883.66	65,024.50	2,615,267.06	9,675,745.75	8,435,792.39
Other	69,705.08	1,712,119.64	25,548,454.83	730,394.55	2,018,802.02
Total	4,651,588.74	1,877,775.83	44,402,275.63	16,766,285.66	11,778,448.32

(2) *Government Subsidies*

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Bonus for Hi-tech enterprise technology innovation in Weinun	4,415,100.00	0.00	0.00	0.00	0.00
SME development and management supporting fund from Weinun Finance Bureau	50,000.00	0.00	0.00	0.00	0.00
Medium and small enterprise development fund in Weinan	0.00	0.00	1,000,000.00	0.00	0.00
Shannxi province finance department technology research and development funds 2010	0.00	0.00	750,000.00	0.00	0.00
Enterprise technology innovation and creation of famous brand in 2010	0.00	0.00	500,000.00	0.00	0.00
Interest discount of advanced printing machine technology transformation project	67,476.49	0.00	115,673.98	138,808.78	104,106.58
Weinan International market development funds	0.00	0.00	90,042.00	0.00	0.00
Shaanxi Packaging & Printing Machinery Engineering Technical Research Centre	49,307.17	0.00	84,526.58	0.00	0.00
Subsidy for pay tax corporations 2010	0.00	50,000.00	50,000.00	0.00	0.00
Unemployment subsidy	0.00	0.00	0.00	1,336,620.00	0.00
Shaanxi Beiren concave cigarette sectional online technique transform project	0.00	0.00	0.00	550,000.00	0.00
SME development funds	0.00	0.00	0.00	122,000.00	0.00
Patent application subsidy	0.00	0.00	0.00	8,000.00	0.00
Subsidy for rural migrant workers	0.00	4,024.50	4,024.50	4,024.50	0.00
Subsidy for disable workers	0.00	0.00	10,000.00	0.00	0.00
Stable employment career subsidy and social insurance subsidy	0.00	0.00	0.00	402,714.81	3,663,038.00
Subsidy for disable workers	0.00	11,000.00	11,000.00	0.00	0.00
Subsidy for Stable employment	0.00	0.00	0.00	116,832.83	0.00

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Subsidy for Stable employment	0.00	0.00	0.00	155,777.10	0.00
Subsidy for disposal of yellow-labelled vehicle	0.00	0.00	0.00	5,000.00	0.00
Employment subsidy endowed by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	0.00	0.00	0.00	703,001.06	0.00
Employment subsidy endowed by Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	0.00	0.00	0.00	1,336,097.31	0.00
The 2nd deficit enterprise subsidy from Beijing Economic Technology Development Zone Social Insurance Fund Management Center	0.00	0.00	0.00	2,331,907.82	0.00
The 2nd and 3rd deficit enterprise subsidy from Beijing Economic Technology Development Zone Social Insurance Fund Management Center	0.00	0.00	0.00	3,708,800.88	0.00
Refund of Beijing Economic Technology Development Zone Social Insurance Fund Management Center	0.00	0.00	0.00	-1,390,316.34	0.00
Subsidy from Beijing Commerce Committee	0.00	0.00	0.00	64,031.00	0.00
Subsidy from Beijing Commerce Committee	0.00	0.00	0.00	82,446.00	0.00
Development of TAZJ series gravure printing set	0.00	0.00	0.00	0.00	600,000.00
Government subsidy of Settling Center of Beijing Economy technology development zone	0.00	0.00	0.00	0.00	50,000.00
Insurance subsidy of Beijing Hightechnology Creation Service Center	0.00	0.00	0.00	0.00	285,000.00
Government subsidy for loan interest of Government of Beijing Economy technology development zone	0.00	0.00	0.00	0.00	130,000.00
Government subsidy of Department of Finance of Beijing Economy technology development zone	0.00	0.00	0.00	0.00	50,000.00
Critical technology and equipment of digital and intellectual print machine	0.00	0.00	0.00	0.00	410,000.00
AZJ80820A advanced print machine set for cigarette package	0.00	0.00	0.00	0.00	500,000.00
Research and development of applicable technology	0.00	0.00	0.00	0.00	100,000.00
Research and development of hot wind system of intaglio printing machine	0.00	0.00	0.00	0.00	50,000.00
Enterprise technology innovation and creation of famous brand in 2009	0.00	0.00	0.00	0.00	50,000.00
Shaanxi provincial research center of packing print machine technology	0.00	0.00	0.00	0.00	516,606.84
Income from unemployment subsidies	0.00	0.00	0.00	0.00	500,640.00
Government subsidy for loan interest of Shaanxi Provincial Department of Finance	0.00	0.00	0.00	0.00	850,000.00
Employment and social insurance subsidy	0.00	0.00	0.00	0.00	443,774.42
Subsidies for social insurance	0.00	0.00	0.00	0.00	119,626.55
Yellow-label vehicles from Department of Finance	0.00	0.00	0.00	0.00	13,000.00
Total	<u>4,581,883.66</u>	<u>65,024.50</u>	<u>2,615,267.06</u>	<u>9,675,745.75</u>	<u>8,435,792.39</u>

42. Non-operating expenses

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Loss from non-currency asset disposal	999,713.01	1,181,196.28	1,183,716.93	496,899.73	536,582.61
Among which: Loss from fixed assets	799,992.16	1,181,196.28	1,183,716.93	496,899.73	536,582.61
Loss compensation	1,900,000.00	0.00	0.00	325,915.40	0.00
others	<u>52,890.37</u>	<u>73,052.99</u>	<u>123,285.57</u>	<u>304,995.70</u>	<u>635,708.53</u>
Total	<u>2,952,603.38</u>	<u>1,254,249.27</u>	<u>1,307,002.50</u>	<u>1,127,810.83</u>	<u>1,172,291.14</u>

43. Income tax expense

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Income tax for current year	0.00	0.00	0.00	0.00	-883,911.37
Deferred tax expenses	-135,543.99	143,400.21	30,000.22	5,499,059.02	411,627.83
Total	<u>-135,543.99</u>	<u>143,400.21</u>	<u>30,000.22</u>	<u>5,499,059.02</u>	<u>-472,283.54</u>

44. Cash flow**(1) Received/paid cash relevant with the activities of other management/investment/financing**

1) Other cash received related to operation activity

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Relocation compensation expenses	0.00	0.00	0.00	10,746,900.00	0.00
Transfer of non-patent technology	0.00	0.00	0.00	2,180,100.00	0.00
Compensation from Beiren Group Corporation for loss of stoppage Subsidies	0.00	0.00	21,845,774.00	0.00	0.00
Project funding	728,000.00	15,068,024.50	20,810,800.00	0.00	0.00
Government subsidy	4,465,100.00	0.00	2,286,666.50	9,505,635.97	8,050,618.97
Guarantee payment	5,274,602.69	1,402,000.00	5,304,092.44	1,540,000.00	1,837,900.00
Payment refunds	1,031,030.45	2,257,951.99	2,976,738.47	7,128,239.59	918,127.26
Receive social insurances from social insurance bureau	327,226.49	481,201.17	1,335,238.58	858,691.43	892,915.16
Maintain fees	0.00	0.00	901,347.59	0.00	0.00
Interest income	417,691.15	461,180.35	867,005.58	648,996.92	446,758.37
Lease expense	0.00	0.00	773,181.70	0.00	0.00
Research issue fees	0.00	0.00	230,000.00	0.00	0.00
Sales of materials and disposal of old and obsolete materials	0.00	128,241.10	235,085.06	481,808.50	684,117.10
Others	<u>52,170.70</u>	<u>564,513.51</u>	<u>602,284.06</u>	<u>394,841.00</u>	<u>1,988,840.63</u>
Total	<u>12,295,821.48</u>	<u>20,363,112.62</u>	<u>58,168,213.98</u>	<u>33,485,213.41</u>	<u>14,819,277.49</u>

2) Other cash payment related to operation activity

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Office, conference and travelling fee	10,190,860.74	5,642,629.09	16,876,603.18	11,003,924.99	5,761,847.92
Transportation, installation and commissioning fee	11,669,951.47	3,833,284.48	17,460,877.09	6,977,795.15	6,527,941.30
Expenses for personnel resigned or retired	2,325,189.37	0.00	0.00	0.00	0.00
Relocation expenses	0.00	981,926.00	0.00	2,539,918.50	0.00
Trademark usage fee	1,579,413.70	2,923,850.55	4,619,469.07	4,125,903.86	1,652,829.61
Agency fee	2,283,438.57	2,493,295.15	3,693,146.75	3,011,667.18	2,653,071.87
Advertising and exhibition fee	3,105,681.93	1,365,741.60	2,275,584.98	2,728,771.86	1,847,900.10
Accrued claim for products	6,523,964.27	1,096,330.23	0.00	2,693,795.64	1,794,449.59
Transportation fee	1,854,542.97	1,523,082.89	0.00	2,056,399.72	1,451,219.97
Entertainment fee	2,391,776.84	1,329,356.13	0.00	2,000,754.99	2,833,489.26
Sales commission	2,975,306.23	1,292,640.00	0.00	1,970,700.00	3,451,360.12
Bidding guarantee	0.00	3,098,237.22	5,853,474.44	1,070,672.50	0.00
Land use right fee	0.00	0.00	0.00	850,000.00	850,000.00
Information technology fee	335,069.60	0.00	0.00	821,448.26	754,126.20
Maintenance fee	649,433.57	0.00	0.00	700,354.78	0.00
Others	4,041,465.31	5,465,501.88	3,636,081.42	1,883,723.75	1,148,326.20
Total	<u>49,926,094.57</u>	<u>31,045,875.22</u>	<u>54,415,236.93</u>	<u>44,435,831.18</u>	<u>30,726,562.14</u>

3) Cash paid related to other funding raising activity

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Agency fee for equity payment	0.00	0.00	0.00	872,485.07	0.00

4) Cash received related to other funding raising activity

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Loan from Beiren Group	8,000,000.00	0.00	0.00	0.00	0.00

5) Cash paid related to other funding raising activity

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Expense for financing from commercial bank	0.00	93,800.00	137,800.00	793,488.63	763,662.60
Bank acceptance bill guarantee	1,711,809.87	4,744,938.72	5,274,602.69	8,537,623.16	7,287,683.47
Total	<u>1,711,809.87</u>	<u>4,838,738.72</u>	<u>5,412,402.69</u>	<u>9,331,111.79</u>	<u>8,051,346.07</u>

(2) Supplement information of consolidated cash flow statement

Item	Jan-Jul 2012	Jan-Jul 2011	2011
1. Cash flow from operating activities	—	—	—
Net profit	-48,541,325.44	-2,545,640.83	13,629,848.32
Add: Provision on the impairment of assets	17,810,593.27	9,732,680.86	10,384,923.92
Depreciation of fixed asset and amortization of investment properties	18,556,107.02	20,137,381.73	34,255,079.91
Amortization of intangible asset	1,449,612.43	1,572,760.60	2,487,609.62
Amortization of long-term prepaid expenses	0.00	0.00	0.00
Loss from disposal on fixed asset, intangible assets, and other long term asset (“-” if revenue)	999,713.01	1,176,846.28	-14,958,555.12
Loss of fixed asset disposal (“-” if revenue)	0.00	0.00	0.00
Gain or loss from changes in fair value (“-” if revenue)	0.00	0.00	0.00
Financial expenses (“-” if revenue)	7,835,688.19	5,621,307.40	10,718,000.05
Loss from investment (“-” if revenue)	260,261.42	-47,397.88	-206,880.50
Decrease in deferred tax assets (“-” if increase)	-135,543.99	143,400.21	30,000.22
Increase in deferred tax liability (“-” if decrease)	0.00	0.00	0.00
Decrease in inventory (“-” if increase)	-10,735,308.33	-36,222,985.05	-52,867,110.80
Decrease of account receivable (“-” if increase)	-60,816,439.44	11,877,757.86	43,776,798.77
Increase of account payable (“-” if decrease)	30,727,606.58	-39,589,755.79	-68,147,843.45
Others	0.00	0.00	0.00
Net cash flow from operating activity	-42,589,035.28	-28,143,644.61	-20,898,129.06
2. Cash flow from financing activity:			
Debts transferred into capital	0.00	0.00	0.00
Corporation debenture with maturity less than one year	0.00	0.00	0.00
Financing leased fixed asset	0.00	0.00	0.00
3. Changes in cash and cash equivalent)	—	—	—
Closing balance of cash	109,079,220.12	68,280,194.39	156,591,748.37
Less: opening balance of cash	156,591,748.37	110,505,385.35	110,505,385.35
Add: closing balance of cash equivalents	0.00	0.00	0.00
Less: opening balance of cash equivalents	0.00	0.00	0.00
Net increase in cash and cash equivalents	-47,512,528.25	-42,225,190.96	46,086,363.02

Item	2010	2009
1. Cash flow from operating activities	—	—
Net profit	19,470,518.39	-179,517,627.73
Add: Provision on the impairment of assets	74,109,458.91	35,222,648.38
Depreciation of fixed asset	37,067,343.03	45,452,068.14
Amortization of intangible asset	2,722,453.18	2,963,785.74
Amortization of long-term prepaid expenses	44,000.00	66,000.00
Loss from disposal on fixed asset, intangible assets, and other long term asset (“-” if revenue)	-4,279,750.48	-764,693.49
Loss of fixed asset disposal (“-” if revenue)	0.00	0.00
Gain or loss from changes in fair value (“-” if revenue)	0.00	0.00
Financial expenses (“-” if revenue)	18,022,224.89	20,388,548.77
Loss from investment (“-” if revenue)	-172,505,755.82	-1,252,917.09
Decrease in deferred tax assets (“-” if increase)	5,499,059.02	411,627.83
Increase in deferred tax liability (“-” if decrease)	0.00	0.00
Decrease in inventory (“-” if increase)	151,586,134.38	184,157,317.09
Decrease of account receivable (“-” if increase)	37,083,196.80	55,207,986.38
Increase of account payable (“-” if decrease)	-163,010,977.21	-41,675,149.42
Others	709,500.18	0.00
Net cash flow from operating activity	6,517,405.27	120,659,594.60
2. Cash flow from financing activity:	—	—
Debts transferred into capital	0.00	0.00
Corporation debenture with maturity less than one year	0.00	0.00
Financing leased fixed asset	0.00	0.00
3. Changes in cash and cash equivalent	—	—
Closing balance of cash	110,505,385.35	111,849,650.31
Less: opening balance of cash	111,849,650.31	66,503,301.13
Add: closing balance of cash equivalents	0.00	0.00
Less: opening balance of cash equivalents	0.00	0.00
Net increase in cash and cash equivalents	-1,344,264.96	45,346,349.18

(3) *Relevant information of current disposed subsidiaries and other business units*

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Relevant information of disposed subsidiaries and other business units	—	—	—	—	—
1. Price of disposed subsidiary and other business units	0.00	0.00	0.00	199,849,670.99	50,000.00
2. Disposal of subsidiaries and other business units received in cash and cash equivalents	0.00	0.00	0.00	199,849,670.99	50,000.00
Less: subsidiaries and other business units held cash and cash equivalents	0.00	0.00	0.00	6,109,588.91	0.00
3. Net cash receipts from disposal of subsidiaries and other business units	0.00	0.00	0.00	193,740,082.08	50,000.00
4. Disposal of subsidiaries' net asset	0.00	0.00	0.00	32,791,218.08	-580,814.67
Current assets	0.00	0.00	0.00	76,409,077.07	7,282,122.49
Non-current assets	0.00	0.00	0.00	45,678,989.57	2,272,754.64
Current liabilities	0.00	0.00	0.00	89,296,848.56	10,135,691.80
Non-current liabilities	0.00	0.00	0.00	0.00	0.00

(4) Cash and cash equivalents

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Cash	109,079,220.12	68,280,194.39	156,591,748.37	110,505,385.35	111,849,650.31
Including: cash on hand	239,443.84	11,873.75	10,449.33	9,019.13	20,238.66
Bank deposit available to make payments	108,839,776.28	68,268,320.64	156,581,299.04	110,496,366.22	111,829,411.65
Cash equivalents	0.00	0.00	0.00	0.00	0.00
Closing balance of cash and cash equivalents	109,079,220.12	68,280,194.39	156,591,748.37	110,505,385.35	111,849,650.31
Including: Restricted cash and cash equivalent for parent Company or subsidiary inside the Group	0.00	0.00	0.00	0.00	0.00

VIII. 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
Beiren Corporation Group	Whole people owned	44# Guangqu Venue Chaoyang District Beijing	Sales and manufacture of printing machinery, packaging machinery, series products of machine tool and components, technology development, technology advisory etc.	Zhang Peiwu	10110132-9
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	Unique State-owned	59# Zhong Venue Dongsanhuan Chaoyang District Beijing	Operation and management of authorised State capital: property right (stock right) operation; financing and investing money from foreign countries.	Ren Yaguang	633686217

2) Registered capital (RMB0,000) of the parent company and changes

Name	1 Jan 2012	Increase	Decrease	31 Jul 2012
Beiren Corporation Group	17,126.70	0.00	0.00	17,126.70
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	163,454.55	0.00	0.00	163,454.55

3) Shareholding of parent company and changes

Name	Amount of Shareholding		Percentage of Shareholding (%)	
	31 Jul 2012	1 Jan 2012	31 Jul 2012	1 Jan 2012
Beiren Group Corporation	20,162.00	20,162.00	47.78	47.78

(2) *Subsidiaries*1) *Subsidiaries*

Name	Nature	Registration Location	Operating Scope	Legal person	Organisation number
Shaanxi Beiren Printing Machinery Company Limited	Limited Liability company	Weinan City, Shaanxi Province	Manufacture, sale and maintain printing machines, packing machines, engineering machines and electrical equipments and relevant fittings, manufacture and sale typesetting machines and printing machines	Zhang Peiwu	709915814
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Chaoyang District, Beijing City	Manufacture printing machines, sale self-manufactured products	Zhang Peiwu	600040954
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	Limited liability company	Yanqing Country, Beijing City	Manufacture printing machines and relevant components provide relevant technical consulting services	Kong Dagang	103047696

2) *Registered capital of subsidiaries and changes*

Name	1 Jan 2010	Increase	Decrease	31 Dec 2010
Shanxi Beiren Printing Machinery Co., Ltd.	115,000,000.00	0.00	0.00	115,000,000.00
Beijing Beiren Fuji Printing Machinery Co., Ltd.	42,328,060.26	0.00	0.00	42,328,060.26
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	21,050,000.00	0.00	0.00	21,050,000.00
Name	1 Jan 2011	Increase	Decrease	31 Dec 2011
Shanxi Beiren Printing Machinery Co., Ltd.	115,000,000.00	0.00	0.00	115,000,000.00
Beijing Beiren Fuji Printing Machinery Co., Ltd.	42,328,060.26	0.00	0.00	42,328,060.26
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	21,050,000.00	0.00	0.00	21,050,000.00
Name	1 Jan 2012	Increase	Decrease	31 Jul 2012
Shanxi Beiren Printing Machinery Co., Ltd.	115,000,000.00	0.00	0.00	115,000,000.00
Beijing Beiren Fuji Printing Machinery Co., Ltd.	42,328,060.26	0.00	0.00	42,328,060.26
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	21,050,000.00	0.00	0.00	21,050,000.00

3) *Percentage Shareholding in subsidiaries and changes*

Name	Amount of Shareholding		Percentage of Shareholding (%)	
	31 Jul 2012	31 Dec 2011	31 Jul 2012	31 Dec 2011
Shanxi Beiren Printing Machinery Co., Ltd.	99,180,000.00	99,180,000.00	86.24	86.24
Beijing Beiren Fuji Printing Machinery Co., Ltd.	29,632,699.26	29,632,699.26	70.00	70.00
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	21,050,000.00	21,000,000.00	100.00	99.76

Name	Amount of Shareholding		Percentage of Shareholding (%)	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Shanxi Beiren Printing Machinery Co., Ltd.	99,180,000.00	99,180,000.00	86.24	86.24
Beijing Beiren Fuji Printing Machinery Co., Ltd.	29,632,699.26	29,632,699.26	70.00	70.00
Beijing Beiren Jinyan Printing Machinery Co., Ltd.	21,000,000.00	21,000,000.00	99.76	99.76

(3) *Associated companies*(1) *Associated companies*

Name	Nature	Registration Address	Operating Scope	Legal person	Registered capital (RMB0,000)	Percent of ownership (%)	Organisation number
Associated companies	–	–	–	–	–	–	–
Beijing Monigraf Automations Co. Ltd.	Sino-Foreign Equity Joint Venture Enterprise	Beijing city	The Research and development, design, manufacture, sale of the control system of printing ink within the printer, the sale of the printing facilities and printing material, and in connection with its own products' illustration, adjustment, maintenance, technology advisory and training.	Zhang Peiwu	1,500.00	49	600094442
Beijing Beiyong Casting Co. Ltd.	Limited Liability company	Beijing city	Processing and sale of standard and non-standard components, manufacture of casting, processing of model, technology development, transferring, advisory, service.	Chen Changge	568.00	20	802866623
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd	Sino-Foreign Equity Joint Venture Enterprise	Beijing city	Manufacture and sale of printing machinery, related technology advisory and service.	Kong Dagang	4,600.00	49	788602348

(4) Other related parties

Relationship	Name	Transaction	Organisation number
Under the same ultimate controlling parties	Haimen Beiren Printing Machinery Co., Ltd.	Goods sales	138335313
Under the same ultimate controlling parties	Beijing Jingcheng Industry Logistics	Goods purchase	101628956
Under the same ultimate controlling parties	Beijing Jingcheng Changye Construction Machinery Co., Ltd.	Site lease	58587627-7

2. Related-party transactions

(1) Purchase of goods or accepting service

Name	Jan-Jul 2012		Jan-Jul 2011		2011		2010		2009	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)
Parent company	-	-	-	-	-	-	-	-	-	-
Beiren Corporation Group	1,579,413.70	100.00	2,088,879.28	100.00	3,372,149.51	100.00	4,146,453.94	100.00	3,802,754.55	100.00
Beiren Corporation Group	24,606.04	0.01	40,349.64	0.06	40,349.64	0.03	0.00	0.00	929,059.83	0.75
Associates and joint ventures	-	-	-	-	-	-	-	-	-	-
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	0.00	0.00	0.00	0.00	2,649,572.64	2.21	2,832,527.06	1.89	3,023,705.85	2.43
Beijing Beiyong Casting Co. Ltd.	6,472,260.56	3.66	10,428,515.55	14.85	15,420,400.94	12.89	20,368,769.36	13.58	10,579,374.53	8.51
Beijing Monigraf Automations Co. Ltd.	3,685,247.83	2.08	11,592,016.83	16.61	14,452,580.64	12.08	11,522,473.14	7.68	8,143,899.16	6.55
Under the same parent company	-	-	-	-	-	-	-	-	-	-
Beijing Jingcheng Industry Logistics Co., Ltd.	16,721,476.60	9.46	1,901,622.65	2.71	16,732,427.11	13.98	0.00	0.00	0.00	0.00
Total	28,483,004.73	-	26,051,383.95	-	52,667,480.48	-	38,870,223.50	-	26,478,793.92	-

The pricing policy associated with related-party transactions is the agreement price.

(2) Sales of goods or receiving service

Name	Jan-Jul 2012		Jan-Jul 2011		2011		2010		2009	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)
Parent company	-	-	-	-	-	-	-	-	-	-
Beiren Corporation Group	0.00	0.00	0.00	0.00	0.00	0.00	230,615.33	0.01	0.00	0.00
Beiren Corporation Group	0.00	0.00	19,749.02	2.93	29,802.38	1.56	138,811.91	11.57	176,238.02	15.51
Associated companies	-	-	-	-	-	-	-	-	-	-
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co.	0.00	0.00	97,325.49	14.46	117,634.92	6.16	498,213.15	41.52	0.00	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co.	0.00	0.00	13,092,177.40	2.89	13,092,177.40	3.42	0.00	0.00	378,230.53	33.28
Beijing Monigraf Automations Co. Ltd.	10,645.19	1.37	12,317.13	1.83	20,216.50	1.06	0.00	0.00	0.00	0.00
Under the same parent company	-	-	-	-	-	-	-	-	-	-
Haimen Beiren Printing Machinery Co., Ltd.	0.00	0.00	917.08	0.00	917.08	0.00	0.00	0.00	0.00	0.00
Beijing Jingcheng Industry Logistics Co., Ltd.	0.00	0.00	6,443,187.38	1.42	6,443,187.38	28.09	0.00	0.00	0.00	0.00
Beijing Jingcheng Changye Construction Machinery Co., Ltd.	100,402.65	12.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	111,047.84	-	19,665,673.50	-	19,703,935.66	-	867,640.39	-	554,468.55	-

Pricing policies associated with Related-party transactions is the agreement price.

(3) Rental

Lessor	Lesser	Rental information	Start date	Expire date	Rental income	Basis of income	Impact of rental income
The Company	Beijing Beiying Casting Co. Ltd.	Land, housing	1 Jan 2012	31 Dec 2012	2,570,787.73	Agreement price	2,570,787.73
The Company	Beiren Group Corporation	housing	1 Jan 2012	31 Dec 2012	104,091.91	Agreement price	104,091.91
The Company	Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	housing	1 Feb 2012	31 Jul 2012	56,118.00	Agreement price	56,118.00
The Company	Beijing Jingcheng Industry Logistics	housing	1 Jun 2012	31 May 2013	17,885.00	Agreement price	17,885.00
The Company	Beijing Monigraf Automations Co. Ltd.	housing	1 Jan 2010	31 Dec 2019	58,719.50	Agreement price	58,719.50
The Company	Beijing Jingcheng Changye Construction Machinery Co., Ltd.	housing	1 Jan 2012	28 Feb 2013	1,803,590.10	Agreement price	1,803,590.10

(4) Lendings with related parties

Name of related party	Amount	Starting date	Expiration date	Note
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	30,000,000.00	13 Oct 2011	13 Apr 2012	-
Beiren Group Corporation	8,000,000.00	26 Jul 2012	26 Sep 2012	-

(5) *Entrust loans with related parties*

Name of related party	Amount	Starting date	Expiration date	Note
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	35,500,000.00	28 Feb 2012	28 Mar 2013	See VII.16
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	55,000,000.00	22 Mar 2012	21 Mar 2013	See VII.16
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	44,500,000.00	28 Mar 2012	28 Mar 2013	See VII.16
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	45,000,000.00	16 Sep 2011	16 Sep 2012	See VII.16
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	30,000,000.00	13 Apr 2012	12 Apr 2013	See VII.16

(6) *Key administration staff salary*

Items	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Key administration staff salary	1,645,386.22	2,564,297.76	4,081,775.76	1,759,185.46	2,629,177.37
Directors' emolument	125,730.00	90,350.00	299,135.00	315,000.00	541,060.00
Salaries and other benefits	1,447,565.10	2,420,458.40	3,689,707.00	1,370,392.90	1,996,411.93
Retirement benefits scheme contributions	72,091.12	53,489.36	92,933.76	73,792.56	91,705.44
Total	<u>1,645,386.22</u>	<u>2,564,297.76</u>	<u>4,081,775.76</u>	<u>1,759,185.46</u>	<u>2,629,177.37</u>

The emoluments of key administration staff are analysed as follows:

Name and post	Directors emolument	Jan-Jul 2012		Total emoluments
		Salaries and other benefits	Retirement benefits scheme contributions	
Executive directors:	—	—	—	—
Zhao Guo-Rong (Resigned on 12 January 2012)	—	—	—	—
Zhang Pei-Wu	55,065.00	204,398.21	7,509.84	266,973.05
Jiang Chi (appointed on 15 March 2012)	40,085.00	128,164.21	7,509.84	175,759.05
Chen Bang-she (appointed on 15 March 2012)	30,580.00	47,366.40	4,485.12	82,431.52
Non-executive directors:	—	—	—	—
Teng Ming-Zhi	0.00	0.00	0.00	0.00
Li Sheng-Gao	0.00	0.00	0.00	0.00
Wei Li	0.00	0.00	0.00	0.00
Independent non-executive directors:	—	—	—	—
Xu Wen-Cai	0.00	0.00	0.00	0.00
Wang Hui	0.00	0.00	0.00	0.00
Xie Bing-Guang	0.00	0.00	0.00	0.00
Wang De-Yu	0.00	0.00	0.00	0.00
Supervisors:	—	—	—	—
Wang Lian-Sheng	0.00	205,169.21	7,509.84	212,679.05
Guo Xuan	0.00	22,550.54	2,016.48	24,567.02
Wang Hui-Ling	0.00	61,345.09	6,996.72	68,341.81
Other key management:	—	—	—	—
Jiao Rui-Fang (Board Of Directors Secretary)	0.00	205,299.21	7,509.84	212,809.05
Kong Da-Gang (Associate Manager)	0.00	197,179.21	7,509.84	204,689.05
Cheng Chang-ge (Associate Manager)	0.00	191,848.21	7,509.84	199,358.05
Xue Ke-Xin (Associate manager) (appointed on 15 March 2012)	0.00	94,119.21	7,509.84	101,629.05
Cheng Tian-Ming (Associate manager) (appointed on 15 March 2012)	0.00	90,125.60	6,023.92	96,149.52
Total	125,730.00	1,447,565.10	72,091.12	1,645,386.22

Name and post	Directors emolument	Jan-Jul 2011		Total emoluments
		Salaries and other benefits	Retirement benefits scheme contributions	
Executive directors:	—	—	—	—
Zhao Guo-Rong (Resigned on 12 January 2012)	—	—	—	—
Zhang Pei-Wu	52,665.00	416,773.40	6,939.60	476,378.00
Duan Yuan-Gang (Resigned on 27 September 2011)	37,685.00	374,069.40	6,939.60	418,694.00
Non-executive directors:	—	—	—	—
Teng Ming-Zhi (Appointed on 18 May 2011)	0.00	0.00	0.00	0.00
Li Sheng-Gao (Appointed on 18 May 2011)	0.00	0.00	0.00	0.00
Wei Li (Appointed o 18 May 2011)	0.00	0.00	0.00	0.00
Wang bei (Resigned on 27 September 2011)	0.00	0.00	0.00	0.00
Independent non-executive directors:	—	—	—	—
Xu Wen-Cai	0.00	0.00	0.00	0.00
Wang Hui	0.00	0.00	0.00	0.00
Xie Bing-Guang	0.00	0.00	0.00	0.00
Wang De-Yu	0.00	0.00	0.00	0.00
Supervisors:	—	—	—	—
Wang Lian-Sheng	0.00	407,467.91	6,090.48	413,558.39
Guo Xuan	0.00	71,763.40	6,969.60	78,733.00
Wang Hui-Ling (Appointed on 18 May 2011)	0.00	57,526.09	5,731.28	63,257.37
Other key management	—	—	—	—
Jiao Rui-Fang (Board Of Directors Secretary)	0.00	410,175.40	6,939.60	417,115.00
Kong Da-Gang (Associate Manager)	0.00	411,575.40	6,939.60	418,515.00
Cheng Chang-ge (Associate Manager)	0.00	271,107.40	6,939.60	278,047.00
Jiang Chi (Chief Accountant) (Appointed on 27 October 2011)	0.00	0.00	0.00	0.00
Total	90,350.00	2,420,458.40	53,489.36	2,564,297.76

Name and post	2011			
	Directors emolument	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
Executive directors:	—	—	—	—
Zhao Guo-Rong (Resigned on 12 January 2012)	—	—	—	—
Zhang Pei-Wu	90,440.00	634,293.75	11,980.80	736,714.55
Duan Yuan-Gang (Resigned on 27 September 2011)	48,695.00	538,270.94	8,956.08	595,922.02
Non-executive directors:	—	—	—	—
Teng Ming-Zhi (Appointed on 18 May 2011)	0.00	0.00	0.00	0.00
Li Sheng-Gao (Appointed on 18 May 2011)	0.00	0.00	0.00	0.00
Wei Li (Appointed o 18 May 2011)	0.00	0.00	0.00	0.00
Wang bei (Resigned on 27 September 2011)	0.00	0.00	0.00	0.00
Independent non-executive directors:	—	—	—	—
Xu Wen-Cai	40,000.00	0.00	0.00	40,000.00
Wang Hui	40,000.00	0.00	0.00	40,000.00
Xie Bing-Guang	40,000.00	0.00	0.00	40,000.00
Wang De-Yu	40,000.00	0.00	0.00	40,000.00
Supervisors:	—	—	—	—
Wang Lian-Sheng	0.00	555,321.26	11,131.68	566,452.94
Guo Xuan	0.00	212,416.75	11,980.80	224,397.55
Wang Hui-Ling (Appointed on 18 May 2011)	0.00	186,254.24	9,917.28	196,171.52
Other key management	—	—	—	—
Jiao Rui-Fang (Board Of Directors Secretary)	0.00	557,978.75	11,980.80	569,959.55
Kong Da-Gang (Associate Manager)	0.00	560,378.75	11,980.80	572,359.55
Cheng Chang-ge (Associate Manager)	0.00	406,295.75	11,980.80	418,276.55
Jiang Chi (Chief Accountant) (Appointed on 27 October 2011)	0.00	38,496.81	3,024.72	41,521.53
Total	299,135.00	3,689,707.00	92,933.76	4,081,775.76

Name and post	2010			
	Directors emolument	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
Executive directors:	—	—	—	—
Yang Zhendong (Resigned on 21 September 2010)	—	—	—	—
Zhang Pei Wu	90,340.00	238,823.72	11,402.64	340,566.36
Duan Yuangang	64,660.00	177,753.72	11,402.64	253,816.36
Pang Liandong (Resigned on 2 June 2010)	0.00	0.00	0.00	0.00
Non-executive directors:	—	—	—	—
Bai Fan (Resigned on 21 September 2010)	0.00	0.00	0.00	0.00
Zhao Guorong	0.00	0.00	0.00	0.00
Independent non-executive directors:	—	—	—	—
Xu Wencai	40,000.00	0.00	0.00	40,000.00
Wang Hui	40,000.00	0.00	0.00	40,000.00
Xie Bingguang	40,000.00	0.00	0.00	40,000.00
Wang Deyu	40,000.00	0.00	0.00	40,000.00
Supervisors:	—	—	—	—
Guo Xuan	0.00	188,418.62	10,206.00	198,624.62
Shao Zhenjiang	0.00	0.00	0.00	0.00
Wang Liansheng	0.00	159,886.66	7,355.04	167,241.70
Other key management:	—	—	—	—
Jiao Rui-Fang (Board Of Directors Secretary)	0.00	239,433.72	11,402.64	250,836.36
Kong Da-Gang (Associate Manager)	0.00	235,447.72	11,402.64	246,850.36
Cheng Chang-ge (Associate Manager)	0.00	130,628.74	10,620.96	141,249.70
Total	315,000.00	1,370,392.90	73,792.56	1,759,185.46

Name and post	2009			
	Directors emolument	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
Executive directors:	—	—	—	—
Yang Zhendong	105,358.00	164,817.03	10,440.00	280,615.03
Zhang Pei Wu	140,344.00	225,537.03	10,440.00	376,321.03
Duan Yuangang (Appointed on 8 January 2009)	105,358.00	164,817.03	10,440.00	280,615.03
Pang Liandong (Appointed on 8 January 2009)	0.00	207,729.58	9,642.72	217,372.30
Non-executive directors:	—	—	—	—
Bai Fan	0.00	0.00	0.00	0.00
Zhao Guorong (Appointed on 3 November 2009)	0.00	0.00	0.00	0.00
Deng Gang (Resigned on 20 July 2009)	0.00	0.00	0.00	0.00
Yu Bao-Gui (Resigned on 30 October 2009)	30,000.00	0.00	0.00	30,000.00
Independent non-executive directors:	—	—	—	—
Xu Wencai	40,000.00	0.00	0.00	40,000.00
Wang Hui	40,000.00	0.00	0.00	40,000.00
Xie Bingguang	40,000.00	0.00	0.00	40,000.00
Wang Deyu	40,000.00	0.00	0.00	40,000.00
Supervisors:	—	—	—	—
Guo Xuan	0.00	164,619.73	6,850.08	171,469.81
Shao Zhenjiang	0.00	134,168.98	7,709.04	141,878.02
Wang Liansheng (Appointed on 3 November 2009)	0.00	110,595.46	4,863.60	115,459.06
Xiao Mao-Lin (Resigned on 3 November 2009)	0.00	30,000.00	0.00	30,000.00
Other key management:	—	—	—	—
Jiao Rui-Fang (Board Of Directors Secretary)	0.00	265,975.03	10,440.00	276,415.03
Kong Da-Gang (Associate Manager)	0.00	263,176.03	10,440.00	273,616.03
Liu Jing (Associate Manager)	0.00	264,976.03	10,440.00	275,416.03
Total	541,060.00	1,996,411.93	91,705.44	2,629,177.37

No emoluments were 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 the three years and a period ended 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012. No key management waived any emolument for the three years and a period ended 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012.

(7) Employees' Emoluments

Of the five 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 VIII(2)(6) above.

3. Balance of related-party transactions

(1) Accounts receivable of related parties

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Associated companies	—	—	—	—
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd	0.00	0.00	1,793,559.08	218,337.63
Beijing Beiyong Casting Co. Ltd	0.00	0.00	0.00	0.00
Beijing Monigraf Automations Co. Ltd	0.00	0.00	0.00	25,061.40
Company under common control	—	—	—	—
Haimen Beiren Fuji Printing Machinery Company Limited	0.00	0.00	232,896.78	0.00
Beijing Jiancheng Industry Logistics	1,040,000.00	0.00	0.00	0.00
Total	1,040,000.00	0.00	2,026,455.86	243,399.03

(2) Others receivable of related parties

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Parent Company	—	—	—	—
Beiren Corporation Group	86,839.58	0.00	1,629,191.08	0.00
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	28,059.00	0.00	0.00	0.00
Associated companies	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	8,388.50	0.00	150,993.00	50,331.00
Beijing Beiyong Casting Co. Ltd.	367,255.39	0.00	0.00	0.00
Company under common control	—	—	—	—
Beijing Jiancheng Industry Logistics	17,885.00	0.00	0.00	0.00
Haimen Beiren Fuji Printing Machinery Company Limited	0.00	0.00	145,832.93	0.00
Beijing Jingcheng Changye Construction Machinery Co.,Ltd	506,952.30	0.00	0.00	0.00
Total	1,015,379.77	0.00	1,926,017.01	50,331.00

(3) Prepayment from related parties

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Associated companies	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	0.00	0.00	0.00	298,000.00
Beijing Beiyong Casting Co. Ltd.	0.00	0.00	0.00	99,517.45
Total	0.00	0.00	0.00	397,517.45

(4) Accounts payables of related parties

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Parent Company and ultimate controller	—	—	—	—
Beiren Corporation Group	0.00	0.00	0.00	1,997,780.00
Associated companies	—	—	—	—
Beijing Mitsubishi Heavy Industries				
Beiren Printing Machinery Co., Ltd	0.00	0.00	20,651,316.66	47,866,408.02
Beijing Monigraf Automations Co. Ltd	5,276,836.06	9,549,820.51	3,470,983.15	5,706,400.00
Beijing Beiyong Casting Co. Ltd	2,908,532.79	2,394,628.29	2,000,000.00	907,553.21
Company under common control	—	—	—	—
Beijing Jingcheng Industry Logistics Co.,Ltd	22,625,231.93	11,029,499.55	2,627,539.82	0.00
Total	30,810,600.788	22,973,948.35	28,749,839.63	56,478,141.23

(5) Others payables of related parties

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Parent company and ultimate controller	—	—	—	—
Beiren Corporation Group	8,155,529.91	0.00	1,247,319.56	13,641,380.51

(6) Entrusted loans with related parties

Related party	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Parent company	—	—	—	—
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	210,000,000.00	180,000,000.00	70,000,000.00	150,000,000.00

(7) Specific payables

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Parent company and ultimate controller	—	—	—	—
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	15,481,536.64	15,073,413.38	9,618,808.71	9,100,538.23

IX. SHARE-BASED PAYMENT

As of 31 Jul 2012, the Group has no share-based payment

X. CONTINGENCIES

As of 31 Jul 2012, there is no other significant contingent event for the Group in the current accounting period.

XI. COMMITMENTS

- The Company and its parent company Beiren Group Corporation signed a trademark usage license contract, Beiren Group Corporation authorised the company to use its own “Beiren Pai” brand trademark, the company committed to pay Beiren Group Corporation 1% of the trade mark product sales revenue annually as the mark of the quarter royalties respectively. By each year, the trademark usage fees shall not be less than RMB15,000 not more than RMB6,000,000.00.
- As of 31 Jul 2012, the company has no other significant issues happened besides for these commitments above.

XII. EVENTS AFTER THE BALANCE SHEET DATE

1. In accordance with Reply on contract regulations expiration applied by Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd. [No.JJGXSZ (2011) 46] issued by Beijing Economic Technology Development Zone Management Committee in 8 March 2011, affiliated company of the Company, Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd. was agreed to expire the joint venture contract and regulations to liquidate. Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd. had not finish the liquidation as at 31 July 2012.
2. Beiren Group Corporation, the controlling shareholder of the Company and Beijing Jingcheng Machinery Electric Holding Co., Ltd., the beneficial controller of the Company, entered into the Nil Consideration Transfer Agreement for State-owned Shares between Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation on 16 June 2012, of which, the Beiren Group Corporation agreed to transfer 201,620,000 A shares of the Company to Jingcheng Holding at nil consideration. Following such transfer, the Company's total share capital will remain unchanged, of which 201,620,000 shares will be held by Jingcheng Holding, representing 47.78% of the total share capital. The Company received a notice from Jingcheng Holding that such nil consideration transfer has been given with the approval and consent from State-owned Assets Supervision and Administration Commission of the State Council on 1 September 2012.
3. The Company entered into early retirement arrangement with 87 staff in August and September of 2012, the Company expected from 2012 to their officially retirement procedures, the early retirement staff salary and insurance payable will be RMB13,700,000.
4. Except for the above-mentioned event, there are no other significant events after the balance date.

XIII. SEGMENT INFORMATION

More than 90% of the revenues and profits of the company from domestic manufacture and sale of the presses, so the company's management consider there is no need for the Segment Information.

XIV. OTHER SIGNIFICANT EVENTS

1. Non-currency assets exchange

As of 31 July 2012, there was no non-currency assets exchange that needed to be disclosed by the Company.

2. Debt restructure

As of 31 July 2012, the company has no debt restructure happened.

3. Leasing

(1) Operating leased assets (Operating lease)

Types of Operating leased assets	31 Jul 2012	31 Dec 2011
Land	16,091,341.94	16,306,302.56
Housing and Building	102,570,756.12	86,425,896.81
Total	118,662,098.06	102,732,199.37
Types of Operating leased assets	31 Dec 2010	31 Jul 2009
Land	16,674,806.38	17,043,310.30
Housing and Building	94,948,721.94	78,718,685.62
Machinery and equipment	0.00	0.00
Transportation equipment	0.00	42,873.30
Total	111,623,528.32	98,184,627.38

XV. 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 5) The nature of these financial instruments and the related financial risk management policies are disclosed as following:

1 Financial risk management target and policy

(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. Except for the following USD cash balance as of 31 July 2012, 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.

Item	31 Jul 2012		31 Dec 2011	
	Foreign currency	RMB	Foreign currency	RMB
Cash		4,503,682.27		633,841.19
USD	693,487.47	4,391,162.65	82,754.89	521,430.30
EUR	10.39	80.65	10.39	84.81
JPY	617,756.00	50,038.33	621,153.00	50,377.37
HKD	76,425.48	62,400.64	76,413.85	61,948.71
Accounts receivables		4,195,621.55		3,857,628.35
USD	661,604.00	4,195,621.55	611,033.00	3,857,628.35
Other Accounts receivables		9,103,522.94		9,088,241.00
HKD	10,305,296.52	9,088,241.00	10,305,296.52	9,088,241.00
USD	2,417.14	15,281.94	0.00	0.00
Prepayments		630,797.26		127,684.62
EUR	0.00	0.00	0.00	0.00
JPY	7,930,000.00	630,797.26	1,530,000.00	127,684.62
Accounts payables		0.00		0.00
JPY	0.00	0.00	0.00	0.00
Received in advance		6,650,024.04		1,215,980.67
USD	1,050,813.58	6,650,024.04	157,833.00	1,108,530.81
EUR	0.00	0.00	12,198.00	107,449.86
TOTAL		<u>25,083,648.06</u>		<u>14,923,375.83</u>

Item	31 Dec 2010		31 Dec 2009	
	Foreign currency	RMB	Foreign currency	RMB
Cash		3,005,230.82		650,250.07
USD	431,376.52	2,884,591.52	78,438.09	535,590.97
EUR	0.26	1,511.54	0.00	0.00
JPY	664,836.97	54,117.12	642,284.28	47,400.58
HKD	76,402.21	65,010.64	76,386.73	67,258.52
Accounts receivables		3,103,463.45		6,109,544.26
USD	468,610.00	3,103,463.45	894,751.80	6,109,544.26
Other Accounts receivables		9,088,241.00		9,088,241.00
HKD	10,305,296.52	9,088,241.00	10,305,296.52	9,088,241.00
Prepayments		1,684,496.74		635,317.47
USD	0.00	0.00	72,121.08	492,457.16
EUR	24,931.00	215,586.76	0.00	0.00
JPY	18,488,865.00	1,468,909.98	1,935,776.56	142,860.31
Accounts payables		128,708.53		110,562.32
JPY	1,583,910.04	128,708.53	1,498,134.42	110,562.32
Received in advance		5,386,356.28		2,040,908.78
USD	797,049.88	5,278,934.59	298,894.11	2,040,908.78
EUR	12,198.00	107,421.69	0.00	0.00
TOTAL		22,396,496.82		18,634,823.90

The Group concern the risk exposed by the movements in foreign exchange rate. At this stage the group does not adopt any implementing strategies to avoid the risk as the amount of foreign currency cash balance is small, and day-to-day foreign currency expense are related to H share-based payments, ASX and newspapers and periodicals fees. The movement could not significantly influence the operating.

2) *Interest rate risk management*

Fixed interest rate is adopted by the Group.

(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, which includes:

Financial assets balance in the consolidated balance sheet reflects the possibility of the risk. The possibility of the risk follows the movements of the fair value in the future.

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, 4.76% (1.55%, last year) and 8.80% (4.79%, 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 the main resource of cash. By the end of this period, the borrowing limit is amounting to RMB114,810,000, while at the beginning of the year is RMB54,050,000.

2. Fair value

The determination of the fair value of financial assets and liabilities are described as follows:

The fair value of financial assets and liabilities, which has standard clause and active market, refers to the market price.

The fair value of other financial assets and liabilities (exclude derivatives) refers to present value of future cash flow or to observe current market price.

The fair value of the derivatives refers to the active market price.

3. Sensibility analysis

The group adopts the sensibility analysis technique to analyze the rational and possible effects to the profit and loss or equity. The movements of risk variable are not isolated, and the relevancy between risk variables could largely influence the balance. Therefore, the assumptions are determined under the movements of risk variable are isolated.

(1) Foreign exchange risk sensibility analysis

Foreign exchange risk sensibility analysis hypothesis: all the foreign operations and investments and cash flows are highly effective.

The reasonable movements of USD, HKD and EUR exchange rates can lightly influence the current profit and loss and equity.

(2) Interest rate risk sensibility analysis

The group adopts the fixed interest rate for the borrowings. The movements of interest rate do not affect current profit and loss.

XVI. NOTES TO THE MAIN ITEMS OF PARENT COMPANY'S FINANCIAL REPORT

1. Account receivable

(1) Classification for accounts receivables

Items	31 Jul 2012				31 Dec 2011			
	Balance		Provision for bad debts		Balance		Provision for bad debts	
	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %
Individual receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	-	-	-	-	-	-	-	-
Combination based on age accounts	218,593,201.25	96.28	89,947,276.52	41.15	170,634,781.65	91.78	77,482,252.50	45.41
Individual receivables below significant level	8,471,823.34	3.72	0.00	0.00	15,275,633.34	8.22	6,320,000.00	41.37
Total	227,065,024.59	100.00	89,947,276.52	-	185,910,414.99	100.00	83,802,252.50	-

(Table continued)

Items	31 Dec 2010				31 Dec 2009			
	Balance		Provision for bad debts		Balance		Provision for bad debts	
	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %
Individual receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	-	-	-	-	-	-	-	-
Combination based on age accounts	220,187,730.53	92.94	74,086,765.53	33.65	249,581,621.70	90.35	68,873,937.44	27.60
Individual receivables below significant level	16,733,898.77	7.06	8,233,000.00	49.20	26,643,491.27	9.65	0.00	0.00
Total	236,921,629.30	100.00	82,319,765.53	-	276,225,112.97	100.00	68,873,937.44	-

1) Individual receivables below significant level at each of the end of period.

At the end of July 2012

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note	8,471,823.34	0.00	0.00	-
Total				

Note: The Company didn't make bad debts provisions on accounts receivables amounting to RMB8,471,823.34 with subsidiary.

At the end of 2011

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note 1	6,320,000.00	6,320,000.00	100.00	difficult to fully collect
Note 2	8,955,633.34	0.00	0.00	-
Total	15,275,633.34	6,320,000.00	-	-

Note 1: The Company made impairment provisions on 3 accounts receivables amounting to RMB6,320,000.00, which is longer in age and difficult to collect.

Note 2: The Company didn't make bad debts provisions on accounts receivables amounting to RMB8,955,633.34 with related parties.

At the end of 2010

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note 1	8,233,000.00	8,233,000.00	100.00	difficult to fully collect
Note 2	8,500,898.77	0.00	0.00	—
Total	16,733,898.77	8,233,000.00	—	—

Note 1: The Company made impairment provisions on 5 accounts receivables amounting to RMB8,233,000.00, which is longer in age and difficult to collect.

Note 2: The Company didn't make bad debts provisions on 5 accounts receivables amounting to RMB8,500,898.77 with related parties.

At the end of 2009

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note	26,643,491.27	0.00	0.00	—
Total				

Note: The Company didn't make bad debts provisions on accounts receivables amounting to RMB26,643,491.27 with related parties.

2) *Receivables for which provision of bad debts made on the basis of age accounts*

Item	31 Jul 2012			31 Dec 2012		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	101,026,888.11	0.00	0.00	63,538,003.98	0.00	0.00
1-2 years	35,151,508.15	30.00	10,545,452.45	29,185,159.71	30.00	8,755,547.91
2-3 years	7,532,452.30	60.00	4,519,471.38	22,962,283.42	60.00	13,777,370.05
Above 3 years	74,882,352.69	100.00	74,882,352.69	54,949,334.54	100.00	54,949,334.54
Total	218,593,201.25	—	89,947,276.52	170,634,781.65	—	77,482,252.50

(Table continued)

Item	31 Dec 2010			31 Dec 2009		
	Amount	Percent (%)	Bad debts provision	Amount	Percent (%)	Bad debts provision
Within 1 year	104,268,065.09	0.00	0.00	127,882,173.48	0.00	0.00
1-2 years	47,549,397.53	30.00	14,264,819.26	55,165,629.97	30.00	16,549,688.99
2-3 years	21,370,804.09	60.00	12,822,482.45	35,523,924.49	60.00	21,314,354.69
Above 3 years	46,999,463.82	100.00	46,999,463.82	31,009,893.76	100.00	31,009,893.76
Total	220,187,730.53	—	74,086,765.53	249,581,621.70	—	68,873,937.44

(2) Reversal of bad debts provisions in each period

Written-off from Shanghai Beiren with an amount of RMB103,000.00 has been received in the current year.

There was no reversal of bad debts provisions in January to July 2012, the year of 2011 and 2010.

(3) Actual write-off of accounts receivable in each period

Item	Jan-Jul 2012	2011	2010	2009
Write-off of accounts receivable	216,289.63	373,273.62	140,000.00	0.00

(4) There was no account receivable due from the shareholder holdings 5% or more voting rights of the Group at the end of July 2012, 2011, 2010 and 2009.

(5) *Top five of the end balance of accounts receivable*

At the end of July 2012

Company Name	Relationship	Amount	Age	Proportion in accounts receivables (%)
Taian Daily	Customers	15,168,000.00	Within 1 year	6.68
Zhongti (Beijing) Colour Printing Co., Ltd.	Customers	13,180,000.00	Over 3 years	5.80
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary	8,471,823.34	Over 3 years	3.73
Linyi Daily	Customers	8,285,000.00	Within 2 year	3.65
Hunan Printing Material Co., Ltd	Customers	7,280,938.95	Within 1 year	3.21
Total	—	52,385,762.29	—	23.07

At the end of 2011

Company Name	Relationship	Amount	Age	Proportion in accounts receivables (%)
Zhongti (Beijing) Colour Printing Co., Ltd.	Customers	13,180,000.00	2-3 years	7.09
Suzhou Daily	Customers	7,618,800.00	Within 1 year	4.10
Linyi Daily	Customers	6,485,000.00	Within 1 year	3.49
Ningbo Herald Printing Co., Ltd.	Customers	5,340,000.00	1-2 years	2.87
Zibo Sanhuan Printing Co., Ltd.	Customers	4,534,400.00	Over 3 years	2.44
Total	—	37,158,200.00	—	19.99

At the end of 2010

Company Name	Relationship	Amount	Age	Proportion in accounts receivables (%)
Zhongti (Beijing) Colour Printing Co., Ltd.	Customers	19,360,000.00	1-2 years	8.17
Jiangxi Daily Printing Center	Customers	9,860,000.00	Within 1 year	4.16
Chengdu Beiren Printing Materials Corporation	Customers	8,029,999.94	2-3 years	3.39
Suzhou Daily	Customers	6,086,000.00	1-2 years	2.57
Linyi Daily	Customers	5,780,000.00	Within 1 year	2.44
Total	–	49,115,999.94	–	20.73

At the end of 2009

Company Name	Relationship	Amount	Age	Proportion in accounts receivables (%)
Sports Publication (Donghua Hanlin)	Customers	24,920,000.00	Within 1 year	9.02
Haimen Beiren Fuji Printing Machinery Company Limited	Subsidiary	19,983,777.72	2-3 years	7.23
Suzhou Daily	Customers	12,476,000.00	Within 1 year	4.52
Beijing Huilin Printing Co., Ltd.	Customers	8,240,000.00	1-2 years	2.98
Beijing Beiren Jinyan Printing Machinery Factory	Subsidiary	6,416,314.52	1-2 years	2.32
Total	–	72,036,092.24	–	26.07

(6) Accounts receivable due from related parties

At the end of July 2012

Company Name	Relationship	Amount	Proportion in accounts receivable (%)
Beijing Beiren Jinyan Printing Machinery Factory	Subsidiary	8,471,823.34	3.73
Beijing Jiancheng Industry Logistics	Under Common Control	1,040,000.00	0.46
Total	–	9,511,823.34	4.19

At the end of 2011

Company Name	Relationship	Amount	Proportion in accounts receivable (%)
Beijing Beiren Jinyan Printing Machinery Factory	Subsidiary	8,471,823.34	4.56

At the end of 2010

Company Name	Relationship	Amount	Proportion in accounts receivable (%)
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	Associate	1,793,559.08	0.76
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Subsidiary	927,818.04	0.39
Beijing Beiren Jinyan Printing Machinery Factory	Subsidiary	5,320,773.05	2.25
Total	—	8,042,150.17	3.40

At the end of 2009

Company Name	Relationship	Amount	Proportion in accounts receivable (%)
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	Associate	218,337.63	0.08
Beijing Monigraf Automations Co., Ltd.	Associate	25,061.40	0.01
Haimen Beiren Fuji Printing Machinery Company Limited	Subsidiary	19,983,777.72	7.23
Beijing Jiancheng Industry Logistics	Subsidiary	6,416,314.52	2.32
Total	—	26,643,491.27	9.64

(7) The balance of accounts receivable in foreign currencies:

Foreign currency	Original currency	31 Jul 2012 Exchange rate	RMB	Original currency	31 Dec 2011 Exchange rate	RMB
USD	231,400.00	6.3320	1,475,386.28	231,400.00	6.3009	1,475,386.28

(Table continued)

Foreign currency	Original currency	31 Dec 2010 Exchange rate	RMB	Original currency	31 Dec 2009 Exchange rate	RMB
USD	0.00	—	0.00	217,419.90	6.8282	1,484,586.58

2. Other account receivable

(1) Classification for other receivables

Item	31 Jul 2012				31 Dec 2011			
	Amount	Provision for bad debt		Ratio %	Amount	Provision for bad debt		Ratio %
	Amount	Amount	Ratio %		Amount	Amount	Ratio %	
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables of which provision of bad debts made by groups	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Individual other receivables below significant level	23,337,030.57	100.00	9,461,773.16	40.54	19,223,173.40	100.00	12,137,525.54	63.14
Total	23,337,030.57	–	9,461,773.16	–	19,223,173.40	100.00	12,137,525.54	–

(Table continued)

Items	31 Dec 2010				31 Dec 2009			
	Amount	Provision for bad debts		Ratio %	Amount	Provision for bad debts		Ratio %
	Amount	Amount	Ratio %		Amount	Amount	Ratio %	
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Receivables of which provision of bad debts made by groups	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Individual other receivables below significant level	21,594,731.47	100.00	12,188,521.90	56.44	19,476,109.64	100.00	12,188,521.90	62.58
Total	21,594,731.47	100.00	12,188,521.90	–	19,476,109.64	100.00	12,188,521.90	–

1) Individual other receivables below significant level at the end of each period

At the end of July 2012

Company Name	Amount	Bad debts provision	Rate (%)	Reason for bad debts provision
Note 1	9,461,773.16	9,461,773.16	100.00	Difficult to collect
Note 2	13,875,257.41	0.00	0.00	
Total	23,337,030.57	9,461,773.16	–	–

Note 1: The Company made impairment provisions on other receivables amounting to RMB9,461,773.16, which is longer in age and difficult to collect.

Note 2: For reservation fund of employees amounting to RMB13,875,257.41, the Company didn't make bad debts provisions.

At the end of 2011

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note 1	12,137,525.54	12,137,525.54	100.00	difficult to collect
Note 2	7,085,647.86	0.00	0.00	–
Total	19,223,173.40	12,137,525.54	–	–

Note 1: The Company made impairment provisions on 5 other receivables amounting to RMB12,137,525.54, which is longer in age and difficult to collect.

Note 2: For reservation fund of employees amounting to RMB7,085,647.80, the Company didn't make bad debts provisions.

At the end of 2010

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Note 1	12,188,521.90	12,188,521.90	100.00	difficult to collect
Note 2	9,406,209.57	0.00	0.00	–
Total	21,594,731.47	12,188,521.90	–	–

Note 1: The Company made impairment provisions on 5 other receivables amounting to RMB12,188,521.90, which is longer in age and difficult to collect.

Note 2: For reservation fund of employees amounting to RMB9,406,209.57, the Company didn't make bad debts provisions.

At the end of 2009

Company Name	Amount	Bad debts provision	Rate (%)	Reason for
Southeast Asia	9,088,241.00	9,088,241.00	100.00	difficult to collect
Others	10,387,868.64	3,100,280.90	29.85	difficult to fully collect
Total	19,476,109.64	12,188,521.90	–	–

(2) *Reversal for bad debts provisions in each period*

At the end of July 2012

Company Name	Nature of other receivables	Reversal amount	Reason of reversal	Arising from related transactions or not
Hubei Beiren liquidation amount	Amounts due	249,051.91	Collected	No
Total				

There was no reversal of bad debts provisions in 2011, 2010 and 2009.

- (3) Actual other receivables has been written-off in each period

At the end of July 2012

Company Name	Nature of other receivables	Written-off amount	Reason of written-off	Arising from related transactions or not
Jiangxi Yichun court	Loan	1,769,000.00	Unable to collect	No
Ningxia divestment amount	Equity transfer	657,700.47	Unable to collect	No
Total	—	2,426,700.47	—	—

The actual other receivables has been written-off in 2011 amounting to RMB50,996.36.

There was no actual other receivables has been written-off in 2010 and 2009.

- (4) Among the other receivables at the end of the period, amount due from shareholders holding 5% or more of the Company's voting rights

Company Name	31-Jul-2012	31-Dec-2011	31-Dec-2010	31-Dec-2009
Beiren Group Corporation	86,839.58	0.00	1,543,308.91	0.00

- (5) Significant other receivable are as follows:

At the end of July 2012

Company Name	Relation with the Company	Amount	Arrears period	Proportion of total amount (%)	nature
Southeast Asia	The Company's client	9,088,241.00	More than 3 years	39.92	Investment
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Subsidiary Company	1,356,766.81	Within 1 year	5.96	Lease payment receivables
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary	878,141.13	Within 1 year	3.86	Prepaid salary and insurance
Heating company	Heat suppliers	670,000.00	More than 3 years	2.94	Cash pledge
Total	—	11,993,148.94	—	52.68	—

At the end of 2011

Company Name	Relation with the Company	Amount	Arrears period	Proportion of total amount (%)	Nature
Southeast Asia	The Company's client	9,088,241.00	More than 3 years	47.28	Receivables
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	765,777.13	Within 3 years	3.98	Prepaid salary and insurance
Heating Company	Heat suppliers	670,000.00	More than 3 years	3.49	Deposit
Zhongti Colour Print	The Company's client	560,000.00	Within 1 years	2.91	Equipment fees
Total	–	<u>11,084,018.13</u>	–	<u>57.66</u>	–

At the end of 2010

Company Name	Relation with the Company	Amount	Arrears period	Proportion of total amount (%)	Nature
Southeast Asia	The Company's client	9,088,241.00	More than 3 years	42.09	Receivables
Beiren Group Corporation	Parent Company	1,543,308.91	Within 1 years	7.15	Advances
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	735,777.13	1-2 years	3.41	Prepaid salary and insurance
Heating Company	Heat suppliers	670,000.00	Within 3 years	3.10	Deposit
Total	–	<u>12,037,327.04</u>	–	<u>55.75</u>	–

At the end of 2009

Company Name	Relation with the Company	Amount	Arrears period	Proportion of total amount (%)	Nature
Southeast Asia	The Company's client	9,088,241.00	More than 3 years	46.66	Receivables
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	699,258.40	1-2 years	3.59	Prepaid salary and insurance
Heating Company	Heat suppliers	670,000.00	More than 3 years	3.44	Deposit
Ningxia Xinhua Printing House	The Company's client	657,700.47	More than 3 years	3.38	Receivables
Beijing Northern Forging Machine Co., Ltd.	The Company's client	500,000.00	Within 1 years	2.57	Disposal of equipment
Total	–	<u>11,615,199.87</u>	–	<u>59.64</u>	–

(6) *Other receivable due from related parties*

At the end of July 2012

Company Name	Relation with the Company	Amount	Proportion of total amount (%)
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Subsidiary company	1,356,766.81	5.81
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary company	878,141.13	3.76
Beijing Jingcheng Changye Construction Machinery Co., Ltd.	Under Common Control	506,952.30	2.17
Beijing Beiyong Casting Co., Ltd.	Associates	367,255.39	1.57
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	Beneficial Controller	28,059.00	0.12
Beiren Group Corporation	Controlling Shareholder	86,839.58	0.37
Beijing Monigraf Automatics Co. Ltd.	Associates	8,388.50	0.04
Total		<u>3,232,402.71</u>	<u>13.84</u>

At the end of 2011

Company Name	Relation with the Company	Amount	Proportion of total amount
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	765,777.13	3.98

At the end of 2010

Company Name	Relation with the Company	Amount	Proportion of total amount
Beiren Group Corporation	Parent Company	1,543,308.91	7.15
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	735,777.13	3.41
Beijing Monigraf Automations Co., Ltd.	Associate	150,993.00	0.70
Total	—	<u>2,430,079.04</u>	<u>11.26</u>

At the end of 2009

Company Name	Relation with the Company	Amount	Proportion of total amount
Beijing Monigraf Automations Co., Ltd.	Associate	50,331.00	0.26
Beijing Beiren Jingyan Printing Machinery Factory	Subsidiary Company	699,258.40	3.59
Total	—	749,589.40	3.85

(7) *Foreign currency balance of other account receivable:*

Foreign currency	Original currency	31 Jul 2012		Original currency	31 Dec 2011	
		Exchange Rate	RMB		Exchange Rate	RMB
HKD	10,305,296.52	0.83320	9,088,241.00	10,305,296.52	0.8107	9,088,241.00

(Table continued)

Foreign currency	Original currency	Exchange Rate	RMB	Original currency	Exchange Rate	RMB
HKD	10,305,296.52	0.8509	9,088,241.00	10,305,296.52	0.8805	9,088,241.00

3. Long-term equity investment

(1) *Long-term equity investments*

Item	31 Jul 2012	31 Dec 2011
Calculated long-term equity investment according to cost method	149,862,699.26	149,812,699.26
Calculated long-term equity investment according to rights and interests method	15,400,103.44	15,660,364.86
Sum of long term stock rights investment	165,262,802.70	165,473,064.12
Less: provide of devaluation for long-term equity investment	0.00	0.00
Net value of long-term equity investment	165,262,802.70	165,473,064.12
Item	31 Dec 2010	31 Dec 2009
Calculated long-term equity investment according to cost method	149,812,699.26	201,060,699.26
Calculated long-term equity investment according to rights and interests method	15,567,084.36	15,100,595.32
Sum of long term stock rights investment	165,379,783.62	216,161,294.58
Less: provide of devaluation for long-term equity investment	0.00	0.00
Net value of long-term equity investment	165,379,783.62	216,161,294.58

(2) Long-term equity investments under Cost Method and Equity Method

Name of invested companies	Percentage of share holding (%)	Percentage of voting rights (%)	Registered Share capital	31 Dec 2011	Increase	Decrease	31 Jul 2012	Dividends of the year
Cost Method	-	-	-	-	-	-	-	-
Beiren Fuji	70.00	70.00	29,632,699.26	29,632,699.26	0.00	0.00	29,632,699.26	0.00
Beiren Jingyan	100.00	100.00	21,050,000.00	21,000,000.00	50,000.00	0.00	21,050,000.00	0.00
Shaanxi Beiren	86.24	86.24	99,180,000.00	99,180,000.00	0.00	0.00	99,180,000.00	0.00
Sub-total	-	-	149,862,699.26	149,812,699.26	50,000.00	0.00	149,862,699.26	0.00
Equity Method	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co. Ltd.	49	49	3,675,000.00	8,971,923.43	9,263.83	0.00	8,981,187.26	0.00
Beijing Beiyong Casting Co. Ltd.	20	20	1,136,000.00	6,688,441.43	0.00	269,525.25	6,418,916.18	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,660,364.86	9,263.83	269,525.25	15,400,103.44	0.00
Total	-	-	177,213,699.26	165,473,064.12	59,263.83	269,525.25	165,262,802.70	0.00
Name of invested companies	Percentage of shareholding (%)	Percentage of voting rights (%)	Registered Share capital	31 Dec 2010	Increase	Decrease	31 Dec 2011	Dividends of the year
Cost Method	-	-	-	-	-	-	-	-
Beiren Fuji	70.00	70.00	29,632,699.26	29,632,699.26	0.00	0.00	29,632,699.26	0.00
Beiren Jingyan	99.76	99.76	21,000,000.00	21,000,000.00	0.00	0.00	21,000,000.00	0.00
Shaanxi Beiren	86.24	86.24	99,180,000.00	99,180,000.00	0.00	0.00	99,180,000.00	0.00
Sub-total	-	-	149,812,699.26	149,812,699.26	0.00	0.00	149,812,699.26	0.00
Equity Method	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co., Ltd.	49	49	3,675,000.00	8,957,839.15	14,084.28	0.00	8,971,923.43	0.00
Beijing Beiyong Casting Co., Ltd.	20	20	1,136,000.00	6,609,245.21	192,796.22	113,600.00	6,688,441.43	113,600.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd.	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,567,084.36	206,880.50	113,600.00	15,660,364.86	113,600.00
Total	-	-	177,163,699.26	165,379,783.62	206,880.50	113,600.00	165,473,064.12	113,600.00

APPENDIX III

AUDIT REPORT OF THE EXISTING GROUP

Name of invested companies	Percentage of shareholding (%)	Percentage of voting rights (%)	Registered Share capital	31 Dec 2009	Increase	Decrease	31 Dec 2010	Dividends of the year
Cost Method	-	-	-	-	-	-	-	-
Haimen Beiren	100.00	100.00	34,848,000.00	34,848,000.00	143,400.00	34,991,400.00	0.00	0.00
Beiren Fuji	70.00	70.00	29,632,699.26	29,632,699.26	0.00	0.00	29,632,699.26	0.00
Beiren Yixin	100.00	100.00	22,367,000.00	1,000,000.00	21,367,000.00	22,367,000.00	0.00	0.00
Beiren Jingyan	99.76	99.76	21,000,000.00	21,000,000.00	0.00	0.00	21,000,000.00	0.00
Beiren Yuxin	68.66	68.66	15,400,000.00	15,400,000.00	0.00	15,400,000.00	0.00	0.00
Shaanxi Beiren	86.24	86.24	99,180,000.00	99,180,000.00	0.00	0.00	99,180,000.00	0.00
Sub-total	-	-	222,427,699.26	201,060,699.26	21,510,400.00	72,758,400.00	149,812,699.26	0.00
Equity Method	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co., Ltd.	49	49	3,675,000.00	8,879,213.01	78,626.14	0.00	8,957,839.15	0.00
Beijing Beiyong Casting Co., Ltd.	20	20	1,136,000.00	6,221,382.31	387,862.90	0.00	6,609,245.21	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	15,100,595.32	466,489.04	0.00	15,567,084.36	0.00
Total	-	-	249,778,699.26	216,161,294.58	21,976,889.04	72,758,400.00	165,379,783.62	0.00
Name of invested companies	Percentage of shareholding (%)	Percentage of voting rights (%)	Registered Share capital	31 Dec 2008	Increase	Decrease	31 Dec 2009	Dividends of the year
Cost Method	-	-	-	-	-	-	-	-
Haimen Beiren	82.54	82.54	34,848,000.00	34,848,000.00	0.00	0.00	34,848,000.00	0.00
Beiren Fuji	70.00	70.00	29,632,699.26	29,632,699.26	0.00	0.00	29,632,699.26	0.00
Hebei Beiren	50.68	50.68	2,534,000.00	2,534,000.00	0.00	2,534,000.00	0.00	0.00
Beiren Yixin	100.00	100.00	1,000,000.00	0.00	1,000,000.00	0.00	1,000,000.00	0.00
Beiren Jingyan	99.76	99.76	21,000,000.00	21,000,000.00	0.00	0.00	21,000,000.00	0.00
Beiren Yuxin	68.66	68.66	15,400,000.00	15,400,000.00	0.00	0.00	15,400,000.00	0.00
Shaanxi Beiren	86.24	86.24	99,180,000.00	99,180,000.00	0.00	0.00	99,180,000.00	0.00
Sub-total	-	-	203,594,699.26	202,594,699.26	1,000,000.00	2,534,000.00	201,060,699.26	0.00
Equity Method	-	-	-	-	-	-	-	-
Beijing Monigraf Automations Co., Ltd.	49	49	3,675,000.00	8,794,891.76	84,321.25	0.00	8,879,213.01	0.00
Beijing Beiyong Casting Co., Ltd.	20	20	1,136,000.00	5,683,601.14	537,781.17	0.00	6,221,382.31	0.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	49	49	22,540,000.00	0.00	0.00	0.00	0.00	0.00
Sub-total	-	-	27,351,000.00	14,478,492.90	622,102.42	0.00	15,100,595.32	0.00
Total	-	-	230,945,699.26	217,073,192.16	1,622,102.42	2,534,000.00	216,161,294.58	0.00

(3) *Investment in associates and joint ventures*

Name of invested company	Registration	Business	Shareholding (%)	Voting right (%)
Associate	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	Beijing	The development/design/manufacturing/sale of printing machine ink control system, sales of the printing facilities and printing material, and in connection with its own products' illustration, adjustment, maintenance, technology advisory and training	49.00	49.00
Beijing Beiyong Casting Co. Ltd.	Beijing	Processing and sale of standard and non-standard components, manufacture of casting, processing of model, technology development, transferring, advisory, service.	20.00	20.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd	Beijing	Manufacture and sale of printing machinery, related technology advisory and service.	49.00	49.00

At the end of July 2012

(Table continued)

Name of invested company	Closing total assets	Closing total liabilities	Closing total net assets	Operating income of the year	Net profit of the year
Associate	—	—	—	—	—
Beijing Monigraf Automations Co. Ltd.	22,224,164.76	3,895,211.17	18,328,953.59	9,841,569.51	18,905.77
Beijing Beiyong Casting Co. Ltd.	65,782,610.78	33,688,029.88	32,094,580.90	21,372,665.16	-1,347,626.23
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd	0.00	0.00	0.00	0.00	0.00
Total	88,006,775.54	37,583,241.05	50,423,534.49	31,214,234.67	-1,328,720.46

Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd has entered liquidation proceedings and as at 31 July 2012, the liquidation was still in process.

At the end of 2011

Name of invested company	Closing total assets	Closing total liabilities	Closing total net assets	Operating income of the year	Net profit of the year
Associate	—	—	—	—	—
Beijing Monigraf Automations Co., Ltd.	23,989,900.00	6,001,800.00	17,988,100.00	16,579,500.00	28,700.00
Beijing Beiyong Casting Co., Ltd.	75,426,700.00	42,962,600.00	32,464,100.00	90,123,000.00	964,000.00
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	147,100.00	138,000.00	9,100.00	433,400.00	1,300.00
Total	99,563,700.00	49,102,400.00	50,461,300.00	107,135,900.00	994,000.00

At the end of 2010

Name of invested company	Closing total assets	Closing total liabilities	Closing total net assets	Operating income of the year	Net profit of the year
Associate	—	—	—	—	—
Beijing Monigraf Automations Co., Ltd.	23,616,057.32	5,641,120.45	17,974,936.87	18,699,235.50	160,461.52
Beijing Beiyong Casting Co., Ltd.	76,994,768.21	43,948,542.21	33,046,226.00	109,107,086.82	1,939,314.51
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	90,140,777.78	149,870,096.92	-59,729,319.14	76,916,734.68	-28,081,399.04
Total	<u>190,751,603.31</u>	<u>199,459,759.58</u>	<u>-8,708,156.27</u>	<u>204,723,057.00</u>	<u>-25,981,623.01</u>

At the end of 2009

Name of invested company	Closing total assets	Closing total liabilities	Closing total net assets	Operating income of the year	Net profit of the year
Associate	—	—	—	—	—
Beijing Monigraf Automations Co., Ltd.	26,554,332.22	8,433,489.34	18,120,842.88	13,967,328.82	172,084.19
Beijing Beiyong Casting Co., Ltd.	85,561,619.95	54,454,708.46	31,106,911.49	102,649,871.92	2,688,905.83
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co. Ltd	178,285,766.88	209,933,686.98	-31,647,920.10	23,178,396.56	-12,073,196.84
Total	<u>290,401,719.05</u>	<u>272,821,884.78</u>	<u>17,579,834.27</u>	<u>139,795,597.30</u>	<u>-9,212,206.82</u>

4. Operating income and cost

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Main operating income	204,376,914.77	209,057,899.90	351,086,500.08	430,156,999.76	430,898,134.81
Non-operating income	<u>7,900,145.34</u>	<u>11,313,734.24</u>	<u>18,833,288.86</u>	<u>14,684,323.58</u>	<u>13,619,803.18</u>
Total	<u>212,277,060.11</u>	<u>220,371,634.14</u>	<u>369,919,788.94</u>	<u>444,841,323.34</u>	<u>444,517,937.99</u>
Main operating cost	176,921,052.07	169,753,365.17	295,849,650.62	378,185,887.78	423,295,583.18
Non-operating cost	<u>2,256,617.93</u>	<u>2,552,293.63</u>	<u>4,328,941.84</u>	<u>6,384,415.26</u>	<u>4,946,751.00</u>
Total	<u>179,177,670.00</u>	<u>172,305,658.80</u>	<u>300,178,592.46</u>	<u>384,570,303.04</u>	<u>428,242,334.18</u>

(1) Operating income/cost – in classification of products/business

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Main operating income	—	—	—	—	—
Printing machine	201,914,156.95	189,391,086.33	327,543,008.42	418,884,724.34	425,417,992.90
Attachment	2,462,757.82	8,635,984.29	10,779,556.91	11,017,799.59	5,461,630.21
others	<u>0.00</u>	<u>11,030,829.28</u>	<u>12,763,934.75</u>	<u>254,475.83</u>	<u>18,511.70</u>
Total	<u>204,376,914.77</u>	<u>209,057,899.90</u>	<u>351,086,500.08</u>	<u>430,156,999.76</u>	<u>430,898,134.81</u>
Main operating cost	—	—	—	—	—
Printing machine	175,322,726.53	152,976,225.97	275,915,772.60	368,848,358.39	415,478,634.75
Attachment	1,598,325.54	7,857,038.85	9,312,174.88	9,024,920.73	7,814,681.75
others	<u>0.00</u>	<u>8,920,100.35</u>	<u>10,621,703.14</u>	<u>312,608.66</u>	<u>2,266.68</u>
Total	<u>176,921,052.07</u>	<u>169,753,365.17</u>	<u>295,849,650.62</u>	<u>378,185,887.78</u>	<u>423,295,583.18</u>

- (2) The total sales income from the Group's top 5 clients are RMB52,141,880.35, RMB55,472,408.78, RMB87,967,521.37, RMB81,710,164.92 and RMB78,982,051.28 in January to July 2012, January to July 2011, 2011, 2010 and 2009 respectively, accounted 24.56%, 26.53%, 25.06%, 18.37% and 18.33% of the total sales income of the year respectively.

5. Investment income

(1) Sources of investment income

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Investment income of long-term shareholding in equity method	-260,261.42	47,397.88	206,880.50	466,489.04	622,102.42
Investment income of disposal of long-term shareholding investment	0.00	0.00	0.00	125,144,087.84	-2,484,000.00
Total	<u>-260,261.42</u>	<u>47,397.88</u>	<u>206,880.50</u>	<u>125,610,576.88</u>	<u>-1,861,897.58</u>

There was no significant limit for remittance of investment income of the Company.

(2) Investment income of long-term shareholding in equity method

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Total	<u>-260,261.42</u>	<u>47,397.88</u>	<u>206,880.50</u>	<u>466,489.04</u>	<u>622,102.42</u>
Among the total:	-	-	-	-	-
Beijing Beiying Casting Company Limited	-269,525.25	35,988.38	192,796.22	387,862.90	537,781.17
Beijing Monigraf Automations Co., Ltd.	9,263.83	11,409.50	14,084.28	78,626.14	84,321.25
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	0.00	0.00	0.00	0.00	0.00

6. Parents Income statement Supplementary Information

Item	Jan-Jul 2012	Jan-Jul 2011	2011
1. Consolidated Net profit into Cash Flow			
From Operating Activities:			
Net Profit	-38,711,102.08	-8,703,188.28	4,760,087.54
Add: Asset impairment	14,933,463.79	10,455,323.53	10,039,314.69
Depreciation – Fixed assets and amortization of investment properties	14,106,510.65	15,611,140.98	26,611,759.26
Amortization – Intangible Assets	1,183,973.00	1,305,627.93	2,029,667.90
Amortization – Long term deferred expenses	0.00	0.00	0.00
Loss from the sale of fixed assets, assets (earnings show as “-”)	44,054.31	-4,350.00	-16,080,531.13
Loss of fixed assets scrapped (earnings show as “-”)	0.00	0.00	0.00
Changes in fair value through profit or loss (earnings show as “-”)	0.00	0.00	0.00
Finance expense (earnings show as “-”)	3,988,715.62	2,333,820.84	4,908,149.17
Loss on Investment (earnings show as “-”)	260,261.42	-47,397.88	-206,880.50
Decrease on Deferred Income tax (increases show as “-”)	0.00	0.00	0.00
Increase on Deferred Income tax (decreases show as “-”)	0.00	0.00	0.00
Decrease on Inventory (decreases show as “-”)	-45,713,760.21	-20,540,050.13	-38,686,135.15
Decrease on Operating Receivables (increases show as “-”)	-30,058,968.05	17,811,403.18	62,747,508.06
Increase on Operating Payables (decreases show as “-”)	24,764,680.44	-50,632,250.06	-63,177,833.43
Others	0.00	0.00	0.00
Net Value on Cash Flow From Operating Activities	-55,202,171.11	-32,409,919.89	-7,054,893.59
2. Non-cash income and expenditure of the major investment and financing activities:			
Conversion of debt into capital	0.00	0.00	0.00
Convertible corporate bonds – Due within 1 year	0.00	0.00	0.00
Finance lease of fixed assets	0.00	0.00	0.00
3. Net changes in cash and cash equivalents:			
Closing Balance of cash	78,234,001.57	39,566,265.58	133,470,663.08
Less: Opening Balance of cash	133,470,663.08	74,222,278.37	74,222,278.37
Add: Closing Balance of cash equivalents	0.00	0.00	0.00
Less: Opening Balance of cash equivalents	0.00	0.00	0.00
Net Increase on cash and cash equivalents	-55,236,661.51	-34,656,012.79	59,248,384.71

(continued)

Item	2010	2009
1. Consolidated Net profit into Cash Flow		
From Operating Activities:	—	—
Net Profit	-14,000,538.34	-152,695,508.46
Add: Asset impairment	64,876,491.11	30,293,161.69
Depreciation – Fixed assets	28,912,222.20	32,576,635.11
Amortization – Intangible Assets	2,264,507.04	2,343,369.72
Amortization – Long term deferred expenses	44,000.00	66,000.00
Loss from the sale of fixed assets, assets (earnings show as “-”)	4,239,678.05	-1,058,330.32
Loss of fixed assets scrapped (earnings show as “-”)	0.00	0.00
Changes in fair value through profit or loss (earnings show as “-”)	0.00	0.00
Finance expense (earnings show as “-”)	12,326,450.73	13,090,188.00
Loss on Investment (earnings show as “-”)	-125,610,576.88	-1,861,897.58
Decrease on Deferred Income tax (increases show as “-”)	0.00	0.00
Increase on Deferred Income tax (decreases show as “-”)	0.00	0.00
Decrease on Inventory (decreases show as “-”)	97,192,107.22	150,772,618.04
Decrease on Operating Receivables (increases show as “-”)	26,296,225.22	54,480,733.29
Increase on Operating Payables (decreases show as “-”)	-129,207,585.21	-37,196,038.60
Others	709,500.18	0.00
Net Value on Cash Flow From Operating Activities	-31,957,518.68	90,810,930.89
2. Non-cash income and expenditure of the major investment and financing activities:	—	—
Conversion of debt into capital	0.00	0.00
Convertible corporate bonds – Due within 1 year	0.00	0.00
Finance lease of fixed assets	0.00	0.00
3. Net changes in cash and cash equivalents):		
Closing Balance of cash	74,222,278.37	86,568,028.75
Less: Opening Balance of cash	86,568,028.75	47,941,532.77
Add: Closing Balance of cash equivalents	0.00	0.00
Less: Opening Balance of cash equivalents	0.00	0.00
Net Increase on cash and cash equivalents	-12,345,750.38	38,626,495.98

XVII.SUPPLEMENTARY INFORMATION

1. Non-operating profit and loss statement

Extraordinary profit and loss of the Company under Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public No. 1-Extraordinary Profit And Loss (2008) is are follows:

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Profit and loss from Non current-assets	-999,713.01	-1,176,846.28	14,958,555.12	4,279,750.48	764,693.49
Government subsidies in current profit and loss	4,581,883.66	65,024.50	2,615,267.06	9,675,745.75	8,435,792.39
Debt restructuring gains and losses	0.00	96,281.69	96,281.69	1,583,495.15	22,577.81
Impairment reversal on impairment tested receivables	276,212.59	0.00	0.00	1,161,100.00	764,232.29
Adjustment impact on the current profit and loss in according to the tax, accounting and other laws and regulations	0.00	0.00	0.00	0.00	-456,479.58
Profit and loss on transfer of holding long-term equity investment	0.00	0.00	0.00	172,039,266.78	630,814.67
Other non-operating income and expenses	-1,883,185.29	1,639,066.65	25,425,169.26	99,483.45	1,383,093.49
Sub-total	<u>1,975,197.95</u>	<u>623,526.56</u>	<u>43,095,273.13</u>	<u>188,838,841.61</u>	<u>11,544,724.56</u>
Income tax effect	0.00	0.00	0.00	0.00	0.00
Minority Interests effect (after tax)	<u>244,920.68</u>	<u>293,402.11</u>	<u>859,296.92</u>	<u>556,670.32</u>	<u>732,517.57</u>
Total	<u>1,730,277.27</u>	<u>330,124.45</u>	<u>42,235,976.21</u>	<u>188,282,171.29</u>	<u>10,812,206.99</u>

2. Accounting Data variation between P.R.C accounting standards and Hong Kong GAAP

(1) Differences between net profits and net assets as set out in the financial report prepared under International Financial Reporting Standards and that under PRC accounting standards

Unit: RMB '000

Item	Jan-Jul 2012	Jan-Jul 2011	Net profit 2011	2010	2009
Under HK GAAP:	-48,541	2,546	13,630	27,422	-179,187
1. Difference in valuation of net assets contributed to the Company by Beiren Group Corporation	0	0	0	-60,198	0
2. Consequential adjustment on net assets contributed by Beiren Group Corporation	0	0	0	48,475	-66
3. Difference in valuation of capital contribution to subsidiaries	0	0	0	-166	-31
4. Recognition of goodwill upon acquisition of a subsidiary	0	0	0	1,344	0
5. Amortization of goodwill upon acquisition of a subsidiary	0	0	0	-1,344	0
6. Others	0	0	0	3,937	-234
Under PRC accounting standards	-48,541	2,546	13,630	19,470	-179,518

Item	Jan-Jul 2012	Jan-Jul 2011	Net assets 2011	2010	2009
Under HK GAAP:	726,151	758,567	774,743	761,113	733,852
1. Difference in valuation of net assets contributed to the Company by Beiren Group Corporation	0	0	0	0	60,198
2. Consequential adjustment on net assets contributed by Beiren Group Corporation	0	0	0	0	-48,475
3. Difference in valuation of capital contribution to subsidiaries	0	0	0	0	166
4. Recognition of goodwill upon acquisition of a subsidiary	-3,135	-3,135	-3,135	-3,135	-4,479
5. Amortization of goodwill upon acquisition of a subsidiary	3,135	3,135	3,135	3,135	4,479
6. Others	0	0	0		-2,432
Under PRC accounting standards	726,151	758,567	774,743	761,113	743,309

3. Returns on net assets and earnings per share

The Company's fully diluted and weighted average return on net assets and earnings per share as required under "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 09) – Calculations And Disclosures For The Return On Net Assets And Earnings Per Share" issued by CSRC are as follows:

(1) return on net assets and earnings per share of the reporting period

Profit of the period	Reporting period	Return on net assets		Earnings per share	
		Fully diluted	Weighted average	Basic	Diluted
Net profit for equity holders of the parent company	Jan-Jul 2012	-6.66%	-6.45%	-0.11	-0.11
	Jan-Jul 2011	-0.59%	-0.59%	-0.01	-0.01
	2011	1.50%	-1.52%	0.03	0.03
	2010	2.99%	3.04%	0.05	0.05
	2009	-24.07%	-21.49%	-0.41	-0.41
Net profit for equity holders of the parent company after extraordinary items	Jan-Jul 2012	-6.91%	-6.68%	-0.12	-0.12
	Jan-Jul 2011	-0.64%	-0.64%	-0.01	-0.01
	2011	-4.08%	-4.11%	-0.07	-0.07
	2010	-22.28%	-22.62%	-0.39	-0.39
	2009	-25.57%	-22.82%	-0.44	-0.44

(2) relevant data used in the calculation

Item	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Net profit for equity holders of the parent company	-47,244,464.23	-4,389,843.29	11,382,900.84	22,279,381.53	-174,004,582.85
Non-operating profit and loss attributable to equity holders of the parent company	1,730,277.27	330,124.45	42,235,976.21	188,282,171.29	10,812,206.99
Net profit for equity holders of the parent company after extraordinary items	-48,974,741.50	-4,719,967.74	-30,853,075.37	-166,002,789.76	-184,816,789.84
Net asset attributable to equity holders of the parent company at end of period	709,098,130.20	744,999,407.83	756,382,308.67	744,999,407.83	722,862,519.49
Weighted average net assets attributable to equity holders of the parent company at end of period	732,760,076.56	742,804,486.19	750,690,858.25	734,002,210.26	809,864,810.92
Weighted average number of ordinary shares	422,000,000.00	422,000,000.00	422,000,000.00	422,000,000.00	422,000,000.00

XVIII. OTHER INFORMATION TO BE DISCLOSED

1. Revenue

Revenue includes the net value of the received and receivable for the sales of different type of the printing machine unites and service rendered as follows:

Item	Jan-Jul 2012	Jan-Jul 2011	2011
Sales of hectograph machine	201,914,156.95	189,391,086.33	327,543,008.42
Sales of intaglio printing machine	187,172,945.54	204,674,966.69	363,587,203.39
Sales of form machinery	26,229,567.31	34,747,863.24	62,445,299.14
Sales of spares parts	7,736,175.50	16,157,864.22	22,937,152.71
Others	613,549.25	7,922,686.81	8,337,475.07
Sales revenue	423,666,394.55	452,894,467.29	784,850,138.73
Less: tax and other expenses	2,781,649.84	2,767,989.77	6,017,580.63
Total	420,884,744.71	450,126,477.52	778,832,558.10

Item	2010	2009
Sales of hectograph machine	431,053,389.36	448,572,601.58
Sales of intaglio printing machine	299,370,754.59	233,438,692.09
Sales of form machinery	44,799,531.00	26,685,627.24
Sales of spares parts	26,471,764.45	18,813,818.92
Others	3,892,154.70	25,838,362.48
Sales revenue	805,587,594.10	753,349,102.31
Less: tax and other expenses	5,564,191.62	5,887,447.78
Total	800,023,402.48	747,461,654.53

2. Tax

Item	Jan-Jul 2012	Jan-Jul 2011	2011
Business tax for the current year	0.00	0.00	0.00
Deferred tax	-135,543.99	143,400.21	30,000.22
Total	-135,543.99	143,400.21	30,000.22

(continued)

Item	2010	2009
Business tax for the current year	0.00	-883,911.37
Deferred tax	5,499,059.02	411,627.83
Total	5,499,059.02	-472,283.54

3. Dividend

During January to July 2012, the year of 2011, 2010 and 2009, there is either no dividend paid nor suggested dividend. Since the end of the reporting period, no dividend is suggested by the board.

XIX. APPROVAL OF FINANCIAL STATEMENTS

The Company's financial statements were issued with the approval of the Board of the directors of the Company on 2 November 2012.

Beiren Printing Machinery Holdings Limited

2 November 2012

The following is the text of a report received from the reporting accountants, ShineWing Certified Public Accountants, Certified Public Accountants, Beijing, the PRC in respect of the audited financial information of the Target Companies solely for the purpose of incorporation into this circular.



信永中和會計師事務所
(特殊普通合夥)

ShineWing
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To all the shareholders of Beiren Printing Machinery Holdings Limited

We set out below our report on the financial information (the “Financial Information”) of **Beijing Tianhai Industry Co., Ltd.** (北京天海工業有限公司) (“Tianhai Industrial”) and its subsidiaries (collectively referred to as the “Tianhai Industrial and its subsidiaries”) for each of three years ended 31 December 2009, 2010 and 2011, and the seven months ended 31 July 2012 (the “Relevant Periods”), prepared on the basis set out in Note 2 below, for inclusion in the circular of Beiren Printing Machinery Holdings Limited (the “Circular”).

Tianhai Industrial was incorporated in July 1992 with limited liability.

Tianhai Industrial and its subsidiaries have adopted 31 December as their financial year end date. As at the date of this report, **Tianhai Industrial** is interested in the subsidiaries as set out in Appendix VI of this report.

The statutory financial statements of **Tianhai Industrial and its subsidiaries** prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) and were audited by **ShineWing Certified Public Accountants (special general partnership)**, a certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

For the purpose of this report, the management of **Tianhai Industrial** have prepared the financial statements of **Tianhai Industrial and its subsidiaries** and **Tianhai Industrial** for the Relevant Period that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2, for which the management of Tianhai Industrial are solely responsible for. We have carried out the independent audit in accordance with China Auditing Standards for Certified Public Accountants.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing

Standards for Certified Public Accountants and Statement 3.340 Auditing Guideline “Prospectuses and the Reporting Accountant” issued by Hong Kong Institute of Certified Public Accountants.

The management of Tianhai Industrial are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of **Tianhai Industrial and its subsidiaries** and **Tianhai Industrial** as at 31 December 2009, 2010 and 2011 and 31 July 2012, and of the operating results and cash flows of **Tianhai Industrial and its subsidiaries** and **Tianhai Industrial** for the Relevant Periods.

REVIEW ON THE COMPARATIVE FINANCIAL INFORMATION AT THE END OF THE REPORTING PERIOD

We have reviewed the comparative financial information contained in this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of **Tianhai Industrial, Tianhai Industrial and its subsidiaries** for the seven months ended 31 July 2011 (“comparative financial information”).

The management of **Tianhai Industrial** has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2 of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the basis set out in Note 2(1) of this report.

ShineWing Certified Public Accountants
(Special General Partnership)

Beijing, China, 26 October 2012

CONSOLIDATED BALANCE SHEET

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Assets:					
Cash and cash balances	VII.1	77,683,384.45	123,072,267.05	106,694,286.10	87,598,336.63
Settlement reserves					
Placements with banks and other financial institutions					
Tradable Financial Assets					
Notes Receivable	VII.2	3,248,565.59	13,294,712.87	1,000,000.00	410,000.00
Accounts Receivable	VII.3	323,235,962.22	166,217,484.81	104,325,561.91	93,338,159.54
Prepayments	VII.4	49,504,311.86	65,422,655.15	35,151,928.97	45,621,159.37
Premium receivables					
Reinsurance receivable					
Reinsurance contract deposits receivable					
Interests Receivable					
Dividend Receivable					
Other Accounts Receivable	VII.5	4,506,969.24	11,042,065.25	7,261,261.44	6,137,823.64
Financial assets purchased under resale agreements					
Inventory	VII.6	430,643,038.57	458,040,333.08	340,629,963.45	261,597,757.53
Non-current Assets maturing within one year					
Other Current Assets					
Total Current Assets		888,822,231.93	837,089,518.21	595,063,001.87	494,703,236.71
Non-current Assets					
Loans and advances to other parties					
Financial Assets available for sale					
Holding to Maturity Investment					
Long-term Accounts Receivable					
Long-term Equity Investment	VII.7	510,032.61	622,526.29	1,090,547.18	2,172,702.75
Investment Property					
Fixed Assets	VII.8	631,093,318.40	542,289,731.04	563,642,587.91	561,143,024.75
Construction in Progress	VII.9	162,383,579.94	215,276,788.41	38,747,937.76	35,798,691.60
Project Materials					
Disposal of Fixed Assets					
Productive biological assets					
Oil and gas assets					
Intangible Assets	VII.10	50,232,211.43	51,148,663.69	53,394,010.58	53,901,048.28
Research and development expenses					
Goodwill	VII.11	6,562,344.06	6,562,344.06	6,562,344.06	—
Long-term Prepayments	VII.12	700,932.83	276,556.45	191,092.53	764,370.13
Deferred Income Tax Assets	VII.13	2,795,393.02	2,697,994.71	2,181,187.77	1,567,210.24
Other Non-current Assets		—	—	—	—
Total Non-current Assets		854,277,812.29	818,874,604.65	665,809,707.79	655,347,047.75
Total Assets		1,743,100,044.22	1,655,964,122.86	1,260,872,709.66	1,150,050,284.46

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED BALANCE SHEET (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Liabilities:					
Short-term Loan	VII.15	305,000,000.00	145,000,000.00	125,000,000.00	264,881,836.00
Borrowings from central bank					
Deposits and interbank deposit					
Placements from banks					
and other financial institutions					
Tradable Financial Liabilities					
Notes Payable	VII.16	74,000,000.00	70,000,000.00	89,000,000.00	94,000,000.00
Accounts Payable	VII.17	371,733,350.72	310,686,573.83	232,826,761.83	167,943,963.37
Advances from Customers	VII.18	30,714,683.81	54,992,059.76	56,852,490.51	38,775,189.34
Financial assets sold under					
agreements to repurchase					
Fee and commission payable					
Employee Benefit Payable		20,554,692.96	14,266,743.50	8,649,103.01	10,100,866.81
Taxes Payable	VII.19	-2,656,173.93	-7,827,552.83	-3,729,226.83	6,958,597.64
Interests Payable	VII.20	3,510,127.66	475,337.78	220,061.25	150,645.69
Dividends Payable	VII.21	1,300,000.00	3,640,000.00		
Other Payables	VII.22	413,971,407.45	545,554,287.30	188,838,464.58	37,780,659.80
Reinsurance payables	VII.23				
Insurance contract					
deposits payable					
Brokerage fee					
Underwriting fee					
Non-current Liabilities maturing					
within one year	VII.24		30,000,000.00		20,000,000.00
Other Current Liabilities					
Total Current Liabilities		<u>1,218,128,088.67</u>	<u>1,166,787,449.34</u>	<u>697,657,654.35</u>	<u>640,591,758.65</u>
Non-Current Liabilities					
Long-term Loan	VII.25			50,000,000.00	
Bonds Payable					
Long-term Accounts Payable					
Special Payable					
Estimated liabilities					
Deferred Income Tax Liabilities					
Other Non-current Liabilities	VII.26	2,619,000.00	2,700,000.00		
Total Non-current Liabilities		<u>2,619,000.00</u>	<u>2,700,000.00</u>	<u>50,000,000.00</u>	
Total Liabilities		<u>1,220,747,088.67</u>	<u>1,169,487,449.34</u>	<u>747,657,654.35</u>	<u>640,591,758.65</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Shareholder's Equity					
Stock	VII.27	163,909,682.67	163,909,682.67	163,909,682.67	163,909,682.67
Capital Reserves	VII.28	81,883,275.25	81,883,275.25	144,821,830.74	139,163,601.83
Less: Treasury Stock					
Special Reserve					
Surplus Reserves	VII.29	921,277.04	921,277.04	2,674,608.11	2,674,608.11
General risk reserve					
Undistributed Profit	VII.30	153,198,518.67	122,422,332.56	81,793,964.99	89,950,369.14
Converted Difference in Foreign Currency Statements		-937,935.92	-1,001,946.25	-421,037.09	
Total Shareholder's Equity attributed to the Parent		398,974,817.71	368,134,621.27	392,779,049.42	395,698,261.75
Minority Shareholder's Equity	VII.31	123,378,137.84	118,342,052.25	120,436,005.89	113,760,264.06
Total Shareholder's Equity		522,352,955.55	486,476,673.52	513,215,055.31	509,458,525.81
Total Liabilities and Shareholder's Equity		1,743,100,044.22	1,655,964,122.86	1,260,872,709.66	1,150,050,284.46

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

BALANCE SHEET OF THE PARENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Assets:					
Cash and cash balances		50,061,145.82	67,300,722.88	47,884,945.15	49,882,512.16
Tradable Financial Assets					
Notes Receivable			13,154,712.87		
Accounts Receivable	XII.1	296,170,140.52	127,048,816.70	90,833,107.92	82,916,128.82
Prepayments		78,779,132.12	96,748,747.19	108,384,500.29	73,815,487.02
Interests Receivable					
Dividends Receivable			1,560,000.00		
Other Accounts Receivable	XII.2	122,795,739.36	130,946,467.09	4,861,479.48	48,441,132.13
Inventory		246,072,366.04	259,405,654.52	216,695,351.06	159,008,715.62
Non-current Assets maturing within one year					
Other Current Assets					
Total Current Assets		793,878,523.86	696,165,121.25	468,659,383.90	414,063,975.75
Non-current Assets					
Financial Assets available for sale					
Holding to Maturity Investment					
Long-term Accounts Receivable					
Long-term Equity Investment	XII.3	243,849,316.84	243,961,810.52	82,191,987.08	46,947,216.68
Investment Property					
Fixed Assets		210,727,463.16	201,997,730.48	190,662,270.14	196,826,178.62
Construction in Progress		23,084,196.77	24,975,836.28	36,782,195.92	25,415,204.12
Project Materials					
Disposal of Fixed Assets					
Productive biological assets					
Oil and gas assets					
Intangible Asset		8,585,084.96	9,022,112.00	9,771,301.24	8,813,440.44
Research and development expenses					
Goodwill					
Long-term Prepayments					
Deferred Income Tax Assets		1,153,393.36	436,881.63	231,491.82	363,312.85
Other Non-current Assets					
Total Non-current Assets		487,399,455.09	480,394,370.91	319,639,246.20	278,365,352.71
Total Assets		1,281,277,978.95	1,176,559,492.16	788,298,630.10	692,429,328.46

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

BALANCE SHEET OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Assets	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Liabilities:					
Short-term Loan		240,000,000.00	80,000,000.00	60,000,000.00	120,000,000.00
Tradable Financial Liabilities					
Notes Payable		50,000,000.00	50,000,000.00	27,000,000.00	35,000,000.00
Accounts Payable		229,406,860.79	126,300,506.87	161,595,644.60	117,243,582.77
Advances from Customers		26,630,346.34	49,230,857.26	53,518,182.76	31,144,922.61
Employee Benefit Payable		13,072,345.32	7,702,365.41	4,458,044.92	6,804,351.06
Taxes Payable		-7,649,971.87	-108,728.78	-3,651,492.74	12,062,480.43
Interests Payable		2,895,327.66			
Dividends Payable					
Other Payables		333,729,662.69	462,154,040.63	93,641,710.10	29,870,790.35
Non-current Liabilities maturing within one year			30,000,000.00		20,000,000.00
Other Current Liabilities					
Total Current Liabilities		888,084,570.93	805,279,041.39	396,562,089.64	372,126,127.22
Non-Current Liabilities					
Long-term Loan				50,000,000.00	
Bonds Payable					
Long-term Accounts Payable					
Special Payable					
Estimated liabilities					
Deferred Income Tax Liabilities					
Other Non-current Liabilities		2,619,000.00	2,700,000.00		
Total Non-current Liabilities		2,619,000.00	2,700,000.00	50,000,000.00	
Total Liabilities		890,703,570.93	807,979,041.39	446,562,089.64	372,126,127.22
Shareholder's Equity					
Stock		163,909,682.67	163,909,682.67	163,909,682.67	163,909,682.67
Capital Reserves		9,807,386.27	9,807,386.27	17,872,168.47	9,248,903.59
Less: Treasury Stock					
Special Reserve					
Surplus Reserves				1,753,331.07	1,753,331.07
General risk reserve					
Undistributed Profit		216,857,339.08	194,863,381.83	158,201,358.25	145,391,283.91
Total shareholder's equity		390,574,408.02	368,580,450.77	341,736,540.46	320,303,201.24
Total Liabilities and Shareholder's Equity		1,281,277,978.95	1,176,559,492.16	788,298,630.10	692,429,328.46

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED INCOME STATEMENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Total Operating Income		1,398,822,809.48	1,379,784,679.39	2,331,544,267.05	1,894,787,822.26	1,684,292,753.94
Thereinto: Operating Income	VII.32	1,398,822,809.48	1,379,784,679.39	2,331,544,267.05	1,894,787,822.26	1,684,292,753.94
Interest income						
Premiums earned						
Fee and commission income						
2. Total Operating Cost		1,355,000,743.62	1,346,298,190.04	2,275,127,239.53	1,902,612,873.99	1,682,462,375.30
Thereinto: Operating Cost	VII.32	1,192,831,536.48	1,206,075,950.34	2,001,170,579.49	1,688,160,788.40	1,493,851,404.13
Interest expense						
Handling fees and commission expense						
Premiums refunded						
Net payment for claims						
Net reserve for insurance policies						
Bonus paid for insurance policies						
Reinsurance expenses						
Tax and Additional Expense	VII.33	2,086,211.85	1,523,727.06	2,310,299.87	223,926.99	
Sales Expense	VII.34	45,421,105.82	41,140,229.25	76,985,141.76	67,871,821.69	56,329,998.80
Administration Expense	VII.35	97,305,977.12	82,228,847.39	166,745,298.11	125,576,392.17	117,106,923.84
Financial Expense	VII.36	15,867,448.13	14,756,301.52	25,661,210.43	21,075,534.24	14,396,838.89
Assets Impairment Losses	VII.37	1,488,464.22	573,134.48	2,254,709.87	-295,589.50	777,209.64
Add: Income of Fair Value Change (loss marked "-")						
Investment Income (loss marked "-")	VII.38	-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42
Thereinto: Investment Income to Subsidiaries and Joint Venture		-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42
Exchange gains (loss marked "-")						
3. Operating Profit (loss marked "-")		43,709,572.18	33,065,757.08	55,949,006.63	-8,907,207.30	1,060,103.22
Add: Non-operating Income	VII.39	827,339.37	619,233.79	1,724,388.36	242,319.80	3,424,847.76
Less: Non-operating Expense	VII.40	217,910.90	235,475.89	708,086.25	856,085.65	389,418.47
Thereinto: Disposal Loss of Non-current Assets		204,201.81	233,952.70	706,563.06	747,538.64	387,327.47
4. Total Profit (loss marked "-")		44,319,000.65	33,449,514.98	56,965,308.74	-9,520,973.15	4,095,532.51
Less: Income Tax Expense	VII.41	8,568,229.08	5,432,397.60	9,888,972.97	2,891,981.97	13,191,946.53
5. Net Profit		35,750,771.57	28,017,117.38	47,076,335.77	-12,412,955.12	-9,096,414.02
Net Profit Attributed to the Parent's Shareholders		30,776,186.11	25,442,796.87	44,744,661.01	-8,156,404.15	2,251,314.08
Net profit of entities under common control merged before the date of merger			723,922.38	1,575,754.24	-22,954,463.87	-25,909,649.32
Minority Shareholder's Equity		4,974,585.46	2,574,320.51	2,331,674.76	-4,256,550.97	-11,347,728.10
6. Earnings per Share:						
(1) Basic Earnings per Share						
(2) Earnings per Diluted Share						
7. Other Comprehensive Income	VII.42	125,510.46	-625,609.29	-1,139,037.56	-825,562.93	
8. Total Comprehensive Income		35,876,282.03	27,391,508.09	45,937,298.21	-13,238,518.05	-9,096,414.02
Total Comprehensive Income of the Parent's Shareholders		30,840,196.44	25,123,736.12	44,163,751.85	-8,577,441.24	2,251,314.08
Total Comprehensive Income of the Minority Shareholders		5,036,085.59	2,267,771.97	1,773,546.36	-4,661,076.81	-11,347,728.10

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

INCOME STATEMENT OF THE PARENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Total Operating Income	<i>XIII.4</i>	1,549,834,617.37	1,516,552,281.69	2,593,383,116.51	2,105,950,052.49	1,801,945,538.28
Less: Operating Cost	<i>XIII.4</i>	1,410,731,789.51	1,401,888,947.50	2,362,415,063.84	1,940,299,465.85	1,625,913,038.93
Tax and Additional Expense		78,057.16		11,705.20	6,700.00	
Sales Expense		41,519,706.30	36,428,274.06	69,359,383.99	64,467,532.50	54,385,653.44
Administration Expense		58,655,562.32	42,900,277.06	95,492,137.77	70,707,603.38	65,694,081.19
Financial Expense		9,901,247.51	9,584,784.42	16,485,598.08	13,743,441.41	8,223,547.28
Assets Impairment Losses		2,821,887.33	105,210.11	1,369,265.36	-314,516.79	565,796.21
Add: Income of Fair Value Change (loss marked "-")						
Investment Income (loss marked "-")	<i>XIII.5</i>	-112,493.68	-420,732.27	1,091,979.11	-1,082,155.57	-770,275.42
Thereinto: Investment Income to Subsidiaries and Joint Venture		-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42
2. Operating Profit (loss marked "-")		26,013,873.56	25,224,056.27	49,341,941.38	15,957,670.57	46,393,145.81
Add: Non-operating Income		825,791.83	131,833.79	236,988.36	159,176.80	1,893,599.76
Less: Non-operating Expense		188,052.82	212,834.10	672,133.48	754,469.54	388,507.47
Thereinto: Disposal Loss of Non-current Assets		188,052.82	212,834.10	672,133.48	645,922.53	386,507.47
3. Total Profit (loss marked "-")		26,651,612.57	25,143,055.96	48,906,796.26	15,362,377.83	47,898,238.10
Less: Income Tax Expense		4,657,655.32	3,097,707.05	8,128,479.24	2,552,303.49	13,836,976.99
4. Net Profit		21,993,957.25	22,045,348.91	40,778,317.02	12,810,074.34	34,061,261.11
5. Earnings per Share:						
(1) Basic Earnings per Share						
(2) Earnings per Diluted Share						
6. Other Comprehensive Income						
7. Total Comprehensive Income		21,993,957.25	22,045,348.91	40,778,317.02	12,810,074.34	34,061,261.11

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED CASH FLOW STATEMENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Cash Flow from Operating Activities:						
Cash receipts from the sale of goods and the rendering of services		827,208,714.77	907,568,096.07	1,549,912,040.95	1,452,219,049.78	1,231,083,403.17
Net increase in customer deposits and interbank placement						
Net increase in loans from central bank						
Net increase in loans from other financial institutions						
Cash received from premiums of existing insurance policies						
Net cash received from reinsurance business						
Net increase in reserves and investment from policy holders						
Net increase in disposal of held-for-trading financial assets						
Cash received from interests, handling fees and commission						
Net increase in borrowed funds						
Net increase in funds for repurchase of business						
Receipts of taxes and levy refunds		17,582,948.69	22,695,214.20	37,634,783.05	34,446,573.07	20,367,444.77
Other cash receipts in operating activities	VII.43	7,084,787.76	1,321,925.56	27,034,229.60	12,917,071.97	12,223,908.55
Subtotal Cash Flow-in from Operating Activities		851,876,451.22	931,585,235.83	1,614,581,053.60	1,499,582,694.82	1,263,674,756.49
Cash payments for goods and services acquired		562,137,683.69	689,476,184.48	1,218,236,341.36	1,016,675,939.18	915,458,073.87
Net increase in loans and advances to customers						
Net increase in deposit with central bank and peers						
Cash paid for claims under existing insurance policies						
Cash paid for interests, handling fees and commission						
Cash paid for bonus of insurance policies						
Cash payments to and on behalf of employees		150,887,092.81	147,288,588.84	255,410,150.93	211,752,568.23	167,145,233.38
Payments of taxes and levy		30,980,760.81	31,078,000.10	48,903,878.14	38,265,580.48	47,610,267.79
Other cash payments from Operating Activities	VII.43	76,959,016.13	112,248,196.60	168,919,795.30	173,572,171.24	148,722,140.39
Subtotal Cash Flow-out from Operating Activities		820,964,553.44	980,090,970.02	1,691,470,165.73	1,440,266,259.13	1,278,935,715.43
Net Cash Flow from Operating Activities		30,911,897.78	-48,505,734.19	-76,889,112.13	59,316,435.69	-15,260,958.94

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
2. Cash Flow from Investing Activities:						
Cash receipts from return of investments						
Cash receipts from investment income						
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets		15,000.00	27,050.00	301,046.68	246,355.37	211,900.00
Net cash receipts from disposal of subsidiaries and other business units						
Other cash receipts in investing activities						
Total Cash Flow-in from Investing Activities		15,000.00	27,050.00	301,046.68	246,355.37	211,900.00
Cash payments to acquired fixed assets, intangible assets and other long-term assets		52,486,624.10	21,574,310.14	137,711,532.60	68,604,752.06	59,388,448.53
Cash payments to acquired investments				68,808,180.00	9,203,700.00	
Pledged loans						
Net cash payment to acquired subsidiaries and other business units						
Other cash payments in investing activities						
Total Cash Flow-out from Investing Activities		52,486,624.10	21,574,310.14	206,519,712.60	77,808,452.06	59,388,448.53
Net Cash Flow from Investing Activities		-52,471,624.10	-21,547,260.14	-206,218,665.92	-77,562,096.69	-59,176,548.53

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
3. Cash Flow from Financing Activities:						
Cash proceeds from absorbing investment					3,397,120.15	
Thereinto: cash receipts from absorbing minority shareholders' investment by subsidiary					3,397,120.15	
Cash receipts from borrowings		315,000,000.00	185,000,000.00	200,000,000.00	190,000,000.00	279,881,836.00
Cash received from bond issuance						
Other cash receipts in financing activities	VII.43		100,000,000.00	436,800,000.00	168,000,000.00	10,000,000.00
Total Cash Flow-in from Financing Activities		315,000,000.00	285,000,000.00	636,800,000.00	361,397,120.15	289,881,836.00
Cash repayments of amount borrowed		185,000,000.00	165,000,000.00	200,000,000.00	299,881,836.00	215,000,000.00
Cash payments for distribution of dividends, profits or interest expenses		16,165,500.61	10,228,709.95	20,296,415.86	16,895,521.96	20,887,878.93
Thereinto: dividend and profit paid by subsidiaries to minority shareholders						
Other cash payments in financing activities	VII.43	130,000,000.00		88,000,000.00		
Subtotal Cash Flow-out from financing Activities		331,165,500.61	175,228,709.95	308,296,415.86	316,777,357.96	235,887,878.93
Net Cash Flow from Financing Activities		-16,165,500.61	109,771,290.05	328,503,584.14	44,619,762.19	53,993,957.07
4. Effect of exchange rate change on cash and cash equivalent		839,679.52	-1,851,293.17	-2,983,052.11	-2,918,697.84	-102,398.04
5. Net Increased Cash and Cash Equivalent		-36,885,547.41	37,867,002.55	42,412,753.98	23,455,403.35	-20,545,948.44
Add: the Beginning Balance of Cash and Cash Equivalent		88,568,931.86	46,156,177.88	46,156,177.88	22,700,774.53	43,246,722.97
6. The Ending Balance of Cash and Cash Equivalent		51,683,384.45	84,023,180.43	88,568,931.86	46,156,177.88	22,700,774.53

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CASH FLOW STATEMENT OF THE PARENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Cash Flow from Operating Activities:						
Cash receipts from the sale of goods and the rendering of services		1,007,660,968.39	949,303,285.51	1,640,141,290.65	1,456,053,798.61	1,197,178,347.37
Receipts of taxes and levy refunds		17,473,910.09	21,781,046.79	36,710,532.82	33,829,754.71	20,367,444.77
Other Cash receipts relating to operating activities		2,089,581.07	17,529,177.39	27,153,720.99	29,315,635.89	4,250,090.54
Subtotal Cash Inflow from Operating Activities		1,027,224,459.55	988,613,509.69	1,704,005,544.46	1,519,199,189.21	1,221,795,882.68
Cash payments for goods and services acquired		871,842,411.30	766,345,260.60	1,378,588,960.74	1,185,935,458.09	966,120,442.60
Cash payments to and on behalf of employees		79,522,975.00	87,072,069.77	148,059,854.90	131,304,377.78	108,837,756.90
Payments of taxes and levy		9,533,738.69	10,352,641.29	13,228,677.29	16,402,496.07	29,197,280.67
Other cash payments relating to Operating Activities		51,971,745.97	182,540,054.79	265,436,036.35	144,000,848.59	106,471,522.45
Subtotal Cash Outflow from Operating Activities		1,012,870,870.96	1,046,310,026.45	1,805,313,529.28	1,477,643,180.53	1,210,627,002.62
Net Cash Flow from Operating Activities		14,353,588.59	-57,696,516.76	-101,307,984.82	41,556,008.68	11,168,880.06
2. Cash Flow from Investing Activities:						
Cash receipts from return of investments						
Cash receipts from investment income						
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets			27,050.00	301,046.68	246,355.37	211,900.00
Net cash receipts from disposal of subsidiaries and other business units						
Other cash receipts in investing activities						
Total Cash Inflow from Investing Activities			27,050.00	301,046.68	246,355.37	211,900.00
Cash payments to acquired fixed assets, intangible assets and other long-term assets		21,395,781.83	20,889,306.74	28,374,114.44	31,427,304.29	15,754,375.86
Cash payments to acquired investments			30,320,971.04	176,172,251.04	42,565,590.00	
Net cash payment to acquired subsidiaries and other business units						
Other cash payments in investing activities						
Subtotal Cash Outflow from Investing Activities		21,395,781.83	51,210,277.78	204,546,365.48	73,992,894.29	15,754,375.86
Net Cash Flow from Investing Activities		-21,395,781.83	-51,183,227.78	-204,245,318.80	-73,746,538.92	-15,542,475.86

CASH FLOW STATEMENT OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
3. Cash Flow from Financing Activities:						
Cash proceeds from absorbing investment						20,000,000.00
Cash receipts from borrowings		260,000,000.00	100,000,000.00	120,000,000.00	110,000,000.00	120,000,000.00
Cash receipts from bonds issuing						
Other cash receipts in financing activities			100,000,000.00	348,800,000.00	80,000,000.00	10,000,000.00
Total Cash Inflow from Financing Activities		260,000,000.00	200,000,000.00	468,800,000.00	190,000,000.00	130,000,000.00
Cash repayments of amount borrowed		130,000,000.00	80,000,000.00	120,000,000.00	140,000,000.00	120,000,000.00
Cash payments for distribution of dividends, profits or interest expenses		7,936,036.02	5,648,622.17	11,782,583.93	9,978,055.87	8,408,750.00
Other cash payments in financing activities		130,000,000.00				
Subtotal Cash Outflow from financing Activities		267,936,036.02	85,648,622.17	131,782,583.93	149,978,055.87	128,408,750.00
Net Cash Flow from Financing Activities		-7,936,036.02	114,351,377.83	337,017,416.07	40,021,944.13	1,591,250.00
4. Effect of exchange rate changes on cash and cash equivalent		741,987.39	-1,408,580.52	-2,013,561.69	-2,611,031.62	-75,396.22
5. Net Increased In Cash and Cash Equivalent		-14,236,241.87	4,063,052.77	29,450,550.76	5,220,382.27	-2,857,742.02
Add: the Beginning Balance of Cash and Cash Equivalent		49,297,387.69	19,846,836.93	19,846,836.93	14,626,454.66	17,484,196.68
6. The Ending Balance of Cash and Cash Equivalent		35,061,145.82	23,909,889.70	49,297,387.69	19,846,836.93	14,626,454.66

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	Jan-Jul 2012							Unit: RMB
	Capital Share	Capital Reserves	Treasury Stock	Less: Special Reserve	Shareholder's Equity Attributed to Parent Surplus Reserves	General risk reserve	Undistributed Profit	
1. The ending balance for last year	163,909,682.67	81,883,275.25			921,277.04		-1,001,946.25	486,476,673.52
Add: Changes in Accounting Policies								
Corrections for previous errors								
Others								
2. The beginning balance of this year	163,909,682.67	81,883,275.25			921,277.04		-1,001,946.25	486,476,673.52
3. Increase and decrease for this year (decrease represents as "-")								
(1) Net profit								
(2) Other comprehensive income								
Subtotal of (1) and (2)								
(3) Shareholders Investing and Reducing Capital								
I. Shareholders investing capital								
II. Shares payment in shareholder's equity								
III. Others								
(4) Profit distribution								
I. Provision of Surplus Reserve								
II. General risk reserve								
III. Distribution for Shareholders								
IV. Others								
(5) Shareholder's Equity Internal transfer								
I. Capital Reserve transfer to Capital (or Share Capital)								
II. Surplus Reserve transfer to Capital (or Share Capital)								
III. Surplus Reserve offset losses								
IV. Others								
(6) Special Reserves								
I. Amount provided for the current year								
II. Amount expended for the current year								
(7) Others								
4. The ending balance for this year	163,909,682.67	81,883,275.25			921,277.04		-937,955.92	522,352,955.55

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Jan-Jul 2011 (unaudited)										Unit: RMB
Items	Capital Share	Capital Reserves	Less: Treasury Stock	Shareholder's Equity Attributed to Parent		General risk reserve	Undistributed Profit	Others	Minority Shareholder's Equity	Total Shareholder's Equity
				Special Reserve	Surplus Reserves					
1. The ending balance for last year	163,909,682.67	144,821,830.74			2,674,608.11		81,793,964.99	-421,037.09	120,436,005.89	513,215,055.31
Add: Changes in Accounting Policies										
Corrections for previous errors										
Others										
2. The beginning balance of this year	163,909,682.67	144,821,830.74			2,674,608.11		81,793,964.99	-421,037.09	120,436,005.89	513,215,055.31
3. Increase and decrease for this year (decrease represents as "-")										
(1) Net profit										
(2) Other comprehensive income										
Subtotal of (1) and (2)										
(3) Shareholders Investing and Reducing Capital										
I. Shareholders investing capital										
II. Shares payment in shareholder's equity										
III. Others										
(4) Profit distribution										
I. Provision of Surplus Reserve										
II. General risk reserve										
III. Distribution for Shareholders										
IV. Others										
(5) Shareholder's Equity Internal transfer										
I. Capital Reserve transfer to Capital (or Share Capital)										
II. Surplus Reserve transfer to Capital (or Share Capital)										
III. Surplus Reserve offset losses										
IV. Others										
(6) Special Reserves										
I. Amount provided for the current year										
II. Amount expended for the current year										
(7) Others										
4. The ending balance for this year	163,909,682.67	144,821,830.74			2,674,608.11		107,236,761.86	-740,097.84	122,703,777.86	540,606,563.40

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

(Prepared by Beijing Tianhai Industry Co., Ltd.)

2011											Unit: RMB
Items	Capital Share	Capital Reserves	Less: Treasury Stock	Shareholder's Equity Attributed to Parent			General risk reserve	Undistributed Profit	Others	Minority Shareholder's Equity	Total Shareholder's Equity
				Special Reserve	Surplus Reserves	Parent					
1. The ending balance for last year	163,909,682.67	144,821,830.74			2,674,608.11			81,793,964.99	-421,037.09	120,436,005.89	513,215,055.31
Add: Changes in Accounting Policies											
Corrections for previous errors											
Others											
2. The beginning balance of this year	163,909,682.67	144,821,830.74			2,674,608.11			81,793,964.99	-421,037.09	120,436,005.89	513,215,055
3. Increase and decrease for this year (decrease and increase represents as "+")											
(1) Net profit					-1,753,331.07			40,628,367.57	-580,909.16	-2,093,933.64	-26,738,381.79
(2) Other comprehensive income								44,744,661.01		2,331,674.76	47,076,335.77
Subtotal of (1) and (2)										-558,128.40	-1,139,037.56
(3) Shareholders Investing and Reducing Capital											
I. Shareholders investing capital								44,744,661.01	-580,909.16	1,773,546.36	45,937,298.21
II. Shares payment in shareholder's equity					-1,753,331.07			-4,116,293.44			-68,808,180.00
III. Others											
(4) Profit distribution											
I. Provision of Surplus Reserve					-1,753,331.07			-4,116,293.44		-3,867,500.00	-68,808,180.00
II. General risk reserve											-3,867,500.00
III. Distribution for Shareholders											
IV. Others											
(5) Shareholder's Equity Internal transfer											
I. Capital Reserve transfer to Capital (or Share Capital)										-3,640,000.00	-3,640,000.00
II. Surplus Reserve transfer to Capital (or Share Capital)										-227,500.00	-227,500.00
III. Surplus Reserve offset losses											
IV. Others											
(6) Special Reserves											
I. Amount provided for the current year											
II. Amount expended for the current year											
(7) Others											
4. The ending balance for this year	163,909,682.67	81,883,275.25			921,277.04			122,422,332.56	-1,001,946.25	118,342,032.25	486,476,673.52
Accounting Director: Han Bingkui											Accounting Manager: Wang Yandong
Legal Person: Wang Pingsheng											

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	2010						Unit: RMB
	Capital Share	Capital Reserves	Less: Treasury Stock	Shareholder's Equity Attributed to Parent	Shareholder's Equity	Total Shareholder's Equity	
				Special Reserve	Surplus Reserves	General risk reserve	
1. The ending balance for last year	163,909,682.67	139,163,601.83			2,674,608.11		
Add: Changes in Accounting Policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	163,909,682.67	139,163,601.83			2,674,608.11		
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit							
(2) Other comprehensive income							
Subtotal of (1) and (2)		5,658,228.91					
(3) Shareholders Investing and Reducing Capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of Surplus Reserve							
II. General risk reserve							
III. Distribution for Shareholders							
IV. Others							
(5) Shareholder's Equity Internal transfer							
I. Capital Reserve transfer to Capital (or Share Capital)							
II. Surplus Reserve transfer to Capital (or Share Capital)							
III. Surplus Reserve offset losses							
IV. Others							
(6) Special Reserves							
I. Amount provided for the current year							
II. Amount expended for the current year							
(7) Others							
4. The ending balance for this year	163,909,682.67	144,821,830.74			2,674,608.11		

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

CONSOLIDATED STATEMENT OF MOVEMENT ON EQUITY (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	2009							Minority Shareholder's Equity	Total Shareholder's Equity
	Capital Share	Capital Reserves	Less: Treasury Stock	Shareholder's Equity Attributed to Parent	General risk reserve	Undistributed Profit	Others		
1. The ending balance for last year	143,909,682.67	143,517,150.41		2,674,608.11		87,699,055.06		126,194,056.41	503,994,552.66
Add: Changes in Accounting Policies									
Corrections for previous errors									
Others									
2. The beginning balance of this year	143,909,682.67	143,517,150.41		2,674,608.11		87,699,055.06		126,194,056.41	503,994,552.66
3. Increase and decrease for this year (decrease represents as "-")									
(1) Net profit	20,000,000.00	-4,353,548.58				2,251,314.08		-12,433,792.35	5,463,973.15
(2) Other comprehensive income						2,251,314.08		-11,347,728.10	-9,096,414.02
Subtotal of (1) and (2)						2,251,314.08		-11,347,728.10	-9,096,414.02
(3) Shareholders Investing and Reducing Capital									
I. Shareholders investing capital	20,000,000.00	-4,353,548.58						-1,086,064.25	14,560,387.17
II. Shares payment in shareholder's equity	20,000,000.00								20,000,000.00
III. Others		-4,353,548.58						-1,086,064.25	-5,439,612.83
(4) Profit distribution									
I. Provision of Surplus Reserve									
II. General risk reserve									
III. Distribution for Shareholders									
IV. Others									
(5) Shareholder's Equity Internal transfer									
I. Capital Reserve transfer to Capital (or Share Capital)									
II. Surplus Reserve transfer to Capital (or Share Capital)									
III. Surplus Reserve offset losses									
IV. Others									
(6) Special Reserves									
I. Amount provided for the current year									
II. Amount expended for the current year									
(7) Others									
4. The ending balance for this year	163,909,682.67	139,163,601.83		2,674,608.11		89,950,369.14		113,760,264.06	509,458,525.81

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Unit: RMB

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT

(Prepared by Beijing Tianhai Industry Co., Ltd.)

(Prepared by Beijing Tianhai Industry Co., Ltd.)									
Items	Jan-Jul 2012							Unit: RMB	
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	General risk reserve	Undistributed Profit	Shareholder's Equity	Total
1. The ending balance for last year									
Add: Changes in Accounting Policies									
Corrections for previous errors									
Others									
2. The beginning balance of this year									
3. Increase and decrease for this year (decrease represents as "-")									
(1) Net profit	163,909,682.67	9,807,386.27					194,863,381.83	368,580,450.77	
(2) Profits and losses directly recorded in shareholder's equity									
Subtotal of (1) and (2)	163,909,682.67	9,807,386.27					194,863,381.83	368,580,450.77	
(3) Shareholders Investing and Reducing Capital									
I. Shareholders investing capital							21,993,957.25	21,993,957.25	
II. Shares payment in shareholder's equity							21,993,957.25	21,993,957.25	
III. Others									
(4) Profit distribution ("-" stated for decrease)									
I. Provision of Surplus Reserve									
II. General risk reserve									
III. Distribution for Shareholders									
IV. Others									
(5) Shareholder's Equity Internal transfer									
I. Capital Reserve transfer to Capital (or Share Capital)									
II. Surplus Reserve transfer to Capital (or Share Capital)									
III. Surplus Reserve offset losses									
IV. Others									
(6) Special Reserves									
I. Amount provided for the current period									
II. Amount expended for the current period									
(7) Others									
4. The ending balance for this year	163,909,682.67	9,807,386.27					216,857,339.08	390,574,408.02	
Legal Person: Wang Pingsheng									
Accounting Director: Han Bingkui									
Accounting Manager: Wang Yandong									

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

(Prepared by Beijing Tianhai Industry Co., Ltd.)								Unit: RMB
Items	Jan-Jul 2011 (unaudited)							
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	General risk reserve	Undistributed Profit	Total Shareholder's Equity
1. The ending balance for last year								
Add: Changes in Accounting Policies								
Corrections for previous errors								
Others								
2. The beginning balance of this year								
3. Increase and decrease for this year (decrease and increase represents as "-")								
(1) Net profit								
(2) Other comprehensive income								
Subtotal of (1) and (2)								
(3) Shareholders Investing and Reducing Capital								
I. Shareholders investing capital								
II. Shares payment in shareholder's equity								
III. Others								
(4) Profit distribution								
I. Provision of Surplus Reserve								
II. General risk reserve								
III. Distribution for Shareholders								
IV. Others								
(5) Shareholder's Equity Internal transfer								
I. Capital Reserve transfer to Capital (or Share Capital)								
II. Surplus Reserve transfer to Capital (or Share Capital)								
III. Surplus Reserve offset losses								
IV. Others								
(6) Special Reserves								
I. Amount provided for the current year								
II. Amount expended for the current year								
(7) Others								
4. The ending balance for this year	163,909,682.67	17,872,168.47			1,753,331.07		180,246,707.16	363,781,889.37

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	2011						Total Shareholder's Equity
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	General risk reserve	
1. The ending balance for last year	163,909,682.67	17,872,168.47			1,753,331.07		341,736,540.46
Add: Changes in Accounting Policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	163,909,682.67	17,872,168.47			1,753,331.07		341,736,540.46
3. Increase and decrease for this year (decrease and increase represents as "-")							
(1) Net profit					-1,753,331.07		26,843,910.31
(2) Other comprehensive income							40,778,317.02
Subtotal of (1) and (2)		-8,064,782.20					36,662,023.58
(3) Shareholders Investing and Reducing Capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others		-8,064,782.20			-1,753,331.07		40,778,317.02
(4) Profit distribution							
I. Provision of Surplus Reserve							
II. General risk reserve		-8,064,782.20			-1,753,331.07		-9,818,113.27
III. Distribution for Shareholders							-4,116,293.44
IV. Others							
(5) Shareholder's Equity Internal transfer							
I. Capital Reserve transfer to Capital (or Share Capital)							
II. Surplus Reserve transfer to Capital (or Share Capital)							
III. Surplus Reserve offset losses							
IV. Others							
(6) Special Reserves							
I. Amount provided for the current year							
II. Amount expended for the current year							
(7) Others							
4. The ending balance for this year	163,909,682.67	9,807,386.27					368,580,450.77
							194,863,381.83
							-4,116,293.44
							-9,818,113.27
							-4,116,293.44
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							-4,1

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	2010						Total Shareholder's Equity
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	General risk reserve	
Unit: RMB							
1. The ending balance for last year							
Add: Changes in Accounting Policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	163,909,682.67	9,248,903.59			1,753,331.07		320,303,201.24
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit							
(2) Other comprehensive income							
Subtotal of (1) and (2)							
(3) Shareholders Investing and Reducing Capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of Surplus Reserve							
II. General risk reserve							
III. Distribution for Shareholders							
IV. Others							
(5) Shareholder's Equity Internal transfer							
I. Capital Reserve transfer to Capital							
(or Share Capital)							
II. Surplus Reserve transfer to Capital							
(or Share Capital)							
III. Surplus Reserve offset losses							
IV. Others							
(6) Special Reserves							
I. Amount provided for the current year							
II. Amount expended for the current year							
(7) Others							
4. The ending balance for this year	163,909,682.67	17,872,168.47			1,753,331.07		341,736,540.46
Legal Person: Wang Pingsheng	Accounting Director: Han Bingkui	Accounting Manager: Wang Yandong					

STATEMENT OF MOVEMENT ON EQUITY OF THE PARENT (CONTINUED)

(Prepared by Beijing Tianhai Industry Co., Ltd.)

Items	2009						Unit: RMB
	Capital Share	Capital Reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	General risk reserve	Total Shareholder's Equity
1. The ending balance for last year	163,909,682.67	10,178,989.66			1,753,331.07		287,172,026.20
Add: Changes in Accounting Policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	163,909,682.67	10,178,989.66			1,753,331.07		287,172,026.20
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit							
(2) Other comprehensive income							
Subtotal of (1) and (2)		-930,086.07					33,131,175.04
(3) Shareholders Investing and Reducing Capital							34,061,261.11
I. Shareholders investing capital							34,061,261.11
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of Surplus Reserve							
II. General risk reserve							
III. Distribution for Shareholders							
IV. Others							
(5) Shareholder's Equity Internal transfer							
I. Capital Reserve transfer to Capital							
(or Share Capital)							
II. Surplus Reserve transfer to Capital							
(or Share Capital)							
III. Surplus Reserve offset losses							
IV. Others							
(6) Special Reserves							
I. Amount provided for the current year							
II. Amount expended for the current year							
(7) Others							
4. The ending balance for this year	163,909,682.67	9,248,903.59			1,753,331.07	145,391,283.91	320,303,201.24

Legal Person: Wang Pingsheng

Accounting Director: Han Bingkui

Accounting Manager: Wang Yandong

NOTES TO THE FINANCIAL STATEMENT

For the period from 1 January 2009 to 31 July 2012

(Unless otherwise stated, all amounts herein are in RMB)

I. GENERAL

Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司) (the “Company”, together with its subsidiaries the “Group”) was established with an initial registered capital of USD16 million on 18 July 1992, contributed by Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠) and Korea High Pressure Containers Co., Ltd. (韓國高壓容器株式會社) each of USD8 million.

Beijing Tianhai High Pressure Containers Co., Ltd. (北京天海高壓容器有限公司) changed its name to Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司) on 13 September 1993.

As at 31 December 2006, shareholders’ contributions were as follows:

Funding Companies	Contribution (USD)	Ratio (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	12,829,200.00	58.31
Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠)	2,083,500.00	9.47
Wu Shouzhong (吳壽宗) (Korea)	7,087,300.00	32.22
Total	<u>22,000,000.00</u>	<u>100.00</u>

In 2007, Wu Shouzhong (吳壽宗) transferred all of his equity interest in the Company to Jingcheng Holding (Hong Kong) Company Limited, shareholders’ contributions following which were as follows:

Funding Companies	Contribution (USD)	Ratio (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	12,829,200.00	58.31
Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠)	2,083,500.00	9.47
Jingcheng Holding (Hong Kong) Company Limited	7,087,300.00	32.22
Total	<u>22,000,000.00</u>	<u>100.00</u>

Following such transfer of equity interest, the nature of the Company shifted from cooperative joint venture to equity joint venture.

On 24 February 2009, the board of directors of the Company resolved to increase the registered capital from USD22 million to USD24.9240 million, where the USD2,940 million increased were all contributed by Jingcheng Holding. The board also agreed that all, being 9.47%, of the equity interest of the Company held by Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠) be transferred to Jingcheng Holding at nil consideration.

An approval of amendment to articles of association of Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司) (Jing shangwu zi zi [2009] no.196) was issued by Beijing Municipal Commission of Commerce on 12 May 2009.

Following such equity transfer and capital increase, the registered capital of the Company amounted to USD24.9240 million. Shareholders’ contributions were as follows:

Funding Companies	Contribution (USD)	Ratio (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	17,836,700.00	71.56
Jingcheng Holding (Hong Kong) Company Limited	7,087,300.00	28.44
Total	<u>24,924,000.00</u>	<u>100.00</u>

Domicile of the Company: No. 9, Tianying North Road, Chaoyang District, Beijing, business license expiry: 17 July 2032, legal representative: Wang Pingsheng.

The Company is in the industry of gas storage equipment with a scope of business mainly includes: manufacture of cylinders, capacitors, pressure vessels and ancillary, accessories, fire extinguishers, fire extinguishing system and ancillary, cylinders for medical equipment, cylinders for lifesaving equipment, cylinders for food and beverage machines and natural gas cylinders and ancillary, aluminium liners, aluminium cylinders and ancillary, new type reinforced composite materials (carbon fibers, organic fibers, high-strength glass fiber and others) and their products, composite cylinders (natural gas cylinders for automobile, cylinders for respirator and water treatment vessels) and composite cylinder testing equipment. General business: providing installation, testing and tuning, repair, technical enquiry and technical service of products; sale of self-manufactured products; whole sale of cryogenic storage and transport container; and provision of after-sale services and repair services. The Group has products including seamless steel cylinders, welding cylinders, wrapping cylinders, capacitor shells, cryogenic cylinders, aluminum liner carbon fiber fully wrapped composite cylinders and cryogenic storage and transportation equipment products.

The board of the Company has set up managing departments including technical, quality monitoring, sales, marketing, administration, human resources, finance, production, general affairs and legal departments.

The Company has a controlling shareholder of Jingcheng Holding Machinery Electric Holding Co., Ltd., which is also the ultimate controller of the Group.

Details of subsidiaries are set out in Note VI Merger and Consolidated Financial Statements.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENT

The financial statements of the Group have been prepared on a going concern and actual transaction basis in accordance with Enterprise Accounting Standards and relevant requirements as promulgated by the Ministry of Finance and accounting principles and estimation as set out in Note IV Significant Accounting Policies, Accounting Estimates and Compilation Method of Consolidated Financial Statements.

III. DECLARATION OF COMPLIANCE WITH ENTERPRISE ACCOUNTING STANDARDS

These financial statements are in compliance with requirements of the Enterprise Accounting Standards and give a true view on the entire financial position, operating results and cash flow of the Company as of the Group.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting period

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

2. Reporting currency

The reporting currency is Renminbi.

3. Principles of accounting and measurement

The Group uses the accrual method as its basis of accounting. All assets are recorded at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement indicates the cash on hand and the deposit in bank available for a payment at any time. Cash equivalents in the cash flow statement are matured within 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

5. Foreign exchange translation**(1) Transactions in foreign currencies**

Transactions by foreign currency are translated into RMB at the spot exchange rate of the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized eventually, the exchange difference is accounted into current profit and loss. For non-monetary items measured at fair value and by foreign currency, 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. 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 kept unchanging.

(2) Foreign currency translation

Foreign currency items of assets and liabilities to be presented in balance sheets are translated at the spot rate as at the balance sheet date. All items of owners' equity, except for "undistributed profit", are translated at the spot rate upon occurrence. Items of income and expenses to be presented in income statements are translated at the spot price of the transaction date. Such translation differences are presented separately under owners' equity. Cash flow is translated at the spot rate of the date of occurrence. Impact of changes in exchange rate on cash is presented separately in cash flow statements.

6. Financial Instruments**(1) Financial assets****1) Classification**

According to the investment purpose and economic substance, the Group classifies its financial assets as four major types: Financial assets at fair value through profit and loss, Held-to-maturity investments, Loans and receivables and Available-for-sale financial assets.

Financial assets at fair value through profit and loss represent those mainly held for sale in a short term and are presented in balance sheet as trading financial assets.

Held-to-maturity investments is defined as a non-derivative financial asset that has fixed or determinable payments for which an entity has a positive intent and ability to hold to maturity.

Loans and receivables is defined as a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets is defined as financial assets that are designated as available for sale are not classified as into other categories.

2) Recognition and measurement

Financial assets are recognized at fair value in the balance sheet when the Group becomes a part of the contract of relevant instrument. Transaction costs of financial assets financial assets at fair value through profit or loss are recognized into current profit and loss, while that for other financial assets are included in initial their recognized amount.

Financial assets financial assets at fair value through profit or loss and those available for sale are measured at fair value subsequently. Loans and receivables and held-to-maturity investments are carried at the amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are included in profit or loss from changes in fair value. Interest or cash dividend received on assets held shall be recognized as investment income. On disposing of it, the difference between fair value and initial accounting value shall be recognized as investment gain or loss, and profit or loss from changes in fair value is also adjusted accordingly.

Other than impairment loss and exchange gains and losses arising from foreign currency monetary financial assets, the changes in fair value of available-for-sale financial assets are recorded in the shareholder's equity. When the financial assets are derecognized, the calculated

amount of changes in fair value of available-for-sale financial assets should be recorded into current profits or losses. The interest of available-for-sale liability instruments accrued at effective interest rate during the holding period and the cash dividends declared and issued by the investee on available-for-sale equity instruments should be included in current profit or loss as investment income.

3) *Impairment of financial assets*

Except for the financial assets at fair value through profit or loss, the Group shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall determine the amount of any impairment loss.

For the financial assets carried at amortized cost, impairment loss provision is made at the difference between the present value of estimated future cash flows (excluding any future credit risk) below the carrying value. When there is objective evidence showing carrying value of such financial assets have been restored which is objectively related to a subsequent event, such impairment loss recognized are reversed to current profit and loss.

When fair value of available-for-sale financial assets varies significantly or decreases for a non-temporary period, such loss from decrease of fair value which would have been included in shareholders' equity are transferred to impairment loss. When there is subsequent increase in fair value of available-for-sale which is objectively related to a subsequent event, such impairment loss recognized are reversed to current profit and loss. Subsequent increase in fair value of impaired available-for-sale equity instrumental investments is recorded into shareholders' equity.

4) *Transfer of financial assets*

The Group shall derecognize a financial asset satisfied one of the followings: (1) contractual rights to the cash flows from the financial asset have expired; (2) such financial assets has been transferred to purchaser together with substantially all related risks and rewards of ownership of the financial assets; and (3) such financial assets has been transferred over which the Group has surrendered control, although substantially all risks and rewards of ownership of the financial assets are neither transferred nor retained.

If the enterprise neither transferred substantially all the risks and rewards of ownership of the assets nor surrender the control over the financial assets, the related financial assets should be recognized based on the degree of involvement into the transferred financial assets, the related liabilities should be recognized as well. The degree of involvement into the transferred financial assets means the risk level faced by the enterprise, which was caused by the value change of such financial assets.

If the holistic transfer of financial assets meets the conditions of derecognition, the difference between the carrying value of transferred financial assets and the sum of consideration from the transfer and the accumulated amount of fair value change originally included in other comprehensive income should be included into the current loss and profit.

If the partial transfer of financial assets meets the conditions of derecognition, the entire carrying value of transferred financial assets should be apportioned between the portion to be derecognized and the portion continues to be recognized according to the respective fair value. The difference between the sum of consideration from the transfer and the accumulated amount of fair value change of the derecognized portion which has been originally included in other comprehensive income and the carrying value of the derecognized portion before apportionment should be included into the current loss and profit.

(2) *Financial liabilities*

The Group classifies its financial liabilities as those at fair value through profit or loss and other financial liabilities.

According to subsequent measurement at fair value, financial liabilities at fair value through profit and loss, including those held for trading and those specified as such at initial recognition, gain or loss arising from changes in fair value thereof and dividend and interest expenses accrued thereon are carried into current profit and loss.

Other liabilities are subsequently measured at amortized cost based on effective interest rate.

Upon release of all present obligations thereof in whole or in part, financial liabilities or such parts are derecognized, where the difference between carry value of the derecognized portion and consideration paid are carried into current profit and loss.

(3) Measurement of fair value of financial assets and financial liabilities

- a) For the financial instruments with active market-quoted prices, the Group adopts market-quoted price for a financial instrument. The fair value of an asset held or liability to be assumed is the current bid price and that of an asset to be acquired or liability held is the asking price. When current bid and asking prices are unavailable, the fair value thereof are measured at the most recent quoted trading price as long as there has not been a significant change in economic circumstances since the last trading date, or at the most recent quoted trading price as adjusted with reference to fair value of similar financial assets or financial liabilities in case of such significant change. With sufficient evidence showing the most recent quoted trading price being unfair, the fair value is measured at such price with appropriate adjustment.
- b) For the financial instruments without an active market, valuation is applied, including reference to the most recent trading price in the market under voluntary transaction between well-informed parties, reference to current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

7. Accounts receivable

The Group assesses the book value of receivables on balance sheet date, and the bad debt expense is made into the current profit and loss when any of the following circumstances occur: (1) There is the existence of the withdrawal, bankrupt, insolvency, stoppage due to a natural disaster or weak solvency within foreseeable period from debt enterprises. (2) Debt enterprises have not satisfied debts past the due date for more than 3 years. (3) There are other substantial evidences showing that receivables are difficult to be collected.

The provision is adopted for the possible bad debts. The impairment test is made separately or grouped at the ending period and recorded into the current profit and loss. For the receivables which cannot be collected with solid evidence, the loss of bad debts will be recognized after the approval through the Group's process, and written-off against the provision of the bad debts.

(1) Individual Receivables above Significant Level

The basis or standard for judging the significant level of individual receivable	Consider individual receivables above RMB5 million 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.

(2) Receivables for which provision of bad debts made by groups

The basis of defining combinations

Combination based on age of accounts	Consider aging of receivables as credit risk characteristics

Method on making provision of bad debts based on combinations

Combination based on age accounts	Provision of bad debts is made by aging analysis

The rate of bad debts provision according to aging analysis is as follows:

Aging	Ratio of accounts receivable (%)	Ratio of other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Above 3 years	100	100

8. Inventory

The inventory of the Group covers raw material, work in process, finished goods and others.

Inventory is on a perpetual basis and is measured at actual cost when acquired. Actual cost of inventory withdrawn or discharged is measured at weighted average.

At the end of period, inventory is measured as lower of historical cost and net realizable value. For inventories of which value is impaired due to the physical damage or technology obsolete or selling price lower than cost, the portion estimated to be unrecoverable will be provided for. The provision of impairment for finished goods and raw materials in a large amount is made on the basis of the difference of the cost of the individual inventory item over its net realizable value. The provision of impairment for the auxiliary materials with a large quantity and low cost is withdrawn in terms of classification.

The net realizable value of these inventories, such as finished goods, work in process and materials for selling, is the estimated price after estimated sales expenses and relevant taxes. The net realizable value of materials which are for production is estimated price of relevant finished goods after estimated cost for finished goods, estimated sales expenses and relevant taxes.

9. Long-term equity investment

Long-term equity investments includes equity investments in investees under control, common control or significance influence of the Company, or those under no control, common control or influence of the Company and their fair value are unavailable in the market and cannot be measured reliably.

Common control indicates the sharing control according to the contract. Any parties involved cannot control the production and operation activities of the joint venture. All decisions related to principal operation activities need the agreement from all parties.

Significant influence indicates the rights to be involved into the decision-making on financial and operational policies in investees but no control or common control on these policies-making. The evidence of significant influence is the direct ownership or indirect ownership through subsidiaries of from 20% up to 50% voting rights from investees, unless there are solid evidences showing the Company cannot be involved in investees' decision making.

For the merger of enterprises under the same control, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. For a business combination realised by a transaction of exchange, 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.

Other than long-term equity investment acquired through mergers as mentioned above, the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid, which includes fees, tax and other required expenses directly attributable to such investments. The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued. The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement. The initial cost of a long-term equity investment obtained by recombination of liabilities or the exchange of nonmonetary assets shall be ascertained in accordance with Accounting Standards for Enterprises.

The Group recognizes the investment on subsidiaries by cost method and adjusts into equity method in compilation of consolidated statements. The Group applies the equity method on accounting the investment of joint ventures and associated companies, and the cost method on accounting the long-term equity investment

without control, common control and significant influence as well as no pricing and no reliable fair value in the market. The Group accounts the long-term equity investment, which is without the control, the common control or significant influence but with pricing and reliable fair value in the marked, as financial assets available-for-sale.

Under the cost method, the long-term equity investment is measured at initial investment cost. Such cost is adjusted when there is addition or recovery of investment. For equity method: The current period's profit and loss is the entitled portion of investee's profit or loss for the period. When determining entitled amount of net profit or loss from investee: the fair value of investee's assets at the acquisition date should be applied as calculation basis; in accordance with Group's accounting policy and period, set off internal transactions between joint-ventures and associated enterprises; adjust investee's net profit. Investment gain or loss of long-term equity investment in associates and joint ventures held before the first exercise date should also the difference with the investment amortized on a straight-line basis over the original remaining period if such difference exists.

The long-term equity investment for which that Company doesn't have common control or significant influence over the investee any more 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 cannot be reliably measured, the cost method shall be adopted for valuation; Equity method will be adopted under the following circumstances: investee that Group has common control or significant influence but not control due to increased additional investment; due to reasons such as disposal of long-term investment Group no longer has control but only common control and significant influence over investee.

The difference between the book value and the disposal gain on the long-term equity investment is accounted into the current profit and loss. For the long-term equity investment measured under equity method, those were recorded into the equity on the changes in the equity which is excluding the net profit by the invested company, the amount was recorded into the equity will be transferred into the investment profit for the period.

10. Fixed assets

Fixed assets are defined by the Group as the tangible assets which are held for the purpose of producing goods, rendering services, leasing for operation & management. The useful life of fixed assets is more than one year.

Fixed assets include buildings, machinery, transportation equipments, administrative equipments and others, and are initially measured at their acquisition cost. The cost of purchased fixed assets includes the purchasing price, value-added tax, import duty and other relevant taxes and expenses, as well as other expenditures attributable to assets for their availability of use. The cost of self-made fixed assets covers all expenditures for their availability to 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 lower of the fair value and the minimum payment of leasing on leasing date.

The subsequent measurement of fixed assets comprises maintenance expenses and renewal and renovation expenses etc. Expenses which meet the criteria of fixed assets are accounted into the cost of fixed assets otherwise are accounted into current profit and loss. The replacement part is derecognized from the account. Those do not meet recognition criteria of fixed assets are accounted for into current profit and loss upon occurrence.

Apart from those fixed assets fully depreciated but still in use, as well as land separately recognized, the Group provide for depreciation of fixed assets by straight-line method and the depreciations are accounted into current profit and loss in accordance with the purposes of fixed assets. The estimated residual value ratio, useful life by category and depreciation rate applied by the Group are as follows:

No.	Classification	Useful life (year)	The rate of salvage value (%)	Depreciation rate (%)
1	Building	20-40	5-10	2.25-4.75
2	Machinery	10	5-10	9-9.5
3	Electrical equipment	5-10	5-10	9-19
4	Transportation Equipment	5	5-10	9-19
5	Administrative equipments 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 period yearly. If any changes occur, they will be regarded as changes on accounting estimates.

The Group derecognizes fixed assets from the account which 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.

11. Construction in progress

Construction in progress is recognized at actual cost. Self-construction project is recognized at the cost of direct material, labor cost and construction expenses. Contracted construction is recognized at actual project price paid. Installed construction is recognized at the value of equipments, expenses of installation and assembly and expenditures of pilot run. Besides above, the cost of construction in progress comprises the borrowing cost which can be capitalized and foreign exchange gains and losses.

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 will be withdrawn since the month after carrying down 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.

12. 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 cost which directly attributes to purchasing or constructing assets is to be capitalized when expenditures for assets and borrowing cost occur and the activities of purchasing or constructing made the assets available for use or sale commences. When assets reach the status available for use or sale, the capitalization of borrowing cost ceases. The rest of borrowing cost will be accounted into current profit and loss.

The current actual interest expenses from specific borrowings are capitalized, after deducting interest income as deposit in bank or short-term investment gains. The capitalized amount for the general borrowing is calculated as weighted average of the general borrowing (excluding any specific borrowings for qualified asset) times the weighted average of the interest rate of the general borrowing.

The qualified assets refer to the assets of investment in real estate and inventories which only can arrive at status of available for use or sale after purchasing and constructing in more than one year generally.

If a suspending takes place during the purchasing and constructing on the qualified assets for more than three months, the capitalization of borrowing cost is suspend until the purchasing and constructing of assets restart.

13. Intangible assets

The intangible assets of the Group include the land use right, software and others, and 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 at the contract or agreement, except for those with unfair value in the contract or agreement. For the contract or agreement that failed to present fair value of intangible assets, intangible assets will be measured at the fair value.

The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. The 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 accounted into current profit and 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 adjustment if needed.

14. R&D expense

For the R&D 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. Research expenses are accounted to the current period profit and loss when occurred. Development expenses are treated as intangible assets when satisfy following requirements:

- (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 market is available for products from the intangible asset or the intangible asset itself;
- (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 into the profit and loss of the period. The expenditures expensed in previous accounting period cannot be recognized as the asset in later accounting period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

15. Impairment of long-term non-financial assets

The Group makes the assessment on the long-term equity investment, fixed assets, construction in progress and intangible assets with useful life at each balance sheet date. In the event of the following signs which show there may be impairment, an impairment test is conducted. Goodwill and intangible assets with indefinite useful life are subject to impairment test every end of year regardless of whether there is such sign. Those whose recoverable amount is difficult test are tested based on their group.

If such test shows a carry value lower than the recoverable amount, the difference therebetween is recognized as impairment loss of the relevant asset. Once recognized, such impairment loss is not subject to reversal in future. Recoverable amount of an asset refers to the higher of the asset's fair value net of disposing expenses and present value of estimated future cash flow thereof.

Indicators of impairment are as follows:

- (1) During the period, the market value of an asset has declined significantly and the decrease is far more than the decrease caused by timing or practice or by normal use;
- (2) Significant changes, in terms of economic, technical or legal environment and the market, with a negative effect on the Group have taken place during the period, or will take place in the near future;
- (3) Market interest rates or other market rates of return on investments have increased during the period and the increase of rates are likely to affect the discount rate used in calculating the NPV of future cash flow of assets and lead to the decrease in the recoverable amount of assets in substance;
- (4) Evidences are available for the obsolescence or physical damage of an asset;
- (5) An asset has been idle or is becoming idle, discontinued, or planned to be disposed in advance;
- (6) Evidences from internal reporting indicate that the economic performance of an asset is or will be, worse than expectations. For instance, the net cash flow or net profit generated by an asset is far lower than the amount expected;
- (7) Other evidences indicate the impairment of assets.

16. Goodwill

Goodwill represents the difference between equity investment cost or cost of merger with entity not under the same control over the fair value of identifiable assets of the investee or entity merged the Company entitled to or acquired through merger as at the date of acquisition or purchase.

Goodwill in relation to subsidiaries is presented separately in consolidated financial statements, where that in relation to associates and joint ventures are included in carrying value of long-term equity investment.

17. Long-term prepayments

The long-term prepaid expense of the Group refers 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 method within beneficial periods. If the long-term prepaid expense cannot benefit the later accounting periods, the amortized price will be accounted into current profit and loss.

18. Employee compensation

During the accounting period of an employee' providing services to an enterprise, the enterprise shall recognize the compensation payable as liabilities and the compensation payable shall be included in the cost of related assets or profit or loss based on the beneficiary objects. The compensations for the termination of the labor relationship with the employee with employees are accounted into current profit and loss.

Employee compensation comprises salary, bonus, allowance, welfare, social insurance, housing fund, labor union expenditure, employee education expenditure and other relevant expenditures on service rendered by the employees.

When the Group terminates the employment with an employee before the expiry of the employment contract or provides compensation for acceptance of voluntary redundancy, if the Group has developed a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group is not allowed to unilaterally withdraw the termination plan or the redundancy offer, the estimated liability for compensation arising from the termination of employment with employees should be charged to the profit or loss for the current period.

19. 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 liabilities. The requirements mentioned above are as follows: The assumed responsibilities are actual and real. The fulfilment of obligations will cause the outflow of economic benefit from the Group. The amount of liabilities can be measured reliably.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation by considering relative risks, uncertainties and timing factor etc. If the effect from time value of currency is material, the best estimate is determined by discounting the related future cash outflows. 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.

20. Revenue recognition principle

The operating revenue of the Group is mainly from selling goods. The principle of recognition are as follows:

The revenue from sale of goods shall be recognized, when main risks and rewards related to the ownership of goods have been transferred to buyers, and the Group doesn't hold continuing management rights or effective control rights of goods, and the relevant economic benefits may flow into the Group, and the amount of this relevant revenue can be measured reliably.

21. Lease

The Company categorizes the lease into the financial lease and the operating lease.

The financial lease is the lease in which all risks and returns related to the ownership of assets are transferred in substance. The Company as a lease holder, on the date of lease, the financial lease is recognized as the fixed asset at lower cost of fair value of the rental asset and the NPV of minimum payment of leasing. The minimum payment of leasing is recognized as long-term payable and the difference is accounted into unrecognized financing expense.

The operating lease is the lease apart from the financial lease. The Company, as a lease holder, accounts the rents into current period by straight line method during the term of the lease. The Company, as a leaser, accounts the rental income into current period by straight line method during the term of the lease.

22. Government subsidies

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 in the light of the received or 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 (RMB1).

The government subsidies pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life. The government subsidies pertinent to incomes are treated respectively in accordance with the indications as follows: 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.

23. Deferred tax assets and deferred tax liability

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. On the balance sheet date, deferred tax assets and deferred tax liability are measured at applicable tax rate.

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 which 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.

24. Income tax accounting

The Group recognizes income tax by balance sheet method. The income taxes of the current period and deferred income tax of the Group are treated as income tax expenses for the current period, and are accounted into current profit and loss, excluding the income taxes incurred in following circumstances: the deferred tax arising from consolidation and accounted as the adjustment on the book value of goodwill; the income taxes of the current period and deferred income tax related to the transactions or events directly recognized into owners' equity are accounted into owners' equity.

The income tax expenses for the current period are the amount payable to the Tax Office which are calculated and recognized according to the tax law and transactions and events of the current period, i.e. income taxes payable. The deferred income taxes refer to the differences recognized between the amount at the end of period and amount recognized originally of the deferred tax assets and deferred tax liability by the balance sheet liability method.

25. Business combination

Business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Company recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. The combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

Assets and liabilities that are obtained through a business combination for entities under common control are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserves. Any excess over capital reserves is adjusted against retained earnings.

For a business combination for entities not under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where the cost of combination exceeds the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

26. Preparation of consolidated financial statements

(1) Determination of the scope of consolidation

The scope of consolidated financial statements of the Company covers all subsidiaries and special purpose entities in which the Group has actual control.

(2) Accounting method adopted in consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements and the relevant requirements. On consolidation, all the significant intra-group transactions and balances are eliminated. The shareholders' equity of the subsidiaries not attributable to the parent company is separately presented as minority interests under shareholders' equity in the consolidated financial statements.

When there is any inconsistency on the accounting policies or accounting period adopted between subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or accounting period adopted by the Company when preparing the consolidated financial statement.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries at the original carrying value from the beginning of the year presented as if the business combinations had occurred at the beginning of the year the combination took place.

V. TAXATION

Major taxes and relevant tax rates applicable to the Group are as follows:

1. Enterprise Income Tax

The tax rates applicable to the enterprise income tax for the companies in the Group are as follow:

Company Name	Applicable Tax Rate (%)			2009
	2012	2011	2010	
Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司)	15	15	15	25
Tianjin Tianhai High Pressure Containers Co., Ltd. (天津天海高壓容器有限責任公司)	25	24	11	10
Langfang Tianhai High Pressure Cylinder Co., Ltd. (廊坊天海高壓容器有限公司)	25	25	25	25
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. (上海天海德坤複合氣瓶有限公司)	25	25	12.5	0
Beijing Tianhai Cryogenic Equipment Co., Ltd. (北京天海低溫設備有限公司)	25	25	25	25
Beijing Panni Gaokong Equipment Co., Ltd. (北京攀尼高空作業設備有限公司)	25	25	25	25
America Fortune Company		Progressive tax rate		

Taxation Benefits and Approval:

- (1) The Company was certified as High and New Enterprise on 24 December 2010, and the certificate with No. GR201011000725 was jointly issued by Beijing Municipal Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, SAT and Beijing Local Taxation Bureau. The certificate is with three-year validation. The Company applies 15% as the rate for enterprise income tax in the years 2010-2012.
- (2) Tianjin Tianhai High Pressure Containers Co., Ltd. (天津天海高壓容器有限責任公司) (hereinafter called "Tianjin Tianhai") as the subsidiary of the Company was a foreign-invested enterprise. According to the Finance Bureau, "Notice of Application of Transitional Preferential Policy on Enterprises Income Tax" issued by the State Administration of Taxation and the documents, including Jin Guo Shui Bao Shui Jian Mian [2008]No.145, Jin Guo Shui Bao Shui Jian Mian [2008]No.142, Jin Guo Shui Bao Shui Jian Mian [2008]No.146 and Jin Guo Shui Bao Shui Jian Mian [2008]No.144, issued by Third Tax Office of State administration of Taxation of TJFTZ, the enterprise income tax rate of Tianjin Tianhai in the years 2009 to 2012 are 10%, 11%, 24% and 25%, respectively.
- (3) Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. (上海天海德坤複合氣瓶有限公司) (hereinafter called "Shanghai Tianhai") as the subsidiary of the Company was a foreign-invested enterprise and enjoyed the tax concession period of "Two exemptions and three halved" in 2009. According to the "Notice of approval result of the preferential enterprise income tax" (《企業所得稅優惠審批結果通知書》) issued by Songjiang Branch of Shanghai Local Taxation Bureau in 7 April 2011 (Hu Di Shui Song Suo Jian Mian [2011] No.000062), it was agreed that Shanghai Tianhai was entitled to a 50% relief from enterprise income tax from 1 January 2010 to 31 December 2012. In 2011, the nature of enterprise of Shanghai Tianhai has changed from sino-foreign equity joint venture to sino-foreign cooperative joint venture. The proportion of foreign investment was below 25%. According to the "Notice of the taxation issue regarding to the foreign-invested enterprise which its proportion of foreign investment was below 25%" issued by State administration of Taxation (《國家稅務總局關於外國投資者出資比例低於25%的外商投資企業稅務處理問題的通知》) (Guo Shui Han[2003]No.422), Shanghai Tianhai was subject to tax rate that domestic enterprise should pay and was not entitled to any tax credits for foreign-invested enterprise.

As stated above, the enterprise income tax of Shanghai Tianhai from 2009 to 2012 are 0%, 12.5%, 25% and 25% respectively.

- (4) America Fortune Company (hereinafter called “America Fortune”), a subsidiary of the Company adopted progressive tax rate as enterprise income tax rate.

2. Value added tax

The Company is subject to value added tax for its sales revenues at a VAT rate of 17% for domestic sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%. Of this tax, application can be made for refund of the duty paid for export of products.

The VAT payable for the period is the net amount of output VAT after deducting input VAT.

3. Business tax

The applicable business tax is based on technology service revenue, at a rate of 5%.

4. Urban maintenance & construction and educational surcharges

The Company’s urban maintenance & construction tax, educational surcharges, local educational surcharges are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 3% respectively. The local educational surcharges have been levied since 1 Jan 2012. The applicable tax is 2%.

VI. CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

Company Name	Type	Place of registration	Nature of business	Registration Capital (RMB0'000)	Operating Scope
Langfang Tianhai High Presswre Cylinder Co., Ltd.	Sino-foreign cooperative joint venture	Langfang City, Hebei Province	Manufacture	18,000	Design and manufacture of B1 seamless cylinders (only steel seamless cylinders) and B3 special gas cylinders (only compressed natural gas cylinder for vehicle use), sales of self-produced products of the Company (other than commodities and technologies whose dealing, import or export is restricted or prohibited to operate by the State)
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	Sino-foreign cooperative joint venture	Songjiang District	Manufacture	301.74	Manufacture of new reinforced composite materials (carbon fiber, organic fiber and high-strength glass fiber composites) and its products, composite cylinders (wire wound cylinders), composite cylinders test equipment, sales of self-produced products of the Company (involving administrative license and operation permit)
Beijing Panni Gaokong Equipment Co., Ltd.	Limited company	Tongzhou District, Beijing	Manufacture	2,000	Specific operating items: manufacture of high-altitude operation equipment General operating items: design of high-altitude operation equipment; sale and repair self-produced products

Company Name	Type	Place of registration	Nature of business	Registration Capital (RMB'000)	Operating Scope
Subsidiaries acquired from business combination under non-common control					
America Fortune Company	Offshore enterprise	Houston, United States	Sales	US\$336.755	Import and export of industrial gas cylinders and mechanical and electrical products and the sales service of products
Other Acquired Subsidiaries					
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign equity joint venture	Tianjin Port Free Trade Zone	Manufacture	22,557.84	Design, manufacture and sale of high-pressure containers and after-sales service; operation of the export business of the enterprise's self-produced products and technology and the import business of machine tools, parts and components, auxiliary materials and technologies required for the enterprise's production, but except from companies' operations limited by the State or commodities and technologies restricted by the State from import and export
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited company	Daxing District, Beijing	Manufacture	4,000	Specific operating items: manufacture of cryogenic tanks, tanks for tankers and tank containers General operating items: sale, repair and maintenance of cryogenic tanks, tanks for tankers and tank containers; sale of machine tools, metal, computer hardware and software and auxiliary equipment, chemical products (excluding hazardous chemicals and Class 1 precursor chemicals), hardware and electric materials and instruments and meters; import and export of goods; general contracting of constructions; specialized contracting (of which the contribution of intellectual properties amounts to RMB10 million)

(continued)

Company Name	Investment Amount as at 31 Jul 2012	Shareholding (%)	Voting Right (%)	Consolidated (Yes/No)	Notes
Subsidiaries acquired from business combination under common control					
Langfang Tianhai High Pressure Cylinder Co., Ltd.	54,873,733.29	70.00	70.00	Yes	
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	17,176,284.97	89.32	89.32	Yes	Profit-sharing ratio: 87.84%
Beijing Panni Gaokong Equipment Co., Ltd.	20,234,235.97	100.00	100.00	Yes	
Subsidiaries acquired from business combination under non-common control					
America Fortune Company	18,361,890.00	51.00	51.00	Yes	
Other Acquired Subsidiaries					
Tianjin Tianhai High Pressure Containers Co., Ltd.	102,693,100.00	45.52	55.00	Yes	For details, please refer to Note VI (2) Reasons for inclusion of subsidiaries with shareholding of not more than 50% in consolidated statements
Beijing Tianhai Cryogenic Equipment Co., Ltd.	30,000,000.00	75.00	75.00	Yes	

(continued)

Company Name	Minority Interest				Amount for Written-off Income/Loss in Minority Interest				Balance after the Parent's Equity written-off the Current Loss Borne by Minority Shareholders which is over the Percentage Borne of the Beginning Equity			
	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Subsidiaries acquired from business combination under common control												
Langfang Tianhai High Pressure Cylinder Co., Ltd.	24,126,201.82	23,517,331.41	22,842,008.16	32,088,540.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	3,589,217.92	3,464,583.33	3,233,661.41	1,960,634.98	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beijing Panni Gaokong Equipment Co., Ltd.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subsidiaries acquired from business combination under non-common control												
America Fortune Company	13,274,480.83	11,715,523.90	10,658,899.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Acquired Subsidiaries												
Tianjin Tianhai High Pressure Containers Co., Ltd.	71,754,047.48	70,627,877.56	75,530,780.43	71,795,116.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	10,634,189.79	9,016,736.05	8,170,656.69	7,915,971.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

2. Reasons for inclusion of subsidiaries with shareholding of not more than 50% in consolidated statements:

Tianjin Tianhai was established with capital jointly contributed by the Company and Tianjin Pipe Co., Ltd. in January 2003. Upon its establishment, the registered capital of Tianjin Tianhai was RMB20 million, of which the percentage of contribution of the Company and Tianjin Pipe Co., Ltd. were 55% and 45% respectively. After various transfers of shares and increases of capital, the registered capital of Tianjin Tianhai as at 31 December 2010 was RMB85.50 million, of which the Company has contributed RMB25.65 million, accounting for 30%; TPCO Investment Co., Ltd. has contributed RMB38.4750 million, accounting for 45%; and Jingcheng HK has contributed RMB21.3750 million, accounting for 25%. In July 2011, the board of directors of Tianjin Tianhai resolved to increase the registered capital by RMB140.0784 million through a cash contribution of RMB77.0431 million by the Company and a real estate contribution of RMB63.0353 million by TPCO Investment Co., Ltd. After such change, the registered capital was RMB225.5784 million, of which the Company has contributed RMB102.6931 million, accounting for 45.52% of its registered capital; TPCO Investment Co., Ltd. has contributed RMB101.5103 million (a contribution of RMB38.4750 million as at 31 July 2012 and the real estate transfer procedure regarding to the contribution has completed in September), accounting for 45% of its registered capital; and Jingcheng HK has contributed RMB21.3750 million, accounting for 9.48% of its registered capital. The board of directors of Tianjin Tianhai has 9 members, of which 4 members are from the Company; 4 members are from TPCO Investment Co., Ltd.; and 1 member is from Jingcheng HK. As the director appointed by Jingcheng HK was assigned by the Company and was the senior management personnel of the Company, the actual percentage of voting right of the Company was 55%, which enable the Company to have a control over Tianjin Tianhai. Therefore, the Company has included Tianjin Tianhai in its consolidated statements.

3. The change of the scope of consolidated financial statements for the reporting period

1. Subsidiaries added in consolidated statements for the reporting period of 2011

Company Name	Reasons for addition	Shareholding (%)	Total assets as at 31 Dec 2011	Total liabilities as at 31 Dec 2011	Net assets as at 31 Dec 2011	Net profit for the year of 2011
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Business combination under common control	70.00	390,339,529.98	311,948,425.28	78,391,104.70	2,251,077.49

2. Subsidiaries added in consolidated statements for the reporting period of 2010

Company Name	Reasons for addition	Shareholding (%)	Total assets as at 31 Dec 2010	Total liabilities as at 31 Dec 2010	Net assets as at 31 Dec 2010	Net profit for the year of 2010
Beijing Panni Gaokong Equipment Co., Ltd.	Business combination under common control	100.00	3,479,531.91	514,495.94	2,965,035.97	-1,379,221.01
America Fortune Company	Business combination under non-common control	51.00	21,817,050.41	64,194.89	21,752,855.52	-557,946.13

3. Subsidiaries added in consolidated statements for the reporting period of 2009

Company Name	Reasons for addition	Shareholding (%)	Total assets as at 31 Dec 2009	Total liabilities as at 31 Dec 2009	Net assets as at 31 Dec 2009	Net profit for the year of 2009
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	Business combination under common control	67.78	39,838,180.69	33,753,031.78	6,085,148.91	2,616,010.28
America Fortune Company	Business combination under non-common control	75.00	37,912,267.02	21,248,379.74	16,663,887.28	-5,206,894.20

4. Companies no longer included in consolidated statements for the reporting period

There are no companies which are no longer included in consolidated statements during the reporting period.

4. Business combinations occurred in the reporting period

1. Subsidiaries acquired from business combination under common control

No.	Name of Subsidiaries	Place of Registration	Registered Capital	Investment Amount	Shareholding (%)	Operating Scope
1	Langfang Tianhai High Pressure Cylinder Co., Ltd.	Langfang City, Heibei Province	180,000,000	54,873,773.29	70.00	Design and manufacture of B1 seamless cylinders (only steel seamless cylinders) and B3 special gas cylinders (only compressed natural gas cylinder for vehicle use), sales of self-produced products of the Company (other than commodities and technologies whose dealing, import or export is restricted or prohibited to operate by the State)
2	Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	Songjiang District, Shanghai City	US\$3,017,400	17,176,284.97	89.32	Manufacture of new reinforced composite materials (carbon fiber, organic fiber and high-strength glass fiber composites) and its products, composite cylinders (wire wound cylinders), composite cylinders test equipment, sales of self-produced products of the Company (involving administrative license and operation permit)
3	Beijing Panni Gaokong Equipment Co., Ltd.	Tongzhou District, Beijing City	20,000,000	20,234,235.97	100.00	Specific operating items: manufacture of high-altitude operation equipment General operating items: design of high-altitude operation equipment; sale and repair self-produced products

Each of the subsidiaries acquired from business combination under common control:

(1) *Langfang Tianhai High Pressure Cylinder Co., Ltd.*

Langfang Tianhai High Pressure Cylinder Co., Ltd. (“Langfang Tianhai”) was established with capital jointly contributed by Jingcheng Holding and Wu Shouzhong, a Korean citizen, on 27 March 2007. Upon its establishment, the registered capital of Langfang Tianhai was RMB180 million, of which Jingcheng Holding and Wu Shouzhong has contributed RMB126 million and RMB54 million respectively, representing percentages of contribution of 70% and 30% respectively.

On 20 October 2011, the Company and Jingcheng Holding entered into an equity transfer agreement, pursuant to which the parties agreed the Company acquire the 70% equity interests in Langfang Tianhai held by Jingcheng Holding at the consideration of RMB68,808,180.

On 21 June 2011, the State-owned Assets Administration Commission of the People’s Government of Beijing Municipality issued the “Approval for Equity Transfer Assessment Project of Langfang Tianhai of the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality” (Jing Guo Zi Chan Quan [2011] No. 95). On 30 October 2011, the transfer was approved by the document Jing Guo Zi Chan Quan [2011] No. 181 issued by the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality. On 1 December 2011, the Administration Committee of Langfang Economic and Technological Development Zone issued Lang Kai Quan Zhao [2011] Document No. 102. On 8 December 2011, China Beijing Equity Exchange Limited issued No. T00000436 Certificate for Transfer of State-owned Equity. On 16 December 2011, the People’s Government of Hebei Province issued Shang Wai Zi Ji Lang Shi A Zi [2007] Approval Certificate No.0007. On 21 December 2011, Langfang Tianhai obtained Business License No. 131000400004509 from Langfang Administration for Industry and Commerce.

After the equity transfer, the Company has contributed RMB126.0000 million, accounting for 70% of the registered capital of Langfang Tianhai; and Wu Shouzhong has contributed RMB54.0000 million, accounting for 30% of the registered capital of Langfang Tianhai.

As the ultimate controlling party of the Company and Langfang Tianhai is Jingcheng Holding, such merger was determined as business combination under common control.

Given that the Company and Jingcheng Holding entered into an equity transfer agreement on 20 October 2011; the approval certificate was obtained on 10 December 2011; and the procedures for the change of industrial and commercial equity was completed on 21 December 2011, the Company obtained the control over Langfang Tianhai, and therefore determined 31 December 2011 as the date of merger. On the date of merger, the Company regarded the share of RMB54,873,773.29 of the book value of the owner’s equity of Langfang Tianhai as the initial cost of the long-term equity investment. The difference between the initial investment cost and the consideration paid of RMB68,808,180 amounted to RMB13,934,406.71, offsetting the capital reserve of RMB8,064,782.20, the surplus reserve of RMB1,753,331.07 and the undistributed profit of RMB4,116,293.44.

The basic financial condition of Langfang Tianhai:

Item	31 Dec 2011 (date of merger), 1 Jan – 31 Dec 2011 (date of merger)	31 Dec 2010 (the last accounting period), 1 Jan – 31 Dec 2010 (the last accounting period)
Total assets	390,339,529.98	286,771,106.15
Total liabilities	311,948,425.28	210,631,078.94
Owner’s equity	78,391,104.70	76,140,027.21
Operating income	396,625,378.39	284,835,660.01
Net profit	2,251,077.49	-30,821,775.51
Net cash flow from operating activities	34,966,619.67	13,998,954.07
Net cash flow	-1,889,316.98	2,066,468.26

(2) *Beijing Panni Gaokong Equipment Co., Ltd.*

Beijing Panni Gaokong Equipment Co., Ltd. (“Panni Gaokong”) was established on 24 May 1993, with an original registered capital of US\$0.40 million contributed by Beijing Jing Di Industrial Company (北京市京地實業公司) and United States Sony Trading Company (美國索尼貿易公司), of which their percentages of contribution are 75% and 25% respectively. Its business nature is sino-foreign equity joint venture.

In 2002, Beijing Jing Di Industrial and Trading Co., Ltd. (北京市京地工貿有限公司) (formerly as Beijing Jing Di industrial Company) transferred all of its 75% equity interests in Panni Gaokong (US\$0.30 million, equivalent to RMB1.728 million) to Beijing First General Machinery.

In accordance with the equity transfer agreement entered into by Panni Gaokong on 24 December 2009, United States Sony Trading Company transferred all of its 25% equity interests in Panni Gaokong to Jingcheng Holding with consideration. Beijing Tongzhou District Business Committee issued Tong Shang Zi [2009] No.85 “Approval for the Restructure of Beijing Panni Gaokong Equipment Co., Ltd. from Sino-foreign Equity Joint Venture to Domestic Enterprise”. After the equity transfer, Panni Gaokong was restructured from sino-foreign equity joint venture to domestic enterprise. The contributions of Beijing First General Machinery and Jingcheng Holding were RMB2.0481 million and RMB0.6827 million respectively, representing percentages of shareholding of 75% and 25% respectively.

In accordance with the resolution of shareholders dated 31 May 2010 of Panni Gaokong, Beijing First General Machinery transferred its 75% equity interests in Panni Gaokong and the 25% equity interests in Panni Gaokong held by Jingcheng Holding to the Company. On 9 November 2010, the transfer of state-owned equity was completed and the Certificate for Transfer of State-owned Equity was obtained. On 10 December 2010, Panni Gaokong obtained Business License No. 110000410048635 from Beijing Administration for Industry and Commerce, Tongzhou Branch, with a registered capital of RMB2.7308 million. Panni Gaokong has then become a wholly-owned subsidiary of the Company.

As the ultimate controlling party of the Company, Panni Gaokong and Beijing First General Machinery is Jingcheng Holding, such business merger was determined as business combination under common control.

Given that the Company and Jingcheng Holding entered into an equity transfer agreement on 24 December 2009; the Certificate for Transfer of State-owned Equity was obtained on 9 November 2010; and the industrial and commercial procedures was completed on 10 December 2010, the Company obtained the control over Panni Gaokong, and therefore determined 31 December 2010 as the date of merger. On the date of merger, the Company regarded the share of RMB2,965,035.97 of the book value of the owner’s equity of Panni Gaokong as the initial cost of the long-term equity investment. The difference between the initial investment cost and the consideration paid of RMB4,149,100 amounted to RMB1,184,064.03, offsetting the capital reserve.

The basic financial condition of Panni Gaokong:

Item	31 Dec 2010 (date of merger), 1 Jan – 31 Dec 2010 (date of merger)	31 Dec 2009 (the last accounting period), 1 Jan – 31 Dec 2009 (the last accounting period)
Total assets	3,479,531.91	5,051,340.49
Total liabilities	514,495.94	707,083.51
Owner's equity	2,965,035.97	4,344,256.98
Operating income	3,389,459.01	7,942,995.76
Net profit	-1,379,221.01	116,542.69
Net cash flow from operating activities	-1,215,792.76	1,536,101.38
Net cash flow	-1,215,792.76	1,022,750.94

(3) *Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.*

Shanghai Tianhai (formerly as: Shanghai Dekun Composite Cylinder Co., Ltd. and Shanghai Ronghua Dekun Composite Cylinder Co., Ltd.) was established on 25 October 2000, with a registered capital of US\$1 million. Its shareholders are Xinjiang Baoheng Products Group Co., Ltd. and United States Stowell Company (美國 STOWELL 公司), and their percentages of shareholding were 75% and 25% respectively.

In accordance with the resolution of the board dated 12 May 2005 and the equity transfer agreement, the shareholders, Xinjiang Baoheng Products Group Co., Ltd. and United States Stowell Company, transferred their equity interests in Shanghai Tianhai to Jingcheng Holding and Wu Shouzhong respectively. After such change, the shareholders of Shanghai Tianhai are Jingcheng Holding and Wu Shouzhong, and their percentages of shareholding are 67.78% and 32.22% respectively.

On 2 July 2009, the Company and Jingcheng Holding entered into an equity transfer agreement, pursuant to which the parties agreed the Company to acquire the 67.78% equity interests in Shanghai Tianhai from Jingcheng Holding at a consideration of RMB5.0546 million.

On 23 December 2009, Shanghai Municipal People's Government issued the Approval Certificate of Foreign-invested Enterprises of the People's Republic of China. On 14 December 2009, Shanghai Songjiang District People's Government issued Hu Song Fu Wai Jing Zi [2009] No. 443 "Approval for the Equity Transfer of Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.". After such change, the shareholders are the Company and Wu Shouzhong, and their percentages of shareholding are 67.78% and 32.22% respectively.

On 18 January 2010, Shanghai Tianhai obtained a business license from Shanghai Administration for Industry and Commerce, with a registered capital of US\$1 million.

As the ultimate controlling party of the Company and Shanghai Tianhai is Jingcheng Holding, such business merger was determined as business combination under common control.

Given that the Company and Jingcheng Holding entered into an equity transfer agreement on 2 July 2009; the Company has assigned a director to Shanghai Tianhai on 9 November 2009; and the approval certificate was obtained on 23 December 2009, the Company obtained the control over Shanghai Tianhai, and therefore determined 31 December 2009 as the date of merger. On the date of merger, the Company regarded the share of RMB4,124,513.93 of the book value of the owner's equity of Shanghai Tianhai as the initial cost of the long-term equity investment. The difference between the initial investment cost and the consideration paid of RMB5,054,600 amounted to RMB930,086.07, offsetting the capital reserve.

The basic financial condition of Shanghai Tianhai:

Item	31 Dec 2009 (date of merger), 1 Jan – 31 Dec 2009 (date of merger)	31 Dec 2008 (the last accounting period), 1 Jan – 31 Dec 2008 (the last accounting period)
Total assets	39,838,180.69	30,700,132.53
Total liabilities	33,753,031.78	27,230,993.90
Owner's equity	6,085,148.91	3,469,138.63
Operating income	28,041,224.19	25,041,224.19
Net profit	2,616,010.28	-207,036.55
Net cash flow from operating activities	10,164,054.44	-2,875,883.28
Net cash flow	1,278,685.14	-3,859,754.34

2. Subsidiaries acquired from business combination under non-common control

Company Name	Place of Registration	Registered Capital	Investment Amount	Shareholding (%)	Operating Scope
America Fortune Company	Houston, United States	US\$3,367,550	18,361,890.00	51.00	Import and export of industrial gas cylinders and mechanical and electrical products and the sales service of products

(1) Basic condition of America Fortune Company

America Fortune Company ("America Fortune") was established in August 1994, and is a company limited formed, legally operated and subsisting in accordance with the laws of the State of Texas in the United States. Its place of business is located at 6600 Sands Point Drive, Houston, Texas, United States. Its former shareholders are Zheng Guoxiang and Guo Zhihong, U.S. citizens, each of whom held 250 ordinary shares of America Fortune respectively.

On 27 May 2010, the Board of the Company resolved the Company to acquire the additional shares of America Fortune to obtain 51% equity interests.

On 31 May 2010, Jingcheng Holding, a controlling shareholder of the Company, issued the resolution of the Board "Approval for the Related Issues of the Acquisition of the Equity of America Fortune Company by Beijing Tianhai Industry Co., Ltd. (Jing Ji Dong (Fu) [2010] No. 58)".

On 5 February 2010, State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality issued the "Approval for the Acquisition of the Equity of America Fortune Company by Beijing Tianhai Industry Co., Ltd. under Beijing Jingcheng Machinery Electric Holding Co., Ltd of State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (Jing Quo Zi [2010] No. 15)".

On 12 July 2010, Beijing Municipal Commission of Commerce issued the "Approval for the Acquisition of the Shares of America Fortune Company by Beijing Tianhai Industry Co., Ltd. of Beijing Municipal Commission of Commerce (Jing Shang Wu Jing Zi [2010] No. 209)".

On 26 July 2010, Beijing Municipal Development and Reform Commission issued the "Approval for the Acquisition of Part of the Newly Issued Shares under Private Placement of America Fortune Company by Beijing Tianhai Industry Co., Ltd. (Jing Fa Gai [2010] No. 1179)".

On 23 June 2010, the Company, America Fortune, Zheng Guoxiang and Guo Zhihong entered into the Capital Increase and Merger Agreement, pursuant to which America Fortune shall issue 612 shares to the Company on the closing date while the Company shall contribute US\$2.70 million to America Fortune within three working days after the closing date. America Fortune shall issue 44 shares to Zheng Guoxiang on the closing date while Zheng Guoxiang shall contribute US\$267,650 to America Fortune within three working days after the closing date; and

America Fortune shall issue 44 shares to Guo Zhihong on the closing date while Guo Zhihong shall contribute US\$267,650 to America Fortune within three working days after the closing date. On 27 August 2010, the Company contributed US\$2.70 million to America Fortune.

After the capital increase, the total number of shares of America Fortune is 1,200 shares, of which the Company holds 612 shares, accounting for 51% of the total number of shares of America Fortune; Zheng Guoxiang holds 294 shares, accounting for 24.5% of the total number of shares of America Fortune; Guo Zhihong holds 294 shares, accounting for 24.5% of the total number of shares of America Fortune.

- (2) Determination basis for business combination under non-common control: Prior to 31 August 2010, America Fortune was under the common control of Zheng Guoxiang and Guo Zhihong. Pursuant to the requirements of Accounting Standards for Business Enterprises No. 20 – Business Combination, such merger was a business combination under non-common control.
- (3) Determination of the date of acquisition: On 23 June 2010, the Company, America Fortune, Zheng Guoxiang and Guo Zhihong entered into the Capital Increase and Merger Agreement. On 12 July 2010, Beijing Municipal Commission of Commerce approved the acquisition. On 26 July 2010, Beijing Municipal Development and Reform Commission approved the acquisition. On 27 August 2010, the Company paid US\$2.70 million for the capital increase and obtained the control over America Fortune. As a result, the Company regards 31 August 2010 as the date of acquisition.
- (4) Identifiable assets and liabilities of America Fortune

Item	31 Aug 2010 (date of acquisition)	
	Book value	Fair value
Monetary fund	23,136,364.58	23,136,364.58
Total	<u>23,136,364.58</u>	<u>23,136,364.58</u>

- (5) *Determination of goodwill*

The combination cost is the monetary fund of US\$2.70 million contributed by the Company, equivalent to RMB18,361,890. The fair value of America Fortune is the total contribution of shareholders, amounting to RMB23,136,364.58. After multiplying this fair value by the Company's contribution ratio of 51%, the difference between the product and the combination cost represented the goodwill of RMB6,562,344.06.

- (6) *Operating condition of America Fortune after the date of acquisition*

Item	Jan – Jul 2012	2011	31 Aug 2010 – 31 Dec 2010
Operating income	182,254,727.92	194,126,053.09	7,735,380.90
Net profit	3,056,034.31	3,295,414.48	-557,946.13
Net cash flow from operating activities	-11,215,383.42	3,600,783.00	-5,492,545.36
Net cash flow	-11,146,512.72	2,635,465.08	15,994,368.95

5. Translation of Foreign Currency Statements

Under the consolidated statements, America Fortune is a company registered in the United States, and the exchange rates of its main items of financial statements are as follows:

Items	31 Jul 2012 and Jan – Jul 2012	31 Dec 2011 and year 2011	31 Dec 2010 and 31 Aug 2010 – 31 Dec 2010
Items in balance sheet	6.3320	6.3009	6.6227
Items in income statement	6.3165	6.4618	6.7166
Items under owner's equity (other than undistributed profit)	Spot exchange rate at actual occurrence		

VII. NOTES OF MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Monetary fund

Item	Original currency	31 Jul 2012 Exchange rate	Amount (RMB)	Original currency	31 Dec 2011 Exchange rate	Amount (RMB)
Cash on hand	–	–	414,299.28	–	–	77,060.19
RMB	414,242.29	1.0000	414,242.29	77,003.48	1.0000	77,003.48
JPY	9.00	6.3320	56.99	9.00	6.3009	56.71
Cash in bank	–	–	51,269,085.17	–	–	88,491,871.67
RMB	33,330,827.29	1.0000	33,330,827.29	57,673,747.10	1.0000	57,673,747.10
USD	2,831,226.49	6.3320	17,927,326.14	4,891,067.08	6.3009	30,818,124.57
EUR	1,408.24	7.7627	10,931.74	–	–	–
Others	–	–	26,000,000.00	–	–	34,503,335.19
RMB	26,000,000.00	1.0000	26,000,000.00	34,503,335.19	1.0000	34,503,335.19
Total	–	–	77,683,384.45	–	–	123,072,267.05

(Continued)

Item	Original currency	31 Dec 2010 Exchange rate	Amount (RMB)	Original currency	31 Dec 2009 Exchange rate	Amount (RMB)
Cash on hand	–	–	84,980.93	–	–	146,363.06
RMB	79,861.58	1.0000	79,861.58	141,084.86	1.0000	141,084.86
USD	773.00	6.6227	5,119.35	773.00	6.8282	5,278.20
Cash in bank	–	–	46,071,196.95	–	–	22,554,411.47
RMB	26,088,264.38	1.0000	26,088,264.38	18,110,835.46	1.0000	18,110,835.46
USD	3,017,339.24	6.6227	19,982,932.57	582,836.11	6.8282	3,979,721.53
EUR	0.00	0.0000	0.00	47,346.10	9.7971	463,854.48
Others	–	–	60,538,108.22	–	–	64,897,562.10
RMB	60,538,108.22	1.0000	60,538,108.22	64,897,562.10	1.0000	64,897,562.10
Total	–	–	106,694,286.10	–	–	87,598,336.63

2. Notes receivable

(1) Category

Category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Bank acceptance notes	3,248,565.59	13,294,712.87	1,000,000.00	410,000.00
Commercial acceptance	0.00	0.00	0.00	0.00
Total	3,248,565.59	13,294,712.87	1,000,000.00	410,000.00

- (2) The five largest notes has endorsed to the other party but not yet due

The five largest notes has endorsed to the other party but not yet due as at 31 July 2012:

Category	Issuing Company	Issuing date	Maturity date	Amount
Bank acceptance notes	Zhengzhou Yutong Bus Co., Ltd.	2012-06-29	2012-12-29	8,533,338.96
Bank acceptance notes	Zhengzhou Yutong Bus Co., Ltd.	2012-03-27	2012-09-27	8,049,332.35
Bank acceptance notes	Zhengzhou Yutong Bus Co., Ltd.	2012-07-23	2013-01-18	6,119,233.23
Bank acceptance notes	Fujian Motor Transport Co., Ltd.	2012-04-24	2012-12-24	5,618,880.00
Bank acceptance notes	Sichuan Ruifeng International Trade Co., Ltd.	2012-06-27	2012-12-27	5,000,000.00
Total	–	–	–	<u>33,320,784.54</u>

The notes receivables of the Group as at 31 July 2012 representing a decrease of RMB10,046,100 and 75.56% as compared to 31 December 2011, mainly due to there are more notes receivable for endorsement settlement of the Group in January to July 2012.

3. Accounts receivable

(1) Classification for accounts receivable by risk

Item	31 Jul 2012				31 Dec 2011			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)	Amount	Percent (%)
Individual receivables								
above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Combination based on age accounts	323,238,796.02	98.52	4,870,941.94	100.00	164,062,079.27	96.96	2,971,039.23	100.00
Individual receivables below significant level	4,868,108.14	1.48	0.00	0.00	5,126,444.77	3.04	0.00	0.00
Total	<u>328,106,904.16</u>	<u>100.00</u>	<u>4,870,941.94</u>	<u>100.00</u>	<u>169,188,524.04</u>	<u>100.00</u>	<u>2,971,039.23</u>	<u>100.00</u>

(continued)

Item	31 Dec 2010				31 Dec 2009			
	Book value		Bad debts		Book value		Bad debts	
	Amount	Percent(%)	Amount	Percent(%)	Amount	Percent(%)	Amount	Percent(%)
Individual receivables								
above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables for which provision of bad debts made on basis of combinations	99,030,580.43	93.57	1,508,873.30	100.00	89,105,019.12	93.25	2,206,787.26	100.00
Combination based on age accounts	99,030,580.43	93.57	1,508,873.30	100.00	89,105,019.12	93.25	2,206,787.26	100.00
Individual receivables below significant level	6,803,854.78	6.43	0.00	0.00	6,439,927.68	6.75	0.00	0.00
Total	<u>105,834,435.21</u>	<u>100.00</u>	<u>1,508,873.30</u>	<u>100.00</u>	<u>95,544,946.80</u>	<u>100.00</u>	<u>2,206,787.26</u>	<u>100.00</u>

1) Individual receivables below significant level but had impairment test individually

Individual receivables below significant level but had impairment test individually as at 31 December 2012

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Beikai Electric Co., Ltd.	2,094,548.90	0.00	0.00	
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	1,528,644.79	0.00	0.00	No collection risks
Jingcheng HK	1,244,914.45	0.00	0.00	
Total	4,868,108.14	0.00	0.00	–

Individual receivables below significant level but had impairment test individually as at 31 December 2011

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Beikai Electric Co., Ltd.	2,359,000.00	0.00	0.00	
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	1,528,644.79	0.00	0.00	No collection risks
Jingcheng HK	1,238,799.98	0.00	0.00	
Total	5,126,444.77	0.00	0.00	–

Individual receivables below significant level but had impairment test individually as at 31 December 2010

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Beikai Electric Co., Ltd.	4,000,000.00	0.00	0.00	
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	1,501,786.73	0.00	0.00	No collection risks
Jingcheng HK	1,302,068.05	0.00	0.00	
Total	6,803,854.78	0.00	0.00	–

Individual receivables below significant level but had impairment test individually as at 31 December 2009

Company Name	Book value	Bad debts provision	Rate (%)	Reason for bad debts provision
Beijing Beikai Electric Co., Ltd.	2,000,000.00	0.00	0.00	No collection risks
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	3,097,456.92	0.00	0.00	
Jingcheng HK	1,342,470.76	0.00	0.00	
Total	6,439,927.68	0.00	0.00	–

2) *Aging combination*

Item	31 Jul 2012			31 Dec 2011		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	313,265,309.34	0.00	0.00	157,613,983.23	0.00	0.00
1-2 years	6,150,674.49	30.00	1,845,202.35	4,599,118.48	30.00	1,379,735.54
2-3 years	1,992,681.50	60.00	1,195,608.90	644,184.69	60.00	386,510.82
3-4 years	625,337.82	100.00	625,337.82	244,692.87	100.00	244,692.87
4-5 years	244,692.87	100.00	244,692.87	0.00	100.00	0.00
Over 5 years	960,100.00	100.00	960,100.00	960,100.00	100.00	960,100.00
Total	323,238,796.02	–	4,870,941.94	164,062,079.27	–	2,971,039.23

(Continued)

Item	31 Jul 2010			31 Dec 2009		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	96,637,438.30	0.00	0.00	84,313,285.07	0.00	0.00
1-2 years	1,044,373.25	30.00	313,311.97	3,507,643.90	30.00	1,052,293.17
2-3 years	383,018.88	60.00	229,811.33	323,990.15	60.00	194,394.09
3-4 years	5,650.00	100.00	5,650.00	0.00	100.00	0.00
4-5 years	0.00	100.00	0.00	872,200.00	100.00	872,200.00
Over 5 years	960,100.00	100.00	960,100.00	87,900.00	100.00	87,900.00
Total	99,030,580.43	–	1,508,873.30	89,105,019.12	–	2,206,787.26

(2) *The outstanding amounts of shareholders who hold 5% or more of the Company's shares*

Company Name	31 Jul 2012		31 Dec 2011	
	Outstanding amount	Provision for bad debts	Outstanding amount	Provision for bad debts
Jingcheng HK	1,244,914.45	0.00	1,238,799.98	0.00
Total	1,244,914.45	0.00	1,238,799.98	0.00

(Continued)

Company Name	31 Dec 2010		31 Dec 2009	
	Outstanding amount	Provision for bad debts	Outstanding amount	Provision for bad debts
Jingcheng HK	1,302,068.05	0.00	1,342,470.76	0.00
Total	1,302,068.05	0.00	1,342,470.76	0.00

(3) *The top five of accounts receivable:*

The top five of accounts receivable as at 31 July 2012

Company Name	Relationship	Amount	Age	Receivable (%)
Sichuan Ruifeng International Trade Co., Ltd.	Customer	26,547,353.00	Within 1 year	8.09
Cyl-Tec, Inc.	Customer	16,969,642.86	Within 1 year	5.17
Shanxi Jingcheng Electric Appliances Co., Ltd. (山西京誠機電設備有限公司)	Customer	15,563,770.27	Within 1 year	4.74
Xuzhou Xintianhai Electric Appliances Co., Ltd. (徐州新天海機電設備有限公司)	Customer	11,147,680.07	Within 1 year	3.40
Guangzhou Yuanhai Steel Cylinders Co., Ltd. (廣州市元海鋼瓶有限公司)	Customer	10,484,096.24	Within 1 year	3.20
Total	-	80,712,542.44	-	24.60

(4) Accounts receivable from related parties as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 are detailed in Note VIII (3)1. Accounts receivable from related parties.

(5) *The balance of accounts receivable in foreign currencies:*

Foreign currency	Original currency	31 Jul 2012 Exchange rate	RMB	Original currency	31 Dec 2011 Exchange Rate	RMB
USD	8,442,642.79	6.3320	53,458,814.15	5,632,292.51	6.3009	35,488,511.88
EUR	10,446.09	7.7627	81,089.86	49,558.09	8.1625	404,517.91
Total	-	-	53,539,904.01	-	-	35,893,029.79

(Continued)

Foreign currency	Original currency	31 Dec 2010 Exchange rate	RMB	Original currency	31 Dec 2009 Exchange rate	RMB
USD	5,653,913.22	6.6227	37,444,171.08	3,723,574.98	6.8282	25,425,314.69
Euro	313.00	8.8065	2,756.43	0.00	0.0000	0.00
Total	-	-	37,446,927.51	-	-	25,425,314.69

4. Advance to suppliers

(1) Aging of advances to suppliers

Item	31 Jul 2012		31 Dec 2011	
	Amounts	Percentage (%)	Amounts	Percentage (%)
Within 1 year	43,273,116.46	87.41	58,944,776.54	90.10
1-2 years	3,625,856.33	7.32	4,399,099.18	6.72
2-3 years	1,665,311.81	3.36	1,119,985.90	1.71
Over 3 years	940,027.26	1.91	958,793.53	1.47
Total	49,504,311.86	100.00	65,422,655.15	100.00

(Continued)

Item	31 Dec 2010		31 Dec 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	30,104,851.24	85.64	40,101,451.30	87.90
1-2 years	3,218,789.02	9.16	4,509,458.64	9.88
2-3 years	1,356,970.96	3.86	661,214.19	1.45
Over 3 years	471,317.75	1.34	349,035.24	0.77
Total	35,151,928.97	100.00	45,621,159.37	100.00

(2) The main units of advance to suppliers

The main units of advance to suppliers as at 31 July 2012

Name	Relationship with the Company	Amount	Aging	Reasons for pending
Global Industrial Supply Co., Ltd.	Under common control of the controlling Shareholder	10,553,909.94	within 1 year	Goods not yet received
Wuhan Zhongyuan Supplies Co., Ltd. (武漢中遠物資有限責任公司)	Supplier	4,691,279.65	within 1 year	Goods not yet received
Benxi Huixin Steel Trading Co., Ltd. (本溪匯鑫鋼鐵貿易有限公司)	Supplier	4,651,016.55	within 1 year	Goods not yet received
Ningbo Fuhua Value Co., Ltd.	Supplier	1,677,300.22	within 1 year	Goods not yet received
Beijing Jinchangda Logistics Co., Ltd. (北京金暢達物流有限公司)	Supplier	1,300,000.00	within 1 year	Prepayment for transportation fees
Total	-	22,873,506.36	-	-

(3) The advance to suppliers balance details as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 exclude shareholders who hold 5% or more of the Company's shares.

(4) The balance of advance to suppliers in foreign currencies:

Foreign currency	Original currency	31 Jul 2012	RMB	Original currency	31 Dec 2011	RMB
		Exchange rate			Exchange Rate	
USD	150,859.11	6.3320	955,239.88	290,762.26	6.3009	1,832,063.92
Total	150,859.11	6.3320	955,239.88	290,762.26	6.3009	1,832,063.92

(Continued)

Foreign currency	Original currency	31 Dec 2010 Exchange rate	RMB	Original currency	31 Dec 2009 Exchange rate	RMB
USD	422,757.41	6.6227	2,799,795.50	22,647.00	6.8282	154,638.25
Total	422,757.41	6.6227	2,799,795.50	22,647.00	6.8282	154,638.25

5. Other receivables

(1) Classification for other receivables by risks

Item	31 Jul 2012				31 Dec 2011			
	Book value Amount	Percent (%)	Bad debts Amount	Percent (%)	Book value Amount	Percent (%)	Bad debts Amount	Percent (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables for which provision of bad debts made on basis of combinations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Combination based on age accounts	6,118,859.06	99.35	1,651,889.82	100.00	13,769,535.96	100.00	2,727,470.71	100.00
Individual other receivables below significant level	40,000.00	0.65	0.00	0.00	0.00	0.00	0.00	0.00
Total	6,158,859.06	100.00	1,651,889.82	100.00	13,769,535.96	100.00	2,727,470.71	100.00

(Continued)

Item	31 Dec 2010				31 Dec 2009			
	Book value Amount	Percent (%)	Bad debts Amount	Percent (%)	Book value Amount	Percent (%)	Bad debts Amount	Percent (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables for which provision of bad debts made on basis of combinations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Combination based on age accounts	9,196,188.21	100.00	1,934,926.77	100.00	7,670,425.95	100.00	1,532,602.31	100.00
Individual other receivables below significant level	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	9,196,188.21	100.00	1,934,926.77	100.00	7,670,425.95	100.00	1,532,602.31	100.00

(2) Aging combination

Item	31 Jul 2012			31 Dec 2011		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	4,324,645.01	0.00	0.00	10,093,661.52	0.00	0.00
1-2 years	146,170.60	30.00	43,851.18	1,314,316.19	30.00	394,294.86
2-3 years	100,012.02	60.00	60,007.21	70,956.00	60.00	42,573.60
Above 3 years	1,548,031.43	100.00	1,548,031.43	2,290,602.25	100.00	2,290,602.25
Total	6,118,859.06	—	1,651,889.82	13,769,535.96	—	2,727,470.71

(Continued)

Item	31 Jul 2010			31 Dec 2009		
	Amount	Percent (%)	Provision of bad debts	Amount	Percent (%)	Provision of bad debts
Within 1 year	6,730,726.16	0.00	0.00	5,200,108.96	0.00	0.00
1-2 years	139,718.00	30.00	41,915.40	1,196,706.94	30.00	359,012.08
2-3 years	1,081,831.70	60.00	649,099.02	250,049.54	60.00	150,029.72
Above 3 years	1,243,912.35	100.00	1,243,912.35	1,023,560.51	100.00	1,023,560.51
Total	9,196,188.21	—	1,934,926.77	7,670,425.95	—	1,532,602.31

(3) The other receivables balance details as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 exclude shareholders who hold 5% or more of the Company's shares.

(4) *The top five of other receivables*

The top five of other receivables as at 31 July 2012

Name	Relationship with the Company	Amount	Age	Percentage of Total other receivables (%)	Nature or details
Zhou Taikun (周泰坤)	Staff	531,195.27	Within 1 year	8.62	Reserve
Rao Xin (姚欣)	Staff	457,578.30	Within 1 year	7.43	Reserve
Tianjin Wah Sang Energy Development Co., Ltd.	Third Parties	417,660.87	Within 1 year	6.78	Gas charges
Baogang Tonglian Sales Co., Ltd. (包鋼銅聯銷售有限公司)	Customer	400,648.84	Above 5 years	6.51	Prepayment
Qu Jin (屈進)	Staff	324,301.85	Within 1 year	5.27	Reserve
合計	—	2,131,385.13	—	34.61	—

(5) Accounts receivable from related parties as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 are detailed in Note VIII (3)2. Accounts receivable from related parties.

6. **Inventory**

Item	31 Jul 2012			31 Dec 2011		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	193,896,118.29	0.00	193,896,118.29	178,948,402.39	0.00	178,948,402.39
Production cost	56,198,419.71	0.00	56,198,419.71	78,995,112.90	0.00	78,995,112.90
Storage goods	180,548,500.57	0.00	180,548,500.57	200,096,817.79	0.00	200,096,817.79
Total	430,643,038.57	0.00	430,643,038.57	458,040,333.08	0.00	458,040,333.08

(Continued)

Item	Book balance	31 Dec 2010	Book value	Book balance	31 Dec 2009	Book value
		Provision for impairment			Provision for impairment	
Raw materials	132,953,986.85	0.00	132,953,986.85	106,801,448.02	0.00	106,801,448.02
Production cost	75,283,522.34	0.00	75,283,522.34	33,583,760.24	0.00	33,583,760.24
Storage goods	132,392,454.26	0.00	132,392,454.26	121,212,549.27	0.00	121,212,549.27
Total	<u>340,629,963.45</u>	<u>0.00</u>	<u>340,629,963.45</u>	<u>261,597,757.53</u>	<u>0.00</u>	<u>261,597,757.53</u>

7. Long-term equity investments

(1) Categories of long-term equity investments

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Accounted in cost method	510,032.61	622,526.29	1,090,547.18	2,172,702.75
Total	510,032.61	622,526.29	1,090,547.18	2,172,702.75
Less: provision for impairment on long-term equity investments	0.00	0.00	0.00	0.00
Net book value	510,032.61	622,526.29	1,090,547.18	2,172,702.75

(2) Long-term investment accounted in cost and equity method

Long-term investment accounted in cost and equity method as at 31 July 2012

Name of invested companies	Shareholding (%)	Voting right (%)	Original amounts	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012	Cash dividend for the period
In equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	50.00	50.00	3,059,000.00	622,526.29	-112,493.68	0.00	510,032.61	0.00
Total	<u>50.00</u>	<u>50.00</u>	<u>3,059,000.00</u>	<u>622,526.29</u>	<u>-112,493.68</u>	<u>0.00</u>	<u>510,032.61</u>	<u>0.00</u>

Long-term investment accounted in cost and equity method as at 31 December 2011

Name of invested companies	Shareholding (%)	Voting right (%)	Original amounts	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011	Cash dividend for the period
In equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	50.00	50.00	3,059,000.00	1,090,547.18	-468,020.89	0.00	622,526.29	0.00
Total	<u>50.00</u>	<u>50.00</u>	<u>3,059,000.00</u>	<u>1,090,547.18</u>	<u>-468,020.89</u>	<u>0.00</u>	<u>622,526.29</u>	<u>0.00</u>

Long-term investment accounted in cost and equity method as at 31 December 2010

Name of invested companies	Shareholding (%)	Voting right (%)	Original amounts	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010	Cash dividend for the period
In equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	50.00	50.00	3,059,000.00	2,172,702.75	-1,082,155.57	0.00	1,090,547.18	0.00
Total	<u>50.00</u>	<u>50.00</u>	<u>3,059,000.00</u>	<u>2,172,702.75</u>	<u>-1,082,155.57</u>	<u>0.00</u>	<u>1,090,547.18</u>	<u>0.00</u>

Long-term investment accounted in cost and equity method as at 31 December 2009

Name of invested companies	Shareholding (%)	Voting right (%)	Original amounts	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009	Cash dividend for the period
In equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	50.00	50.00	3,059,000.00	2,942,978.17	-770,275.42	0.00	2,172,702.75	0.00
Total	50.00	50.00	3,059,000.00	2,942,978.17	-770,275.42	0.00	2,172,702.75	0.00

(3) Investment in joint venture and associated companies

Investment in joint venture and associated companies as at 31 July 2012

Name of invested company	Place of registration	Business nature	Shareholding (%)	Voting right (%)	Total net assets as at 31 Jul 2012	Total operating income for Jan - Jul 2012	Net profit for the period of Jan - Jul 2012
Joint venture							
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	Beijing	Sales	50.00	50.00	1,020,065.22	0.00	-224,987.35
Total	-	-	-	-	1,020,065.22		-224,987.35

Investment in joint venture and associated companies as at 31 December 2011

Name of invested company	Place of registration	Business nature	Shareholding (%)	Voting right (%)	Total net assets as at 31 Dec 2011	Total operating income for 2011	Net profit for the period of 2011
Joint venture							
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	Beijing	Sales	50.00	50.00	1,245,052.57	22,478.63	-936,041.79
Total	-	-	-	-	1,245,052.57	22,478.63	-936,041.79

Investment in joint venture and associated companies as at 31 December 2010

Name of invested company	Place of registration	Business nature	Shareholding (%)	Voting right (%)	Total net assets as at 31 Dec 2010	Total operating income for 2010	Net profit for the period of 2010
Joint venture							
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	Beijing	Sales	50.00	50.00	2,181,094.36	6,640,694.09	-2,164,311.14
Total	-	-	-	-	2,181,094.36	6,640,694.09	-2,164,311.14

Investment in joint venture and associated companies as at 31 December 2009

Name of invested company	Place of registration	Business nature	Shareholding (%)	Voting right (%)	Total net assets as at 31 Dec 2009	Total operating income for 2009	Net profit for the period of 2009
Joint venture							
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司)	Beijing	Sales	50.00	50.00	4,345,405.50	13,744,681.47	-1,540,550.83
Total	-	-	-	-	4,345,405.50	13,744,681.47	-1,540,550.83

8. Fixed assets

(1) Fixed assets category

Item	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010
Original Cost	722,604,893.87	80,202,717.27	2,083,831.75	800,723,779.39	64,203,538.30	8,653,236.35	856,274,081.34
Building	244,917,756.04	19,169,152.40	0.00	264,086,908.44	10,103,937.01	0.00	274,190,845.45
Electrical equipment	16,920,310.28	1,081,000.07	92,139.14	17,909,171.21	2,565,605.05	498,846.00	19,975,930.26
Machinery	426,698,709.21	54,674,616.87	874,861.91	480,498,464.17	47,644,542.35	3,974,491.38	524,168,515.14
Transportation facilities	25,382,172.35	4,422,163.50	1,096,522.70	28,707,813.15	2,987,291.85	2,927,845.23	28,767,259.77
Office equipment and others	8,685,945.99	855,784.43	20,308.00	9,521,422.42	902,162.04	1,252,053.74	9,171,530.72
Accumulated Depreciation	187,716,164.34	52,983,593.44	1,119,003.14	239,580,754.64	58,855,517.98	5,804,779.19	292,631,493.43
Building	56,293,160.84	9,731,733.25	0.00	66,024,894.09	10,226,446.37	0.00	76,251,340.46
Electrical equipment	4,853,505.30	1,436,638.91	42,386.76	6,247,757.45	1,697,327.58	448,961.40	7,496,123.63
Machinery	111,351,391.04	38,602,004.84	239,682.24	149,713,713.64	42,549,805.85	2,392,216.66	189,871,302.83
Transportation facilities	10,518,848.20	2,278,445.36	770,860.76	12,026,432.80	3,126,943.14	1,836,752.78	13,316,623.16
Office equipment and others	4,699,258.96	934,771.08	66,073.38	5,567,956.66	1,254,995.04	1,126,848.35	5,696,103.35
Impairment provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Building	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electrical equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Machinery	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transportation facilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Office equipment and others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net book value	534,888,729.53	-	-	561,143,024.75	-	-	563,642,587.91
Building	188,624,595.20	-	-	198,062,014.35	-	-	197,939,504.99
Electrical equipment	12,066,804.98	-	-	11,661,413.76	-	-	12,479,806.63
Machinery	315,347,318.17	-	-	330,784,750.53	-	-	334,297,212.31
Transportation facilities	14,863,324.15	-	-	16,681,380.35	-	-	15,450,636.61
Office equipment and others	3,986,687.03	-	-	3,953,465.76	-	-	3,475,427.37

(Continued)

Item	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
Original Cost	856,274,081.34	43,593,897.55	10,211,001.83	889,656,977.06	135,699,843.90	10,392,787.91	1,014,964,033.05
Building	274,190,845.45	1,693,694.71	0.00	275,884,540.16	44,379,545.45	5,813,156.12	314,450,929.49
Electrical equipment	19,975,930.26	1,947,124.39	514,407.00	21,408,647.65	0.00	0.00	21,408,647.65
Machinery	524,168,515.14	37,014,168.24	6,155,197.83	555,027,485.55	89,338,641.73	4,192,308.79	640,173,818.49
Transportation facilities	28,767,259.77	2,447,095.68	1,128,572.00	30,085,783.45	1,644,653.47	316,640.00	31,413,796.92
Office equipment and others	9,171,530.72	491,814.53	2,412,825.00	7,250,520.25	337,003.25	70,683.00	7,516,840.50
Accumulated Depreciation	292,631,493.43	63,559,886.31	8,824,133.72	347,367,246.02	39,777,716.51	3,938,390.28	383,206,572.25
Building	76,251,340.46	10,909,166.60	0.00	87,160,507.06	7,190,172.14	1,520,961.29	92,829,717.91
Electrical equipment	7,496,123.63	1,921,939.15	462,966.30	8,955,096.48	518,693.88	0.00	9,473,790.36
Machinery	189,871,302.83	46,530,496.62	5,173,910.12	231,227,889.33	29,779,536.52	2,067,115.14	258,940,310.71
Transportation facilities	13,316,623.16	3,128,605.58	1,015,714.80	15,429,513.94	1,705,854.84	284,976.00	16,850,392.78
Office equipment and others	5,696,103.35	1,069,678.36	2,171,542.50	4,594,239.21	583,459.13	65,337.85	5,112,360.49
Impairment provision	0.00	0.00	0.00	0.00	664,142.40	0.00	664,142.40
Building	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electrical equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Machinery	0.00	0.00	0.00	0.00	664,142.40	0.00	664,142.40
Transportation facilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Office equipment and others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net book value	563,642,587.91	-	-	542,289,731.04	-	-	631,093,318.40
Building	197,939,504.99	-	-	188,724,033.10	-	-	221,621,211.58
Electrical equipment	12,479,806.63	-	-	12,453,551.17	-	-	11,934,857.29
Machinery	334,297,212.31	-	-	323,799,596.22	-	-	380,569,365.38
Transportation facilities	15,450,636.61	-	-	14,656,269.51	-	-	14,563,404.14
Office equipment and others	3,475,427.37	-	-	2,656,281.04	-	-	2,404,480.01

Among the increase in fixed assets for January to July 2012, the amount transferred from construction in progress was RMB135,209,385.15.

Among the increase in accumulated depreciation for January to July 2012, the provision for the period was RMB39,777,716.51.

The decrease in fixed assets for January to July 2012 included the plant and equipment of Mulin Workshop transferred to 北京京城機電資產管理有限責任公司 (Beijing Jingcheng Electric Management Co., Ltd.) by the Company. The original value of the assets was RMB8,536,787.96 and the net value was RMB5,647,543.88. The parties agreed the price to be RMB6,100,000.00.

(2) *Fixed assets of which property licenses are not finished yet as at 31 July 2012*

Name of fixed assets	Owner	Date of completion	Gross floor area (m ²)	Net book value
Sales dept. building	The Company	December 2002	214.60	285,607.25
Plant		August 2008	2,072.50	
Auxiliary building	Shanghai Tianhai	November 2008	438.70	4,360,381.36
Security room		August 2008	68.00	
Total	-	-	-	4,645,988.61

9. Construction in progress

(1) Breakdown of the construction in progress

Project	Book balance	31 Jul 2012		Book balance	31 Dec 2011	
		Provision for impairment	Book value		Provision for impairment	Book value
200,000 CNG Gas Cylinders Project	2,287,179.52	0.00	2,287,179.52	72,794,774.03	0.00	72,794,774.03
TTHP406 Project	136,730,524.67	0.00	136,730,524.67	110,543,297.23	0.00	110,543,297.23
Transformation of Aluminum liner workshop	2,648,034.32	0.00	2,648,034.32	7,417,096.51	0.00	7,417,096.51
Electric capacity enhancement project	0.00	0.00	0.00	2,970,664.21	0.00	2,970,664.21
Project of the transformation of flexible production line of LNG storage tanks	531,668.05	0.00	531,668.05	2,663,575.28	0.00	2,663,575.28
Addition of equipment for new workshop at low temperature	18,086,528.59	0.00	18,086,528.59	0.00	0.00	0.00
Others	2,099,644.79	0.00	2,099,644.79	18,887,381.15	0.00	18,887,381.15
Sub-total	162,383,579.94	0.00	162,383,579.94	215,276,788.41	0.00	215,276,788.41

(continued)

Item	Book balance	31 Dec 2010		Book balance	31 Dec 2009	
		Provision for impairment	Book value		Provision for impairment	Book value
Transformation of seamless steel gas cylinders project	0.00	0.00	0.00	9,474,645.86	0.00	9,474,645.86
Transformation of aluminum liner workshop	20,325,018.94	0.00	20,325,018.94	4,978,341.00	0.00	4,978,341.00
Electricity capacity increase project	2,996,650.03	0.00	2,996,650.03	0.00	0.00	0.00
Large duplex bit typewriter	1,469,736.07	0.00	1,469,736.07	0.00	0.00	0.00
Plant	0.00	0.00	0.00	4,150,870.00	0.00	4,150,870.00
Other	13,956,532.72	0.00	13,956,532.72	17,194,834.74	0.00	17,194,834.74
Sub-total	38,747,937.76	0.00	38,747,937.76	35,798,691.6	0.00	35,798,691.6

(2) Changes of the major construction in progress

Changes of the major construction in progress as at 31 July 2012

Project	31 Dec 2011	Decrease for the period			31 Jul 2012	Percentage of construction input		Construction progress	Accumulated amount of interests capitalized	Of which: Amount of interest capitalized for the period	Interest capitalization rate for the period (%)	Source of fund
		Increase for the period	Transfer to fixed assets	Other decreases		Expected amount	as the expected amount (%)					
200,000 CNG Gas Cylinders Project	72,794,774.03	25,873,008.73	96,380,603.24	0.00	2,287,179.52	121,410,000.00	81.27	95.00	0.00	0.00	0.00	Self-raised
TTHP406 Project	110,543,297.23	26,187,227.44	0.00	0.00	136,730,524.67	160,000,000.00	85.46	85.00	0.00	0.00	0.00	Self-raised
Transformation of Aluminum workshop	7,417,096.51	2,053,782.60	6,822,844.79	0.00	2,648,034.32	10,000,000.00	94.71	95.00	0.00	0.00	0.00	Self-raised
Addition of equipment for expansion of production at low temperature	3,032,682.02	669,392.32	3,378,420.49	0.00	323,653.85	4,000,000.00	92.55	95.00	0.00	0.00	0.00	Self-raised
Electric capacity enhancement project	2,970,664.21	2,273,461.03	5,244,125.24	0.00	0.00	6,000,000.00	87.40	100.00	0.00	0.00	0.00	Self-raised
Project of the transformation of flexible production line of LNG storage tanks	2,663,575.28	2,129,922.93	4,261,830.16	0.00	531,668.05	5,000,000.00	95.87	95.00	0.00	0.00	0.00	Self-raised
Addition of equipment for new workshop at low temperature	0.00	18,086,528.59	0.00	0.00	18,086,528.59	30,000,000.00	60.29	80.00	0.00	0.00	0.00	Self-raised
Total	199,422,089.28	77,273,323.64	116,087,823.92	0.00	160,607,589.00	336,410,000.00	-	-	-	-	-	-

10. Intangible assets

Item	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010
Original Cost	36,392,272.43	21,413,500.00	0.00	57,805,772.43	1,839,927.06	1,938,379.56	57,707,319.93
Land use right	34,212,392.87	11,413,500.00	0.00	45,625,892.87	0.00	0.00	45,625,892.87
Proprietary technology	0.00	1,000,000.00	0.00	1,000,000.00	1,707,050.00	0.00	11,707,050.00
Software	241,500.00	0.00	0.00	241,500.00	132,877.06	0.00	374,377.06
Concession	1,938,379.56	0.00	0.00	1,938,379.56	0.00	1,938,379.56	0.00
Accumulated depreciation	2,858,464.64	1,046,259.51	0.00	3,904,724.15	2,346,964.76	1,938,379.56	4,313,309.35
Land use right	985,089.37	836,427.88	0.00	1,821,517.25	912,517.85	0.00	2,734,035.10
Proprietary technology	0.00	0.00	0.00	0.00	1,283,302.38	0.00	1,283,302.38
Software	96,527.34	48,300.00	0.00	144,827.34	151,144.53	0.00	295,971.87
Concession	1,776,847.93	161,531.63	0.00	1,938,379.56	0.00	1,938,379.56	0.00
Net book value	33,533,807.79	–	–	53,901,048.28	–	–	53,394,010.58
Land use right	33,227,303.50	–	–	43,804,375.62	–	–	42,891,857.77
Proprietary technology	0.00	–	–	10,000,000.00	–	–	10,423,747.62
Software	144,972.66	–	–	96,672.66	–	–	78,405.19
Concession	161,531.63	–	–	0.00	–	–	0.00
Impairment provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proprietary technology	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Concession	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book value	33,533,807.79	–	–	53,901,048.28	–	–	53,394,010.58
Land use right	33,227,303.50	–	–	43,804,375.62	–	–	42,891,857.77
Proprietary technology	0.00	–	–	10,000,000.00	–	–	10,423,747.62
Software	144,972.66	–	–	96,672.66	–	–	78,405.19
Concession	161,531.63	–	–	0.00	–	–	0.00

(Continued)

Item	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011	Increase for the period	Decrease for the period	31 July 2012
Original Cost	57,707,319.93	37,854.13	0.00	57,745,174.06	575,436.81	0.00	58,320,610.87
Land use right	45,625,892.87	0.00	0.00	45,625,892.87	575,436.81	0.00	46,201,329.68
Proprietary technology	11,707,050.00	0.00	0.00	11,707,050.00	0.00	0.00	11,707,050.00
Software	374,377.06	37,854.13	0.00	412,231.19	0.00	0.00	412,231.19
Concession	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated depreciation	4,313,309.35	2,283,201.02	0.00	6,596,510.37	1,491,889.07	0.00	8,088,399.44
Land use right	2,734,035.10	957,242.29	0.00	3,691,277.39	555,518.35	0.00	4,246,795.74
Proprietary technology	1,283,302.38	1,283,823.20	0.00	2,567,125.58	915,259.72	0.00	3,482,385.30
Software	295,971.87	42,135.53	0.00	338,107.40	21,111.00	0.00	359,218.40
Concession	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net book value	53,394,010.58	–	–	51,148,663.69	–	–	50,232,211.43
Land use right	42,891,857.77	–	–	41,934,615.48	–	–	41,954,533.94
Proprietary technology	10,423,747.62	–	–	9,139,924.42	–	–	8,224,664.70
Software	78,405.19	–	–	74,123.79	–	–	53,012.79
Concession	0.00	–	–	0.00	–	–	0.00
Impairment provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Land use right	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proprietary technology	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Concession	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book value	53,394,010.58	–	–	51,148,663.69	–	–	50,232,211.43
Land use right	42,891,857.77	–	–	41,934,615.48	–	–	41,954,533.94
Proprietary technology	10,423,747.62	–	–	9,139,924.42	–	–	8,224,664.70
Software	78,405.19	–	–	74,123.79	–	–	53,012.79
Concession	0.00	–	–	0.00	–	–	0.00

The increase of accumulated amortization of 2012 is the amortization in this year.

11. Goodwill

Name of invested company	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010
America Fortune	0.00	0.00	0.00	0.00	6,562,344.06	0.00	6,562,344.06
Total	0.00	0.00	0.00	0.00	6,562,344.06	0.00	6,562,344.06

(Continued)							
Name of invested company	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011	Increase for the period	Decrease for the period	31 Jul 2012
America Fortune	6,562,344.06	0.00	0.00	6,562,344.06	0.00	0.00	6,562,344.06
Total	6,562,344.06	0.00	0.00	6,562,344.06	0.00	0.00	6,562,344.06

The goodwill was created when the Company acquired the 51% equity interests in America Fortune through business combination under non-common control. For details, please refer to Note VI 4(2)(5) Determination of goodwill.

12. Long-term prepayments

Item	31 Dec 2008	Increase for the period	Amortization for the period	Other decreases for the period	31 Dec 2009	Increase for the period	Amortization for the period	Other decreases for the period	31 Dec 2010
Renovation fee	1,235,114.40	76,900.00	547,644.27	0.00	764,370.13	0.00	573,277.60	0.00	191,092.53
Total	1,235,114.40	76,900.00	547,644.27	0.00	764,370.13	0.00	573,277.60	0.00	191,092.53

(Continued)									
Item	31 Dec 2010	Increase for the period	Amortization for the period	Other decreases for the period	31 Dec 2011	Increase for the period	Amortization for the period	Other decreases for the period	31 Jul 2012
Renovation fee	191,092.53	336,000.00	250,536.08	0.00	276,556.45	519,698.88	95,322.50	0.00	700,932.83
Total	191,092.53	336,000.00	250,536.08	0.00	276,556.45	519,698.88	95,322.50	0.00	700,932.83

13. Deferred tax assets and deferred tax liabilities**(1) Recognized deferred tax assets**

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Deferred tax assets				
Provision for impairment of assets	1,123,679.03	1,133,373.08	704,127.86	760,987.02
Internal unrealized profits	1,278,863.99	1,564,621.63	1,477,059.91	806,223.22
Deferred income	392,850.00	0.00	0.00	0.00
Total	2,795,393.02	2,697,994.71	2,181,187.77	1,567,210.24

(2) Deductible temporary differences

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Provision for impairment of assets	6,522,831.76	5,698,509.94	3,443,800.07	3,739,389.57
Internal unrealized profits	6,303,485.11	8,045,191.21	6,937,302.67	3,495,932.66
Deferred income	2,619,000.00	0.00	0.00	0.00
Total	15,445,316.87	13,743,701.15	10,381,102.74	7,235,322.23

14. Breakdown of provision for impairment of assets

Item	31 Dec 2008	Increase for the period	Decrease for the period Reversal	Other transfer	31 Dec 2009	Increase for the period	Decrease for the period Reversal	Other transfer	31 Dec 2010
Provision for bad debts	2,962,179.93	777,209.64	0.00	0.00	3,739,389.57	-295,589.50	0.00	0.00	3,443,800.07
Provision for impairment of fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	2,962,179.93	777,209.64	0.00	0.00	3,739,389.57	-295,589.50	0.00	0.00	3,443,800.07

(Continued)

Item	31 Dec 2010	Increase for the period	Decrease for the period Reversal	Other transfer	31 Dec 2011	Increase for the period	Decrease for the period Reversal	Other transfer	31 Jul 2012
Provision for bad debts	3,443,800.07	2,254,709.87	0.00	0.00	5,698,509.94	824,321.82	0.00	0.00	6,522,831.76
Provision for impairment of fixed assets	0.00	0.00	0.00	0.00	0.00	664,142.40	0.00	0.00	664,142.40
Total	3,443,800.07	2,254,709.87	0.00	0.00	5,698,509.94	1,488,464.22	0.00	0.00	7,186,974.16

15. Short-term borrowings**(1) Category of short-term borrowings**

Category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Credit loans	70,000,000.00	20,000,000.00	20,000,000.00	40,000,000.00
Pledged loans	55,000,000.00	55,000,000.00	55,000,000.00	66,881,836.00
Guaranteed loans	180,000,000.00	70,000,000.00	50,000,000.00	158,000,000.00
Total	305,000,000.00	145,000,000.00	125,000,000.00	264,881,836.00

(2) Details of guaranteed loans

Details of guaranteed loans as at 31 July 2012

Name of Lender	Name of Borrower	Balance of Borrowings	Term of borrowing	Guarantor
China Merchants Bank Co., Ltd., Beijing Dongsanhuan Branch	The Company	50,000,000.00	22 March 2012 to 6 September 2012	Jingchen Holding
		20,000,000.00	20 February 2012 to 6 September 2012	
		20,000,000.00	16 February 2012 to 15 August 2012	
The headquarter of China Citic Bank Co., Ltd	The Company	80,000,000.00	15 May 2012 to 16 May 2013	The Company
Shanghai Pudong Development Bank Co., Ltd., Tianjin Branch	Tianjin Tianhai	10,000,000.00	9 November 2011 to 8 November 2012	
Total	—	180,000,000.00	—	—

(3) *Details of pledged loans*

Details of pledged loans as at 31 July 2012

Name of Lender	Name of Borrower	Balance of Borrowings	Collateral	Net Book Value of Collateral as at 31 July 2012
Tianjin Tianhai	Hua Xia Bank Co., Ltd., Tianjin Branch	40,000,000.00	Buildings	48,132,156.22
	Shanghai Pudong Development Bank Co., Ltd., Tianjin Branch	15,000,000.00	Machinery and equipment	62,323,142.22
Total	—	55,000,000.00	—	110,455,298.44

The short-term borrowings as at 31 July 2012 representing an increase of RMB160.0000 million or 110.34% as compared to 31 December 2011, mainly due to the increase of bank borrowings for the increased assets expenditure.

16. **Notes Payable**

Category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Bank acceptance notes	74,000,000.00	70,000,000.00	89,000,000.00	94,000,000.00
Commercial acceptance notes	0.00	0.00	0.00	0.00
Total	74,000,000.00	70,000,000.00	89,000,000.00	94,000,000.00

17. **Accounts Payable**(1) *Accounts payable*

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	371,733,350.72	310,686,573.83	232,826,761.83	167,943,963.37
Of which: over 1 year	21,508,869.43	11,268,848.82	14,477,362.23	4,417,924.49

(2) Balance of accounts payable as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 does not include amounts payable to shareholders holding over 5% (including 5%) of the shares of the Company entitling voting rights.

(3) *The balance of accounts receivable in foreign currencies*

Foreign currency	Original Currency	31 Jul 2012 Exchange Rate	RMB	Original Currency	31 Dec 2011 Exchange Rate	RMB
USD	1,049,157.47	6.3320	6,643,265.10	1,499,068.34	6.3009	9,445,479.70
Total	1,049,157.47	6.3320	6,643,265.10	1,499,068.34	6.3009	9,445,479.70

(Continued)

Foreign currency	Original currency	31 Dec 2010 Exchange Rate	RMB	Original currency	31 Dec 2009 Exchange Rate	RMB
USD	51,757.05	6.6227	342,771.41	168,337.00	6.8282	1,149,438.70
Total	51,757.05	6.6227	342,771.41	168,337.00	6.8282	1,149,438.70

Plant which were capital contributed by TPCO Investment Co., Ltd. to Tianjin Industrial was being refurbished and the transfer procedures was completed in September. Therefore, it was temporarily included in accounts payable as at 31 July 2011, the amount of which was RMB63.0353 million.

18. Advance from customers

(1) Advance from customers

Items	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	30,714,683.81	54,992,059.76	56,852,490.51	38,775,189.34
Of which: over 1 year	6,616,201.51	3,464,210.53	3,069,317.93	9,636,716.31

(2) Balance of advance from customers as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 does not include amounts payable to shareholders holding over 5% (including 5%) of the shares of the Company entitling voting rights.

(3) The balance of advance from customers in foreign currencies:

Foreign currency	Foreign Currency	31 Jul 2012 Exchange Rate	RMB	Foreign Currency	31 Dec 2011 Exchange Rate	RMB
USD	1,184,985.15	6.3320	7,503,325.97	1,648,600.89	6.3009	10,387,669.35
EUR	245,185.82	7.7627	1,903,303.96	0.00	0.00	0.00
Pound	2,586.45	9.9479	25,729.75	2,586.45	9.7116	25,118.57
Total	–	–	9,432,359.68	–	–	10,412,787.92

(Continued)

Foreign currency	Original currency	31 Dec 2010 Exchange Rate	RMB	Original currency	31 Dec 2009 Exchange Rate	RMB
USD	1,469,352.18	6.6227	9,731,078.68	1,810,422.56	6.8282	12,361,927.32
EUR	17,805.69	8.8065	156,805.81	15,280.80	9.7971	149,707.53
Pound	30,838.45	10.2182	315,113.46	12,105.05	10.9780	132,889.24
Total	–	–	10,202,997.95	–	–	12,644,524.09

19. Employee Benefit Payable

Items	31 Dec 2008	Increase for the period	Decrease for the period	31 Dec 2009	Increase for the period	Decrease for the period	31 Dec 2010
Salary, bonus, allowance and subsidy	4,133,156.50	125,752,858.44	123,993,538.63	5,892,476.31	161,056,774.47	161,803,787.04	5,145,463.74
Welfare	10,580.24	7,124,402.15	7,124,402.15	10,580.24	9,019,853.96	9,019,853.96	10,580.24
Social insurance	1,368,244.49	26,605,309.75	26,294,298.34	1,679,255.90	31,514,554.67	32,674,920.86	518,889.71
Including: medical insurance	68,782.93	7,513,221.85	7,040,983.76	541,021.02	7,101,229.08	7,592,218.13	50,031.97
Basic endowment insurance	875,059.00	13,915,366.81	14,037,103.08	753,322.73	18,884,210.14	19,637,532.87	0.00
Unemployment insurance	50,797.75	810,148.43	824,493.34	36,452.84	993,193.97	1,029,646.81	0.00
Industrial injury insurance	56,172.55	967,493.72	964,735.67	58,930.60	1,104,190.34	1,163,120.94	0.00
Fertility insurance	27,790.26	462,470.16	463,055.71	27,204.71	512,528.14	539,732.85	0.00
Annularity	289,642.00	2,936,608.78	2,963,926.78	262,324.00	2,919,203.00	2,712,669.26	468,857.74
Housing fund	460,459.63	6,532,984.04	6,655,101.40	338,342.27	7,039,063.00	7,359,956.27	17,449.00
Labour union expenditure and employee education expenditure	1,040,742.40	3,034,672.59	3,482,542.90	592,872.09	3,305,172.64	3,007,384.41	890,660.32
Non-monetary benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Termination benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Housing allowance	1,106,820.00	812,296.00	331,776.00	1,587,340.00	836,572.00	357,852.00	2,066,060.00
Including: cash-settled share-based payment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	8,120,003.26	169,862,522.97	167,881,659.42	10,100,866.81	212,771,990.74	214,223,754.54	8,649,103.01

(Continued)

Items	31 Dec 2010	Increase for the period	Decrease for the period	31 Dec 2011	Increase for the period	Decrease for the period	31 Dec 2012
Salary, bonus, allowance and subsidy	5,145,463.74	198,460,983.94	197,111,069.68	6,495,378.00	107,947,367.19	106,405,408.37	8,037,336.82
Welfare	10,580.24	10,033,451.67	9,805,951.67	238,080.24	5,284,763.36	5,284,763.36	238,080.24
Social insurance	518,889.71	41,178,487.79	38,198,610.41	3,498,767.09	30,734,911.79	27,797,789.15	6,435,889.73
Including: medical insurance	50,031.97	8,674,675.75	7,600,822.93	1,123,884.79	6,793,853.22	7,087,232.26	830,505.75
Basic endowment insurance	0.00	23,459,571.73	22,941,024.50	518,547.23	17,488,890.25	15,940,938.59	2,066,498.89
Unemployment insurance	0.00	1,328,780.20	1,159,049.55	169,730.65	1,126,460.88	1,133,291.02	162,900.51
Industrial injury insurance	0.00	1,380,704.31	1,174,244.21	206,460.10	993,748.25	1,132,395.52	67,812.83
Fertility insurance	0.00	606,859.47	606,105.15	754.32	506,903.96	473,034.02	34,624.26
Annularity	468,857.74	5,727,896.33	4,717,364.07	1,479,390.00	3,825,055.23	2,030,897.74	3,273,547.49
Housing fund	17,449.00	8,184,634.11	8,184,634.11	17,449.00	6,020,046.27	4,751,376.66	1,286,118.61
Labour union expenditure and employee education expenditure	890,660.32	4,364,640.67	3,840,291.82	1,415,009.17	2,796,345.35	3,227,190.56	984,163.96
Non-monetary benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Termination benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Housing allowance	2,066,060.00	1,007,757.16	471,757.16	2,602,060.00	1,398,760.00	427,716.40	3,573,103.60
Including: cash-settled share-based payment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	8,649,103.01	263,229,955.34	257,612,314.85	14,266,743.50	154,182,193.96	147,894,244.50	20,554,692.96

20. Tax payable

Tax category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Value added tax	-7,265,199.45	-12,210,221.55	-9,829,446.77	-6,598,257.95
Business tax	4,362.50	0.00	0.00	0.00
Corporate income tax	1,931,521.54	2,106,650.49	4,499,169.45	12,330,968.81
Individual tax	512,257.14	929,548.34	488,294.22	470,537.39
Urban maintenance and construction tax	259,136.62	18,138.12	74,870.83	0.00
Property tax	1,687,929.07	1,215,881.56	921,856.32	738,875.26
Land usage tax	-57,158.03	67,638.00	67,638.00	0.00
Educational surcharge	209,442.10	175.93	24,345.66	0.00
Stamp tax	16,499.04	30,455.49	16,548.22	14,472.90
River Way Management Fee	23,659.27	0.00	0.00	0.00
Allowance for people with disabilities	0.00	14,180.79	0.00	0.00
Flood control fee	21,376.27	0.00	7,497.24	2,001.23
Total	-2,656,173.93	-7,827,552.83	-3,729,226.83	6,958,597.64

The balance of taxes payable as at 31 July 2012 representing an increase of RMB5.1714 million as compared to 31 December 2011, mainly due to the non-deductible input tax of the purchase of goods in this period was decreased.

21. Interest payable

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Short-term borrowings interest payable	3,510,127.66	475,337.78	220,061.25	150,645.69
Total	3,510,127.66	475,337.78	220,061.25	150,645.69

22. Dividends payable

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Jingcheng HK	1,300,000.00	1,300,000.00	0.00	0.00
TPCO Investment Co., Ltd.	0.00	2,340,000.00	0.00	0.00
Total	1,300,000.00	3,640,000.00	0.00	0.00

23. Other payables**(1) Other payables**

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Total	413,971,407.45	545,554,287.30	188,838,464.58	37,780,659.80
Of which: over 1 year	111,506,142.99	11,193,027.66	14,314,673.09	23,517,930.58

(2) Payables to shareholders who hold 5% or more of the Company's shares carrying voting rights

Name of the Company	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Jingcheng Holding	396,700,000.00	526,800,000.00	178,000,000.00	15,054,600.00
Total	396,700,000.00	526,800,000.00	178,000,000.00	15,054,600.00

(3) *Other payables in large amount*

Other payables in large amount as at 31 July 2012

Item	Amount outstanding	Aging	Nature or content
Jingcheng Holding	396,700,000.00	Within 3 years	Borrowings and contributions
Tianjin Tiangang Oxygen Factory (天津天鋼氧氣廠)	1,611,023.51	Within 1 year	Liquid oxygen fee
Tianjin Tianbao Electricity Co., Ltd. (天津天保電力有限公司)	1,225,014.79	Within 1 year	Electricity charges
Total	399,536,038.30	—	—

(4) *The balance of other payables in foreign currencies*

Foreign currency	Original currency	31 Jul 2012 Exchange rate	RMB	Original currency	31 Dec 2011 Exchange rate	RMB
USD	8,014.06	6.3320	50,745.03	249,737.85	6.3009	1,573,573.22
Total	8,014.06	6.3320	50,745.03	249,737.85	6.3009	1,573,573.22

Foreign currency	Original currency	31 Dec 2010 Exchange rate	RMB	Original currency	31 Dec 2009 Exchange rate	RMB
USD	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00

24. **Non-current Liabilities maturing within one year**(1) *Classification non-current liabilities maturing within one year*

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Long-term borrowings maturing within one year	0.00	30,000,000.00	0.00	20,000,000.00
Total	0.00	30,000,000.00	0.00	20,000,000.00

(2) *Details of non-current liabilities maturing within one year*

Lenders	Grant date	Expiry date	Currency	Rate (%)	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Shanghai Pudong Development Bank (Beijing Branch)	17 Aug 2007	16 Aug 2010	RMB	7.02	0.00	0.00	0.00	20,000,000.00
China Merchants Bank Co., Ltd, Dongsanhuan Branch, Beijing	5 Feb 2010	4 Feb 2012	RMB	5.04	0.00	30,000,000.00	0.00	0.00

25. Long-term borrowings**(1) Classification of long-term borrowings**

Loan category	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Pledged borrowings	0.00	0.00	0.00	0.00
Secured borrowings	0.00	0.00	0.00	0.00
Guaranteed borrowings	0.00	0.00	0.00	0.00
Credit borrowings	0.00	0.00	50,000,000.00	0.00
Total	0.00	0.00	50,000,000.00	0.00

(2) Details of long-term borrowings

Lenders	Grant date	Expiry date	Currency	Rate (%)	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
China Merchants Bank Co., Ltd, Dongsanhuan Branch, Beijing	5 Feb 2010	4 Feb 2012	RMB	5.40	0.00	0.00	50,000,000.00	0.00

26. Other non-current liabilities

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Deferred income	2,619,000.00	2,700,000.00	0.00	0.00
Total	2,619,000.00	2,700,000.00	0.00	0.00

Government grants

Category	Book balance on 31 Jul 2012	Book balance on 31 Dec 2011	Book balance on 31 Dec 2010	Book balance on 31 Dec 2009
Interest subsidies of aluminium liner fully wrapped composite cylinders for vehicle use production project	2,619,000.00	81,000.00	0.00	0.00
Total	2,619,000.00	81,000.00	0.00	0.00

(Continued)

Category	Amount credited to profit and loss for Jan-Jul 2012	Amount credited to profit and loss for the year 2011	Amount credited to profit and loss for the year 2010	Amount credited to profit and loss for the year 2009
Interest subsidies of aluminum liner fully wrapped composite cylinders for vehicles use production project	81,000.00	81,000.00	0.00	0.00
Total	81,000.00	81,000.00	0.00	0.00

Details of the source of interest subsidies of aluminium liner fully wrapped composite cylinders production project are set out in Note VII 38(2) Government grants.

27. Share capital

Name of shareholders	31 Dec 2008	Increase during the current period	Decrease during the current period	31 Dec 2009
Jingcheng Holding	102,377,782.67	20,000,000.00	0.00	122,377,782.67
Jingcheng HK	41,531,900.00	0.00	0.00	41,531,900.00
Total	143,909,682.67	0.00	0.00	163,909,682.67

The capital contributed of USD2.9240 million by Jingcheng Holding in 2009 was verified by Yejing Wanlong Asia CPA Co., Ltd. (業經萬隆亞洲會計師事務所有限公司) as per their capital verification report (Wan Ya Hui Ye Zi [2009] No. 2421) dated 9 June 2009.

(Continued)

Name of shareholders	31 Dec 2009	Increase during the current period	Decrease during the current period	31 Dec 2010
Jingcheng Holding	122,377,782.67	0.00	0.00	122,377,782.67
Jingcheng HK	41,531,900.00	0.00	0.00	41,531,900.00
Total	163,909,682.67	0.00	0.00	163,909,682.67

(Continued)

Name of shareholders	31 Dec 2010	Increase during the current period	Decrease during the current period	31 Dec 2011
Jingcheng Holding	122,377,782.67	0.00	0.00	122,377,782.67
Jingcheng HK	41,531,900.00	0.00	0.00	41,531,900.00
Total	163,909,682.67	0.00	0.00	163,909,682.67

(Continued)

Name of shareholders	31 Dec 2011	Increase during the current period	Decrease during the current period	31 Jul 2012
Jingcheng Holding	122,377,782.67	0.00	0.00	122,377,782.67
Jingcheng HK	41,531,900.00	0.00	0.00	41,531,900.00
Total	163,909,682.67	0.00	0.00	163,909,682.67

28. Capital reserve

Item	31 Dec 2008	Increase during the current period	Decrease during the current period	31 Dec 2009
Capital premium	133,338,160.75	1,086,064.25	4,509,526.76	129,914,698.24
Transfer from items under previous standards	10,178,932.30	0.00	930,086.07	9,248,846.23
Other capital reverse	57.36	0.00	0.00	57.36
Total	143,517,150.41	1,086,064.25	5,439,612.83	139,163,601.83

Item	31 Dec 2009	Increase during the current period	Decrease during the current period	31 Dec 2010
Capital premium	129,914,698.24	0.00	2,965,035.97	126,949,662.27
Transfer from items under previous standards	9,248,846.23	0.00	1,184,064.03	8,064,782.20
Other capital reverse	57.36	9,807,328.91	0.00	9,807,386.27
Total	139,163,601.83	9,807,328.91	4,149,100.00	144,821,830.74
Item	31 Dec 2010	Increase during the current period	Decrease during the current period	31 Dec 2011
Capital premium	126,949,662.27	0.00	54,873,773.29	72,075,888.98
Transfer from items under previous standards	8,064,782.20	0.00	8,064,782.20	0.00
Other capital reverse	9,807,386.27	0.00	0.00	9,807,386.27
Total	144,821,830.74	0.00	62,938,555.49	81,883,275.25
Item	31 Dec 2011	Increase during the current period	Decrease during the current period	31 Jul 2012
Capital premium	72,075,888.98	0.00	0.00	72,075,888.98
Other capital reverse	9,807,386.27	0.00	0.00	9,807,386.27
Total	81,883,275.25	0.00	0.00	81,883,275.25

The change in capital premium for different period was the capital premium adjusted and created by the change in net assets brought about by the business combination as business combination under common control occurred in the reporting period and when preparing the statements.

The increase during the current period of other capital reserve was the Company transferred the remaining balance of RMB9,807,328.91 of the current account outstanding to Beijing High Pressure Gas Cylinders Factory of RMB11,538,034.01 after deducting enterprise income tax of RMB1,730,705.10 to capital reserve after the liquidation of Beijing High Pressure Gas Cylinders Factory in 2010.

29. Surplus reserves

Item	31 Dec 2008	Increase during the current period	Decrease during the current period	31 Dec 2009
Reserve fund	1,448,488.63	0.00	0.00	1,448,488.63
Enterprise development fund	1,226,119.48	0.00	0.00	1,226,119.48
Total	2,674,608.11	0.00	0.00	2,674,608.11

Item	31 Dec 2009	Increase during the current period	Decrease during the current period	31 Dec 2010
Reserve fund	1,448,488.63	0.00	0.00	1,448,488.63
Enterprise development fund	1,226,119.48	0.00	0.00	1,226,119.48
Total	2,674,608.11	0.00	0.00	2,674,608.11

Item	31 Dec 2010	Increase during the current period	Decrease during the current period	31 Dec 2011
Reserve fund	1,448,488.63	0.00	987,850.11	460,638.52
Enterprise development fund	1,226,119.48	0.00	765,480.96	460,638.52
Total	2,674,608.11	0.00	1,753,331.07	921,277.04

The decrease in surplus reserves for the period was due to the Company acquired the equity interest of Langfang Tianhai in 2011 and formed business combination under common control, as the capital reserve – capital premium was insufficient to cover the difference between the initial investment cost and the payment of consideration, thus the surplus reserves and undistributed profit was offset.

Item	31 Dec 2011	Increase during the current period	Decrease during the current period	31 Jul 2012
Reserve fund	460,638.52	0.00	0.00	460,638.52
Enterprise development fund	460,638.52	0.00	0.00	460,638.52
Total	921,277.04	0.00	0.00	921,277.04

30. Undistributed profit

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Undistributed profits at the beginning of the year	122,422,332.56	81,793,964.99	81,793,964.99	89,950,369.14	87,699,055.06
Add: Net profit attributable to the Parent's Shareholders for the period	30,776,186.11	25,442,796.87	44,744,661.01	-8,156,404.15	2,251,314.08
Business combination under common control	0.00	0.00	-4,116,293.44	0.00	0.00
Undistributed profits at the end of the period	153,198,518.67	107,236,761.86	122,422,332.56	81,793,964.99	89,950,369.14

Please refer to the explanation of surplus reserve for the reason of the amount of business combination under common control in 2011.

31. Minority interests

Name of subsidiary	31 Jul 2012		31 Dec 2011	
	Proportion of equity held by minority shareholders (%)	Minority interests	Proportion of equity held by minority shareholders (%)	Minority interests
Langfang Tianhai High Pressure Cylinder Co., Ltd.	30.00	24,126,201.82	30.00	23,517,331.41
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	12.16	3,589,217.92	12.16	3,464,583.33
Beijing Panni Gaokong Equipment Co., Ltd.	0.00	0.00	0.00	0.00
America Fortune Company	49.00	13,274,480.83	49.00	11,715,523.90
Tianjin Tianhai High Pressure Containers Co., Ltd.	54.48	71,754,047.48	54.48	70,627,877.56
Beijing Tianhai Cryogenic Equipment Co., Ltd.	25.00	10,634,189.79	25.00	9,016,736.05
Total		123,378,137.84		118,342,052.25

Name of subsidiary	31 Dec 2010		31 Dec 2009	
	Proportion of equity held by minority shareholders (%)	Minority interests	Proportion of equity held by minority shareholders (%)	Minority interests
Langfang Tianhai High Pressure Cylinder Co., Ltd.	30.00	22,842,008.16	30.00	32,088,540.82
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	32.22	3,233,661.41	32.22	1,960,634.98
Beijing Panni Gaokong Equipment Co., Ltd.	0.00	0.00	0.00	0.00
America Fortune Company	49.00	10,658,899.20	0.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	70.00	75,530,780.43	70.00	71,795,116.44
Beijing Tianhai Cryogenic Equipment Co., Ltd.	25.00	8,170,656.69	25.00	7,915,971.82
Total	—	120,436,005.89	—	113,760,264.06

32. Operating income and cost

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Main operating income	1,353,417,608.17	1,320,854,128.97	2,260,377,759.77	1,833,987,914.83	1,630,476,812.82
Other operating income	45,405,201.31	58,930,550.42	71,166,507.28	60,799,907.43	53,815,941.12
Total	1,398,822,809.48	1,379,784,679.39	2,331,544,267.05	1,894,787,822.26	1,684,292,753.94
Main operating costs	1,151,312,089.27	1,155,394,695.21	1,945,248,004.65	1,639,058,035.77	1,448,164,718.92
Other operating costs	41,519,447.21	50,681,255.13	55,922,574.84	49,102,752.63	45,686,685.21
Total	1,192,831,536.48	1,206,075,950.34	2,001,170,579.49	1,688,160,788.40	1,493,851,404.13

(1) Main operating income and costs – classified by industries

Industry	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Main operating income					
Gas storage and transportation equipment	1,353,417,608.17	1,320,854,128.97	2,260,377,759.77	1,833,987,914.83	1,630,476,812.82
Total	<u>1,353,417,608.17</u>	<u>1,320,854,128.97</u>	<u>2,260,377,759.77</u>	<u>1,833,987,914.83</u>	<u>1,630,476,812.82</u>
Main operating costs					
Gas storage and transportation equipment	1,151,312,089.27	1,155,394,695.21	1,945,248,004.65	1,639,058,035.77	1,448,164,718.92
Total	<u>1,151,312,089.27</u>	<u>1,155,394,695.21</u>	<u>1,945,248,004.65</u>	<u>1,639,058,035.77</u>	<u>1,448,164,718.92</u>

(2) Primary business – classified by products

Product	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Main operating income					
Seamless steel gas cylinders	761,815,973.41	790,262,681.90	1,341,563,875.31	1,148,365,905.43	1,026,947,559.65
Hoop-wrapped cylinders	337,083,424.29	347,872,467.45	565,250,910.55	426,376,981.14	407,495,513.78
Cryogenic cylinders	105,786,796.87	63,467,123.49	129,924,789.07	103,593,055.90	83,286,615.39
Cryogenic storage and transportation equipment	63,526,181.73	36,373,269.82	79,659,257.13	48,923,055.84	16,304,670.51
Others	85,205,231.87	82,878,586.31	143,978,927.71	106,728,916.52	96,442,453.49
Total	<u>1,353,417,608.17</u>	<u>1,320,854,128.97</u>	<u>2,260,377,759.77</u>	<u>1,833,987,914.83</u>	<u>1,630,476,812.82</u>
Main operating costs					
Seamless steel gas cylinders	700,566,263.10	704,265,663.92	1,206,473,344.80	1,069,930,438.27	966,946,582.56
Hoop-wrapped cylinders	235,806,912.50	284,015,655.75	425,482,831.86	334,426,625.31	297,866,267.70
Cryogenic cylinders	84,847,221.97	57,253,298.61	113,804,243.45	90,645,299.27	74,242,056.07
Cryogenic storage and transportation equipment	47,476,482.24	29,436,868.21	61,565,104.33	39,584,522.24	14,804,014.99
Others	82,615,209.46	80,423,208.71	137,922,480.21	104,471,150.68	94,305,797.60
Total	<u>1,151,312,089.27</u>	<u>1,155,394,695.21</u>	<u>1,945,248,004.65</u>	<u>1,639,058,035.77</u>	<u>1,448,164,718.92</u>

(3) Details of sales of the top five customers

Period	Total operating revenues from the top five customers	Proportion to the revenues for the current period (%)
Jan-Jul 2012	304,689,039.39	21.78
Jan-Jul 2011 (unaudited)	253,606,062.59	18.38
2011	541,133,313.15	23.21
2010	349,698,646.74	18.46
2009	293,885,163.00	17.45

33. Business taxes and additional taxes

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Business taxes	110,865.56	0.00	11,255.00	6,700.00	0.00
Urban maintenance and construction tax	1,087,656.21	908,292.62	1,413,760.41	148,947.24	0.00
Educational surcharge	887,690.08	615,434.44	885,284.46	68,279.75	0.00
Total	<u>2,086,211.85</u>	<u>1,523,727.06</u>	<u>2,310,299.87</u>	<u>223,926.99</u>	<u>0.00</u>

34. Sales expense

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Transportation fee	26,497,620.85	19,260,722.94	36,820,078.53	33,831,001.71	27,617,697.94
Salary	6,856,408.76	9,576,284.47	18,147,471.18	16,464,129.39	14,976,168.98
Operational fee	2,925,352.78	1,885,682.28	3,455,507.05	3,087,840.52	2,347,844.60
Maintenance cost	2,256,410.37	4,295,791.46	7,009,470.62	3,592,468.58	1,916,728.99
Travelling fee	2,949,473.26	1,419,975.81	3,355,682.11	2,674,428.66	3,435,146.86
Commodity inspection fee	662,180.00	728,279.00	1,210,222.00	892,112.00	373,289.00
Office and administrative fee	534,555.66	294,079.56	666,722.10	562,695.90	532,203.03
After sale cost	602,713.62	1,728,985.84	2,220,200.94	46,175.46	224,901.00
Gas fee	413,550.44	788,241.09	1,291,096.66	1,550,590.60	628,445.30
Others	1,722,840.08	1,162,186.80	2,808,690.57	5,170,378.87	4,277,573.10
Total	<u>45,421,105.82</u>	<u>41,140,229.25</u>	<u>76,985,141.76</u>	<u>67,871,821.69</u>	<u>56,329,998.80</u>

35. Administration expenses

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Salary	46,500,374.18	45,462,608.91	84,983,727.37	59,223,075.72	56,986,001.53
Depreciation	3,470,433.57	3,570,425.81	6,062,686.41	6,262,088.72	4,545,897.80
Entertainment fee	5,372,607.84	4,796,503.89	9,894,911.03	6,876,326.47	4,946,186.07
Research and development fee	9,393,887.43	3,295,404.95	14,227,679.09	6,326,962.42	2,341,828.50
Energy cost	2,159,985.93	252,213.38	1,300,735.29	1,864,457.96	5,122,793.24
Office and administrative fee	2,871,236.73	2,924,180.08	4,912,454.56	6,158,364.17	5,483,519.74
Tax expense	2,763,358.39	2,422,558.44	5,254,239.68	4,239,378.85	4,821,838.10
Agency fee	2,700,934.22	825,573.10	5,701,985.17	659,104.63	1,336,263.40
Meeting fee	845,544.45	763,790.50	1,929,646.20	1,947,095.54	1,579,647.62
Business advertising fee	2,736,220.30	1,577,007.54	2,768,695.54	2,668,658.99	1,602,236.80
Intangible assets amortization	1,491,889.07	1,303,847.86	2,282,680.22	2,275,607.64	857,693.77
Travelling fee	1,528,731.06	1,558,241.90	2,843,755.46	4,269,052.62	3,809,043.90
Others	15,470,773.95	13,476,491.03	24,582,102.09	22,806,218.44	23,673,973.37
Total	<u>97,305,977.12</u>	<u>82,228,847.39</u>	<u>166,745,298.11</u>	<u>125,576,392.17</u>	<u>117,106,923.84</u>

The administration expenses for 2011 increased RMB41.1689 million or 32.78% over 2010, which was mainly due to the adjustment of employees' wages and the strengthening of research and development work in 2011 as well as the increase in the expenses paid to agencies concerning anti-dumping and countervailing legal services fee and attorney fee.

36. Financial Expense

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest payment	16,870,061.36	11,766,403.48	21,071,692.39	17,264,937.52	14,572,177.18
Less: interest income	584,969.12	684,727.90	1,093,554.33	1,014,221.15	1,419,651.79
Exchange gain or loss	-960,206.77	2,616,169.02	3,725,663.25	3,513,785.45	482,343.27
Handling fee	542,562.66	1,058,456.92	1,957,409.12	1,311,032.42	761,970.23
Total	<u>15,867,448.13</u>	<u>14,756,301.52</u>	<u>25,661,210.43</u>	<u>21,075,534.24</u>	<u>14,396,838.89</u>

The financial expense for 2010 increased RMB6.6787 million or 46.39% over 2009, which was mainly due to the increase in the interest payment of the Group and the increase in exchange loss of foreign currency receivable in 2010 brought by the appreciation in RMB against USD.

37. Impairment loss of assets

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Bad debt loss	824,321.82	573,134.48	2,254,709.87	-295,589.50	777,209.64
Impairment loss on fixed assets	664,142.40	0.00	0.00	0.00	0.00
Total	<u>1,488,464.22</u>	<u>573,134.48</u>	<u>2,254,709.87</u>	<u>-295,589.50</u>	<u>777,209.64</u>

38. Investment income**(1) Resources of investment income**

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Equity method of accounting for long-term equity investment income	-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42
Total	<u>-112,493.68</u>	<u>-420,732.27</u>	<u>-468,020.89</u>	<u>-1,082,155.57</u>	<u>-770,275.42</u>

(2) Equity method of accounting for long-term equity investment income

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Total	<u>-112,493.68</u>	<u>-420,732.27</u>	<u>-468,020.89</u>	<u>-1,082,155.57</u>	<u>-770,275.42</u>
北京天海西港環境技術有限公司(Beijing Tianhai Xigang Environmental Technique Co., Ltd.)	-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42

39. Non-operating income**(1) Non-operating income**

Item	Jan-Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Gains from non-current capital disposal	605,079.77	42,986.10	133,933.54	129,676.80	457,599.76
Among which: Gains from fixed assets	81,000.00	575,994.80	1,582,500.00	81,643.00	2,967,248.00
Government subsidy	141,259.60	252.89	7,954.82	31,000.00	
Total	<u>827,339.37</u>	<u>619,233.79</u>	<u>1,724,388.36</u>	<u>242,319.80</u>	<u>3,424,847.76</u>

(2) *Government subsidy*

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Elimination of yellow-labeled vehicles promotion fund	0.00	0.00	0.00	0.00	66,000.00
Hidden defects rectification fund	0.00	0.00	0.00	0.00	20,000.00
Medium and small enterprise supporting fund	0.00	0.00	0.00	0.00	230,000.00
Subsidy for aluminum liner production project	0.00	0.00	0.00	0.00	1,120,000.00
Subsidy for equipment	0.00	118,594.80	125,100.00	0.00	0.00
Enterprise development fund	0.00	117,400.00	117,400.00	81,643.00	1,231,248.00
Energy saving project fund	0.00	340,000.00	1,340,000.00	0.00	300,000.00
Interest subsidies of aluminium liner fully wrapped composite cylinders for vehicle use production project	81,000.00	0.00	0.00	0.00	0.00
Total	81,000.00	575,994.80	1,582,500.00	81,643.00	2,967,248.00

Item	Source	Basis
Elimination of yellow-labeled vehicles promotion fund	Beijing Municipal Bureau of Finance	Jing Zheng Ban Fa [2009] no. 4 "Notice issued by Beijing Municipal People's Government Office in relation to the implementation of speeding up the elimination of yellow-labeled car", a document issued by Beijing Municipal People's Government Office.
Hidden defects rectification fund	Administration of Work Safety, Chaoyang District, Beijing	Jing Jing Xin Wei Fa [2009] no. 31 "Notice issued by Beijing Economic and Information Technology Committee in relation to the second batch of industrial development fund for SME development project fund in 2009", a document issued by Beijing Economic and Information Technology Committee.
Medium and small enterprise supporting fund	Administration of Work Safety, Chaoyang District, Beijing	Jing Jing Xin Wei Fa [2009] no. 31 "Notice issued by Beijing Economic and Information Technology Committee in relation to the second batch of industrial development fund for SME development project fund in 2009", a document issued by Beijing Economic and Information Technology Committee.
Subsidy for aluminum liner production project	Beijing Municipal Bureau of Industrial Promotion	Jing Jing Xin Wei Fa [2009] no. 31 "Notice issued by Beijing Economic and Information Technology Committee in relation to the second batch of industrial development fund for SME development project fund in 2010", a document issued by Beijing Economic and Information Technology Committee.
Subsidy for equipment	Beijing Energy Saving and Environmental Protection Center	"Operation procedures in relation to subsidy for promoting the use of high efficiency motors and energy-saving transformers demonstration project fund in Beijing city" issued by Beijing Energy Saving and Environmental Protection Center.

Item	Source	Basis
Enterprise development fund	Finance Bureau of Tianjin Port Free Trade Zone	“Co-operation agreement entered into between 天津大無縫投資有限公司 (TPCO Investment Co., Ltd.) and Tianjin Port Free Trade Zone” in October 2002
Energy saving project fund	Finance Bureau of Tianjin Port Free Trade Zone	Jin Bin Jing Xin [2011] no. 25 “Notice in relation to declaration of financial subsidy for energy saving project fund in Binhai new district in 2011”
Interest subsidies of aluminium liner fully wrapped composite cylinders for vehicle use production project	Beijing Municipal Commission of Economy and Information Technology	[2011] Cheng Nou No.048 Undertaking letter in relation to the fund interest subsidy project for industry development in Beijing (《北京市工業發展資金貼息項目承諾書》)

40. Non-operating expense

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Disposal loss of non-current assets	204,201.81	233,952.70	706,563.06	747,538.64	387,327.47
Among which: disposal loss of fixed assets	204,201.81	233,952.70	706,563.06	747,538.64	387,327.47
Donations	0.00	0.00	0.00	108,547.01	2,000.00
Others	13,709.09	1,523.19	1,523.19	0.00	91.00
Total	<u>217,910.90</u>	<u>235,475.89</u>	<u>708,086.25</u>	<u>856,085.65</u>	<u>389,418.47</u>

41. Income tax expense

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Current income tax expense	8,260,627.39	5,560,768.75	10,405,779.91	3,505,959.50	14,277,130.45
Deferred income tax expense	307,601.69	-128,371.15	-516,806.94	-613,977.53	-1,085,183.92
Total	<u>8,568,229.08</u>	<u>5,432,397.60</u>	<u>9,888,972.97</u>	<u>2,891,981.97</u>	<u>13,191,946.53</u>

42. Other comprehensive income (after tax)

Item	Jan-Jul 2012	Jan-Jun 2011 (unaudited)	2011	2010	2009
Exchange difference arising on translation of foreign operations	125,510.46	-625,609.29	-1,139,037.56	-825,562.93	0.00
Total	<u>125,510.46</u>	<u>-625,609.29</u>	<u>-1,139,037.56</u>	<u>-825,562.93</u>	<u>0.00</u>

43. Cash flow statement

(1) Other cash relating to operating/investing/financing activities received/paid

1) Other cash receipts relating to operating activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest income	584,969.12	684,012.28	1,087,915.00	1,014,221.15	1,419,651.79
Other receivables	6,499,818.64	61,918.48	21,663,814.60	11,821,207.82	7,837,008.76
Government subsidy	0.00	575,994.80	4,282,500.00	81,643.00	2,967,248.00
Total	<u>7,084,787.76</u>	<u>1,321,925.56</u>	<u>27,034,229.60</u>	<u>12,917,071.97</u>	<u>12,223,908.55</u>

2) Other cash payments relating to operating activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Administration expense	62,224,115.65	95,935,407.12	121,913,476.31	132,077,691.34	98,238,142.12
Other payables	14,734,900.48	16,312,789.48	47,006,318.99	41,385,932.89	50,481,998.27
Donation expense	0.00	0.00	0.00	108,547.01	2,000.00
Total	<u>76,959,016.13</u>	<u>112,248,196.60</u>	<u>168,919,795.30</u>	<u>173,572,171.24</u>	<u>148,722,140.39</u>

3) Other cash receipts relating to financing activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Borrowings	0.00	100,000,000.00	436,800,000.00	168,000,000.00	10,000,000.00
Total	<u>0.00</u>	<u>100,000,000.00</u>	<u>436,800,000.00</u>	<u>168,000,000.00</u>	<u>10,000,000.00</u>

4) Other cash payments relating to financing activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Repayments	130,000,000.00	0.00	88,000,000.00	0.00	0.00
Total	<u>130,000,000.00</u>	<u>0.00</u>	<u>88,000,000.00</u>	<u>0.00</u>	<u>0.00</u>

(2) Supplement information of consolidated cash flow statement

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Reconciliation of net profits to cash flows from operating activities:					
Net profit	35,750,771.57	28,017,117.38	47,076,335.77	-12,412,955.12	-9,096,414.02
Add: Provision for assets impairment	1,488,464.22	573,134.48	2,254,709.87	-295,589.50	777,209.64
Depreciation of fixed assets, oil and gas assets and productive biological assets	39,777,716.51	39,827,427.03	63,559,886.31	58,855,517.98	52,983,593.44
Amortisation of intangible assets	1,491,889.07	1,304,368.66	2,283,201.02	2,199,771.62	1,046,259.49
Amortisation of long-term prepayments	95,322.50	201,870.31	250,536.08	573,277.60	547,644.27
Loss on disposal of fixed assets, intangible assets and other long-term assets (income marked with "-")	-400,877.96	190,966.60	572,629.52	617,861.84	-70,272.29
Loss on discarding of fixed assets (income marked with "-")	0.00	0.00	0.00	0.00	0.00
Gain or loss on changes in fair value (income marked with "-")	0.00	0.00	0.00	0.00	0.00
Finance costs (income marked with "-")	16,030,381.84	13,617,696.65	24,054,744.50	20,183,635.36	14,674,575.22
Loss on investment (income marked with "-")	112,493.68	420,732.27	468,020.89	1,082,155.57	770,275.42
Decrease in deferred income tax assets (increase marked with "-")	-97,398.31	-54,727.83	-516,806.94	-613,977.53	-1,567,210.24
Increase in deferred income tax liabilities (decrease marked with "-")	0.00	0.00	0.00	0.00	0.00
Decrease in inventories (increase marked with "-")	27,397,294.51	-39,682,260.60	-117,410,369.63	-79,032,205.92	72,354,526.34
Decrease in operating accounts receivables (increase marked with "-")	-125,343,212.65	-125,260,795.08	-110,492,875.63	-1,936,020.27	-254,152,907.38
Increase in operating accounts payables (decrease marked with "-")	34,609,052.80	32,338,735.94	11,010,876.11	70,094,964.06	106,471,761.17
Others	0.00	0.00	0.00	0.00	0.00
Net cash flow from operating activity	30,911,897.78	-48,505,734.19	-76,889,112.13	59,316,435.69	-15,260,958.94
2. Significant non-cash investing and financing transactions:	0.00	0.00	0.00	0.00	0.00
Conversion of debt into capital	0.00	0.00	0.00	0.00	0.00
Convertible corporate bonds expiring within one year	0.00	0.00	0.00	0.00	0.00
Acquisition of fixed assets under finance leases	0.00	0.00	0.00	0.00	0.00
3. Changes in cash and cash equivalents:	0.00	0.00	0.00	0.00	0.00
Balance of cash at the end of the period/year	51,683,384.45	84,023,180.43	88,568,931.86	46,156,177.88	22,700,774.53
Less: Balance of cash at the beginning of the period/year	88,568,931.86	46,156,177.88	46,156,177.88	22,700,774.53	43,246,722.97
Add: Balance of cash equivalents at the end of the period/year	0.00	0.00	0.00	0.00	0.00
Less: Balance of cash equivalents at the beginning of the period/year	0.00	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	-36,885,547.41	37,867,002.55	42,412,753.98	23,455,403.35	-20,545,948.44

(3) *Cash and cash equivalents*

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Cash	51,683,384.45	84,023,180.43	88,568,931.86	46,156,177.88	22,700,774.53
Including: Cash on hand	414,299.28	101,397.38	77,060.19	84,980.93	146,363.06
Bank deposit available to make payments	51,269,085.17	83,921,783.05	88,491,871.67	46,071,196.95	22,554,411.47
Other monetary fund available to make payments	0.00	0.00	0.00	0.00	0.00
Cash equivalents	0.00	0.00	0.00	0.00	0.00
Including: debt investment maturing within 3 months	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents at the end of the period/year	51,683,384.45	84,023,180.43	88,568,931.86	46,156,177.88	22,700,774.53
Including: Restricted cash and cash equivalent for parent Company or subsidiary inside the Group	0.00	0.00	0.00	0.00	0.00

VIII. RELATED PARTY AND RELATED PARTY TRANSACTIONS

(1) *Relationships of related parties*1. *Controlling shareholder and ultimate controlling party*(1) *Controlling shareholder and ultimate controlling party*

Name of ultimate controlling party	Type	Place of registration	Nature of business	Legal Representative	Code of the organization
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	Limited Company (wholly state-owned)	Chaoyang District, Beijing	Operation and management of state-owned assets	Ren Yaguang	63368621-7

(2) *Registered capital of the controlling shareholder and its movement*

Controlling shareholder	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	RMB1,634,545,500	0.00	0.00	RMB1,634,545,500

(3) *Shares or equity interests held by the controlling shareholder and their movements*

Controlling shareholder	Amount of Shareholdings		Percentage of Shareholdings (%)	
	31 July 2012	31 December 2011	31 July 2012	31 December 2011
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	US\$17,836,700	US\$17,836,700	71.56	71.56

2. *Subsidiaries*(1) *Subsidiaries*

Name of subsidiary	Type	Place of registration	Nature of business	Legal representative	Code of organization
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Sino-foreign equity joint venture	Langfang City, Hebei Province	Manufacture	Wang Pingsheng	79956948-3
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	Sino-foreign cooperative joint venture	Songjiang District, Shanghai	Manufacture	Wang Pingsheng	60742223-4
Beijing Panni Gaokong Equipment Co., Ltd.	Limited liability company(wholly owned by legal person)	Tongzhou District, Beijing	Manufacture	Wang Pingsheng	10248506-1
America Fortune Company	Incorporation	Houston, USA	Sales	Li Hui	1322685-00 (Registration certificate no.)
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign equity joint venture	Tianjin Port Free Trade Zone	Manufacture	Guo Zhenkun	74665239-8
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited liability company	Daxing District, Beijing	Manufacture	Wang Pingsheng	67505219-1

(2) *Registered capital of the subsidiaries and its movement*

Name of subsidiary	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB180,000,000	RMB0.00	RMB0.00	RMB180,000,000
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	US\$3,017,400	US\$0.00	US\$0.00	US\$3,017,400
Beijing Panni Gaokong Equipment Co., Ltd.	RMB2,730,800	RMB17,269,200	RMB0.00	RMB20,000,000
America Fortune Company	US\$3,367,550	US\$0.00	US\$0.00	US\$3,367,550
Tianjin Tianhai High Pressure Containers Co., Ltd.	RMB225,578,400	RMB0.00	RMB0.00	RMB225,578,400
Beijing Tianhai Cryogenic Equipment Co., Ltd.	RMB40,000,000	RMB0.00	RMB0.00	RMB40,000,000

(Continued)

Name of subsidiary	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB180,000,000	RMB0.00	RMB0.00	RMB180,000,000
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	US\$1,000,000	US\$2,017,400	US\$0.00	US\$3,017,400
Beijing Panni Gaokong Equipment Co., Ltd.	RMB2,730,800	RMB0.00	RMB0.00	RMB2,730,800
America Fortune Company	US\$3,367,550	US\$0.00	US\$0.00	US\$3,367,550
Tianjin Tianhai High Pressure Containers Co., Ltd.	RMB85,500,000	RMB140,078,400	RMB0.00	RMB225,578,400
Beijing Tianhai Cryogenic Equipment Co., Ltd.	RMB40,000,000	RMB0.00	RMB0.00	RMB40,000,000

(Continued)

Name of subsidiary	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB180,000,000	RMB0.00	RMB0.00	RMB180,000,000
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	US\$1,000,000	US\$0.00	US\$0.00	US\$1,000,000
Beijing Panni Gaokong Equipment Co., Ltd.	RMB2,730,800	RMB0.00	RMB0.00	RMB2,730,800
America Fortune Company	US\$132,250	US\$3,235,300	US\$0.00	US\$3,367,550
Tianjin Tianhai High Pressure Containers Co., Ltd.	RMB85,500,000	RMB0.00	RMB0.00	RMB85,500,000
Beijing Tianhai Cryogenic Equipment Co., Ltd.	RMB15,000,000	RMB25,000,000	RMB0.00	RMB40,000,000

(Continued)

Name of subsidiary	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Langfang Tianhai High Pressure Cylinder Co., Ltd.	RMB180,000,000	RMB0.00	RMB0.00	RMB180,000,000
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	US\$1,000,000	US\$0.00	US\$0.00	US\$1,000,000
Beijing Panni Gaokong Equipment Co., Ltd.	US\$400,000	US\$0.00	US\$0.00	US\$400,000
America Fortune Company	US\$132,250	US\$0.00	US\$0.00	US\$132,250
Tianjin Tianhai High Pressure Containers Co., Ltd.	RMB85,500,000	RMB0.00	RMB0.00	RMB85,500,000
Beijing Tianhai Cryogenic Equipment Co., Ltd.	RMB15,000,000	RMB0.00	RMB0.00	RMB15,000,000

(3) Shares or equity interests held by the subsidiaries and their movements

Name of subsidiary	Amount of Shareholdings		Percentage of Shareholdings (%)	
	31 July 2012	31 December 2011	31 July 2012	31 December 2011
Langfang Tianhai High Pressure Cylinder Co., Ltd.	126,000,000.00	126,000,000.00	70.00	70.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	18,660,778.98	18,660,778.98	89.32	89.32
Beijing Panni Gaokong Equipment Co., Ltd.	20,000,000.00	20,000,000.00	100.00	100.00
America Fortune Company	18,360,270.00	18,360,270.00	51.00	51.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	141,168,100.00	141,168,100.00	45.52	45.52
Beijing Tianhai Cryogenic Equipment Co., Ltd.	30,000,000.00	30,000,000.00	75.00	75.00

(Continued)

Name of subsidiary	Amount of Shareholdings		Percentage of Shareholdings (%)	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Langfang Tianhai High Pressure Cylinder Co., Ltd.	0.00	0.00	0.00	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	5,610,218.38	5,610,218.38	67.78	67.78
Beijing Panni Gaokong Equipment Co., Ltd.	2,304,000.00	0.00	100.00	0.00
America Fortune Company	18,360,270.00	0.00	51.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	64,125,000.00	64,125,000.00	30.00	30.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	30,000,000.00	25,000,000.00	75.00	75.00

3. Joint venture and Associates

(1) Joint venture and Associates

Name of investee	Type	Place of registration	Nature of business	Legal representative	Code of organization	Percentage of Shareholdings (%)	Place of registration
Joint venture							
Beijing Tianhai Xigang Environmental Technique Co., Ltd. (北京天海西港環境技術有限公司) (hereinafter referred to as Tianhai Xigang)	Sino-foreign cooperative joint venture	Chaoyang District, Beijing	Service	Wang Pingsheng	US\$800,000	50.00	79900704-2

(2) Financial information

Name of investee	Assets	31 Jul 2012 Liabilities	Owner's equity	Jan-Jul 2012 Operating income	Net profit
Joint venture					
Tianhai Xigang	5,272,858.83	4,252,793.61	1,020,065.22	0.00	-224,987.35

(Continued)

Name of investee	Assets	31 Dec 2011 Liabilities	Owner's equity	2011 Operating income	Net profit
Joint venture					
Tianhai Xigang	5,497,846.18	4,252,793.61	1,245,052.57	22,478.63	-936,041.79

(Continued)

Name of investee	Assets	31 Dec 2010 Liabilities	Owner's equity	2010 Operating income	Net profit
Joint venture					
Tianhai Xigang	6,302,070.49	4,120,976.13	2,181,094.36	6,640,694.09	-2,164,311.14

(Continued)

Name of investee	Assets	31 Dec 2009 Liabilities	Owner's equity	2009 Operating income	Net profit
Joint venture					
Tianhai Xigang	9,571,332.88	5,225,927.38	4,345,405.50	13,744,681.47	-1,540,550.83

4. Other related parties

Relationship	Name of related party	Transaction	Organisation number
Other enterprises controlled by the same controlling shareholder and ultimate controlling party	Beijing Jingcheng Industrial Logistics Co., Ltd. (北京京城工業物流有限公司)	Purchase of commodity	10162895-6
	Beijing Jingcheng Electric Management Co., Ltd. (北京京城機電資產管理有限責任公司)	Sales of assets and lease	58588396-0
	Beijing First General Machinery Plant (北京第一機床廠)	Lease of properties	10120926-8
	Beijing Tianhai Gas Storage and Transportation Equipment Co., Ltd. (北京天海氣體儲運裝備有限公司)	Current accounts	59604106-4
	Beijing Beikai Electric Co., Ltd. (北京北開電氣股份有限公司)	Current accounts	70023939-7
Investor with significant impact	Jingcheng HK	Current accounts	-

(2) Related-party transactions

1. The principle of related-party transactions and pricing policy

The price of the related-party transactions between the Group and the related parties is determined by State prices (if applicable) or in accordance with the market prices if State prices are not available. If there is no such market price, the price will be determined by both parties after negotiation by reference to the actual cost plus a reasonable fee.

2. Purchase of goods or accepting service

Nature and name of the related party	Jan-Jul 2012		Jan-Jul 2011 (unaudited)		2011		2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other enterprise controlled by the same controlling shareholder and ultimate controlling party	22,438,756.19	1.93	0.00	0.00	2,494,641.35	0.12	1,497,236.60	0.08	966,920.49	0.07
Of which: Beijing Jingcheng Industrial Logistics Co., Ltd. (北京京城工業物流有限公司)	22,030,089.52	1.89	0.00	0.00	2,209,496.26	0.10	1,427,236.60	0.08	776,920.49	0.05
Beijing First General Machinery Plant (北京第一機床廠)	182,000.00	0.02	182,000.00	0.02	285,145.09	0.02	70,000.00	0.00	190,000.00	0.02
Beijing Jingcheng Electric Management Co., Ltd. (北京京城機電資產管理有限責任公司)	226,666.67	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	22,438,756.19	1.93	182,000.00	0.02	2,494,641.35	0.12	1,497,236.60	0.08	966,920.49	0.07

3. Sales of goods or rendering service

Type and name of the related party	Jan-Jul 2012		Jan-Jul 2011 (unaudited)		2011		2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Joint venture and associates	0.00	0.00	19,653.85	0.00	19,653.85	0.01	5,079,146.67	0.28	14,920,959.30	0.92
Of which: Tianhai Xigang	0.00	0.00	19,653.85	0.00	19,653.85	0.01	5,079,146.67	0.28	14,920,959.30	0.92
Total	0.00	0.00	19,653.85	0.00	19,653.85	0.01	5,079,146.67	0.28	14,920,959.30	0.92

4. Guarantee with related parties

Name of warrantor	Name of warrantee	Amount guaranteed	Date of commencement	Maturity date	Completed or not
Jingcheng Holding	The Company	50,000,000.00	22 Mar 2012	6 Sep 2012	No
		20,000,000.00	20 Feb 2012	6 Sep 2012	
		20,000,000.00	16 Feb 2012	15 Aug 2012	
		80,000,000.00	15 May 2012	16 May 2013	
	Total		170,000,000.00		

5. *Borrowings with related parties*

Connected parties	Amount	Commencement date	Maturity date	Interest rate	Remarks
Jingcheng Holding	80,000,000.00	11 May 2010	10 May 2011	5.310%	
	80,000,000.00	11 May 2011	10 May 2012	6.310%	
	68,800,000.00	26 December 2011	25 December 2012	5.904%	
	50,000,000.00	23 September 2011	23 March 2012	4.270%	
	30,000,000.00	29 July 2010	28 July 2011	5.310%	
	38,000,000.00	2 August 2010	1 August 2011	5.310%	
	10,000,000.00	16 September 2010	15 September 2011	5.310%	
	10,000,000.00	22 October 2010	21 October 2011	5.310%	
	30,000,000.00	29 July 2011	28 July 2012	6.560%	
	38,000,000.00	2 August 2011	1 August 2012	6.560%	
	10,000,000.00	16 September 2011	15 September 2012	6.560%	
	10,000,000.00	22 October 2011	21 October 2012	6.560%	
	30,000,000.00	29 July 2012	28 July 2013	6.000%	
	6,000,000.00	28 December 2011	–	0.000%	R&D funding
	3,900,000.00	17 November 2009	–	0.000%	

6. *Interest expense of related parties*

Name	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Jingcheng Holding	8,085,739.49	5,644,973.89	10,048,246.79	3,360,901.00	0.00
Total	8,085,739.49	5,644,973.89	10,048,246.79	3,360,901.00	0.00

7. *Transfer of assets of related parties*

Name of related party	Type of related party	Jan-Jul 2012		Jan-Jul 2011 (unaudited)		2011		2010		2009	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Beijing Jingcheng Electric Management Co., Ltd. (北京京城機電資產管理有限責任公司)	Transfer of assets	6,100,000.00	85.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total		6,100,000.00	85.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

8. *Business combinations under common control*

Business combinations under common control occurred in the Company during the reporting period, 70% of equity in Langfang Tianhai, 75% of equity in Panni Gaokong (25% of equity in Panni Gaokong was acquired from Beijing First General Machinery) was acquired from and 67.78% of equity in Shanghai Tianhai were acquired from Jingcheng Holding, the controlling shareholder in 2011, 2010 and 2009 respectively. Please see Note VI(4) for the business combinations occurred in the reporting period

(3) Balance of related-party transactions

1. Accounts receivable of related parties

Related Party (Item)	31 Jul 2012	31 Dec 2011
Joint venture and associates	1,528,644.79	1,528,644.79
Of which: Tianhai Xigang	1,528,644.79	1,528,644.79
Other enterprises under the same controlling shareholder and ultimate controlling party	2,094,548.90	2,359,000.00
Of which: Beijing Beikai Electric Co., Ltd.	2,094,548.90	2,359,000.00
Investor with significant impact	1,244,914.45	1,238,799.98
Of which: Jingcheng HK	1,244,914.45	1,238,799.98
Total	4,868,108.14	5,126,444.77

(Continued)

Related Party (Item)	31 Dec 2010	31 Dec 2009
Joint venture and associates	1,501,786.73	3,097,456.92
Of which: Tianhai Xigang	1,501,786.73	3,097,456.92
Other enterprises under the same controlling shareholder and ultimate controlling party	4,000,000.00	2,000,000.00
Of which: Beijing Beikai Electric Co., Ltd.	4,000,000.00	2,000,000.00
Investor with significant impact	1,302,068.05	1,342,470.76
Of which: Jingcheng HK	1,302,068.05	1,342,470.76
Total	6,803,854.78	6,439,927.68

2. Others receivable of related parties

Related Party (Item)	31 Jul 2012	31 Dec 2011
Joint venture and associates	40,000.00	40,000.00
Of which: Tianhai Xigang	40,000.00	40,000.00
Total	40,000.00	40,000.00

(Continued)

Related Party (Item)	31 Dec 2010	31 Dec 2009
Joint venture and associates	40,000.00	40,000.00
Of which: Tianhai Xigang	40,000.00	40,000.00
Total	40,000.00	40,000.00

3. Accounts payables of related parties

Related Party (Item)	31 Jul 2012	31 Dec 2011
Other enterprises under the same controlling shareholder and ultimate controlling party	0.00	6,467,674.63
Of which: Beijing Jingcheng Industry Logistics Co., Ltd	0.00	6,467,674.63
Total	0.00	6,467,674.63

(Continued)

Related Party (Item)	31 Dec 2010	31 Dec 2009
Other enterprises under the same controlling shareholder and ultimate controlling party	0.00	0.00
Of which: Beijing Jingcheng Industry Logistics Co., Ltd	0.00	0.00
Total	0.00	0.00

4. *Prepayments of related parties*

Related Party (Item)	31 Jul 2012	31 Dec 2011
Other enterprises under the same controlling shareholder and ultimate controlling party	10,553,909.94	0.00
Of which: Beijing Jingcheng Industry Logistics Co., Ltd	10,553,909.94	0.00
Total	10,553,909.94	0.00

(Continued)

Related Party (Item)	31 Dec 2010	31 Dec 2009
Other enterprises under the same controlling shareholder and ultimate controlling party	0.00	0.00
Of which: Beijing Jingcheng Industry Logistics Co., Ltd	0.00	0.00
Total	0.00	0.00

5. *Other payables of related parties*

Related Party (Item)	31 Jul 2012	31 Dec 2011
Controlling shareholder and ultimate controlling party		
Of which: Jingcheng Holdings	396,700,000.00	526,800,000.00
Other enterprises under the same controlling shareholder and ultimate controlling party		
Of which: Beijing Jingcheng Electric Management Co., Ltd. (北京京城機電資產管理有限責任公司)	226,666.67	0.00
Beijing First General Machinery (北京第一機床廠)	424,000.00	242,000.00
Total	397,350,666.67	527,042,000.00

Related Party (Item)	31 Dec 2010	31 Dec 2009
Controlling shareholder and ultimate controlling party		
Of which: Jingcheng Holdings	178,000,000.00	15,054,600.00
Other enterprises under the same controlling shareholder and ultimate controlling party	0.00	0.00
Of which: Beijing Jingcheng Electric Management Co., Ltd. (北京京城機電資產管理有限責任公司)		
Beijing First General Machinery (北京第一機床廠)	170,000.00	335,464.50
Total	178,170,000.00	15,390,064.50

IX. CONTINGENCIES

As at 31 July 2012, the Group has no significant contingent events that need to be disclosed.

X. EVENTS AFTER THE BALANCE SHEET DATE

In July 2011, the Board of Tianjin Tianhai, a subsidiary of the Company, resolved to increase the capital. The registered capital increased to RMB140.0784 million as to RMB77.0431 million by the Company by the way of cash and as to RMB63.0353 million by TPCO Investment Co., Ltd. by the way of properties. After contributions, the registered capital was RMB225.5784 million, of which, the Company, TPCO Investment Co., Ltd. and Jingcheng HK has contributed RMB102.6931 million, RMB101.5103 million and RMB21.3750 million, as the 45.52%, 45% and 9.48% of its registered capital respectively. Tianjin Tianhai has obtained the property certificate (Di Zheng Jin Zi No. 115021201217) on 20 September 2012. Tianjin Zhongqihua Certified Public Accountants (天津中企華有限責任會計師事務所) has issued a capital verification report (Jin Zhong Qi Hua Yan Zi [2012] No. 087) regarding to the contribution verification of TPCO Investment Co., Ltd.'s properties on 24 September 2012. Tianjin Tianhai has obtained the Business License No. 120000400039307 in which the registered capital and paid up capital were RMB225.5784 million.

Up to the date of approval of the financial report, the Group has no subsequent major events after the balance sheet that need to be disclosed except the abovementioned event.

XI. OTHER SIGNIFICANT EVENTS

Baoheng International Enterprise Group Co., Ltd. (寶亨國際企業集團有限公司) ("Baoheng International") submitted a statement of claim to the People's Court of Shanghai's Songjiang District on 6 July 2009, in relation to the relevant agreement entered by Shanghai Tianhai of property payment of RMB12,662,850.29. The People's Court of Shanghai's Songjiang District issued a civil ruling ((2009) Song Min San (Min) Chu Zi No.1650) on 13 July 2009, ordered the freezing of Shanghai Tianhai's bank deposit in the amount of RMB13.40 million or confiscation or detain of Hua Xin's assets of value to the extent of the claimed sum. Shanghai Tianhai lodged an appeal and counter-claims, the People's Court of Shanghai's Songjiang District issued a civil judgment ((2009) Song Min San (Min) Chu Zi no. 1650) on 21 April 2011, adjudged that Shanghai Tianhai to pay real estate transfer fee amounted to RMB3,758,998.83 to Baoheng International. Both parties lodged an appeal to the first instance ruling and after mediation, the People's Court of Shanghai's Songjiang District issued a civil mediation agreement ((2012) Song Min San (Min) Chu Zi No. 2) on 1 June 2012, in which both parties reached the following agreement voluntarily: Shanghai Tianhai to pay real estate transfer fee amounted to RMB4,229,868.83 to Baoheng International before 25 June 2012, and both parties withdrew the lawsuit and counter-claims. Shanghai Tianhai paid the abovementioned real estate transfer fee of RMB4,229,868.83 to Baoheng International on 21 June 2012 and thus the case was closed.

As at 31 July 2012, there was no other significant event required to be disclosed for the Group except the abovementioned event.

XII. EXPLANATORY NOTES TO MAIN ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Accounts receivable

(1) Classification of accounts receivable by risks

Item	31 Jul 2012			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	294,975,195.72	98.38	3,673,163.34	100.00
Of which: Related party group within the scope of consolidation	20,887,955.53	6.97	0.00	0.00
Aging group	274,087,240.19	91.41	3,673,163.34	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	4,868,108.14	1.63	0.00	0.00
Total	299,843,303.86	100.00	3,673,163.34	100.00

(Continued)

Item	31 Dec 2011			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	123,456,958.98	96.01	1,534,587.05	100.00
Of which: Related party group within the scope of consolidation	6,430,527.79	5.00	0.00	0.00
Aging group	117,026,431.19	91.01	1,534,587.05	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	5,126,444.77	3.99	0.00	0.00
Total	128,583,403.75	100.00	1,534,587.05	100.00

(Continued)

Item	31 Dec 2010			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	84,545,971.43	92.55	516,718.29	100.00
Of which: Related party group within the scope of consolidation	0.00	0.00	0.00	0.00
Aging group	84,545,971.43	92.55	516,718.29	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	6,803,854.78	7.45	0.00	0.00
Total	91,349,826.21	100.00	516,718.29	100.00

(continued)

Item	31 Dec 2009			
	Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	77,303,017.60	92.31	826,816.46	100.00
Of which: Related party group within the scope of consolidation	0.00	0.00	0.00	0.00
Aging group	77,303,017.60	92.31	826,816.46	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	6,439,927.68	7.69	0.00	0.00
Total	83,742,945.28	100.00	826,816.46	100.00

1) *Accounts receivable that are individually insignificant but are individually provided for bad debts*

Accounts receivable that are individually insignificant but are individually provided for bad debts as at 31 July 2012

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Beijing Beikai Electric Co., Ltd.	2,094,548.90	0.00	0.00	No risks in collection
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	1,528,644.79	0.00	0.00	
Jingcheng HK	1,244,914.45	0.00	0.00	
Total	4,868,108.14	0.00	0.00	

Accounts receivable that are individually insignificant but are individually provided for bad debts as at 31 December 2011

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Beijing Beikai Electric Co., Ltd.	2,359,000.00	0.00	0.00	No risks in collection
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	1,528,644.79	0.00	0.00	
Jingcheng HK	1,238,799.98	0.00	0.00	
Total	5,126,444.77	0.00	0.00	

Accounts receivable that are individually insignificant but are individually provided for bad debts as at 31 December 2010

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Beijing Beikai Electric Co., Ltd.	4,000,000.00	0.00	0.00	No risks in collection
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	1,501,786.73	0.00	0.00	
Jingcheng HK	1,302,068.05	0.00	0.00	
Total	6,803,854.78	0.00	0.00	

Accounts receivable that are individually insignificant but are individually provided for bad debts as at 31 December 2009

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Beijing Beikai Electric Co., Ltd.	2,000,000.00	0.00	0.00	No risks in collection
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	3,097,456.92	0.00	0.00	
Jingcheng HK	1,342,470.76	0.00	0.00	
Total	6,439,927.68	0.00	0.00	-

2) *Related party group within the scope of consolidation*

Related party group within the scope of consolidation as at 31 July 2012

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Langfang Tianhai	10,854,700.87	0.00	0.00	Related Party without provision for bad debts within the scope of consolidation
America Fortune Company	10,033,254.66	0.00	0.00	
Total	20,887,955.53	0.00	0.00	-

Related party group within the scope of consolidation as at 31 July 2011

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
America Fortune Company	6,430,327.79	0.00	0.00	Related Party without provision for bad debts within the scope of consolidation
Total	6,430,327.79	0.00	0.00	

There was no balance of related party group within the scope of consolidation as at 31 December 2010 and 31 December 2009.

3) *Aging group*

Item	Amount	31 Jul 2012		Amount	31 Dec 2011	
		Proportion (%)	Bad debts provision		Proportion (%)	Bad debts provision
Within 1 year	265,549,130.70	0.00	0.00	113,085,982.01	0.00	0.00
1-2 years	5,938,999.99	30.00	1,781,700.00	3,091,608.21	30.00	927,482.47
2-3 years	1,769,115.40	60.00	1,061,469.24	604,340.97	60.00	362,604.58
3-4 years	585,494.10	100.00	585,494.10	244,500.00	100.00	244,500.00
4-5 years	244,500.00	100.00	244,500.00	0.00	0.00	0.00
Total	274,087,240.19	-	3,673,163.34	117,026,431.19	-	1,534,587.05

(continued)

Item	Amount	31 Dec 2010		Amount	31 Dec 2009	
		Proportion (%)	Bad debts provision		Proportion (%)	Bad debts provision
Within 1 year	83,219,480.46	0.00	0.00	74,870,952.89	0.00	0.00
1-2 years	938,120.97	30.00	281,436.29	2,108,074.56	30.00	632,422.37
2-3 years	382,720.00	60.00	229,632.00	323,990.15	60.00	194,394.09
3-4 years	5,650.00	100.00	5,650.00	0.00	100.00	0.00
4-5 years	0.00	100.00	0.00	0.00	100.00	0.00
Total	84,545,971.43	–	516,718.29	77,303,017.60	–	826,816.46

(2) *Amounts due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights*

Name of Company	31 Jul 2012		31 Dec 2011	
	Amount outstanding	Bad debts provision	Amount outstanding	Bad debts provision
Jingcheng HK	1,244,914.45	0.00	1,238,799.98	0.00
Total	1,244,914.45	0.00	1,238,799.98	0.00

(continued)

Name of Company	31 Dec 2010		31 Dec 2009	
	Amount outstanding	Bad debts provision	Amount outstanding	Bad debts provision
Jingcheng HK	1,302,068.05	0.00	1,342,470.76	0.00
Total	1,302,068.05	0.00	1,342,470.76	0.00

(3) *Details of the top five accounts receivable*

Details of the top five accounts receivable as at 31 July 2012

Name of Company	Relationship with the Company	Amount	Age	Proportion to total accounts receivable
Sichuan Hengruifeng International Trading Co., Ltd. (四川恒瑞豐國際貿易有限公司)	Customer	26,547,353.00	Within 1 year	8.85
Shanxi Jingcheng Electric Equipment Co., Ltd. (山西京誠機電設備有限公司)	Customer	15,563,770.27	Within 1 year	5.19
Langfang Tianhai	Subsidiaries	10,854,700.87	Within 1 year	3.62
Xuzhou Xintianhai Electric Equipment Co., Ltd. (徐州新天海機電設備有限公司)	Customer	11,147,680.07	Within 1 year	3.72
Guangzhou Yuanhai Steel Cylinders Co., Ltd. (廣州市元海鋼瓶有限公司)	Customer	10,484,096.24	Within 1 year	3.49
Total	–	74,597,600.45	–	24.88

(4) Receivables due from related parties

Receivables due from related parties as at 31 July 2012

Name of Company	Relationship with the Company	Amount	Proportion to total accounts receivable
Langfang Tianhai	Subsidiary	10,854,700.87	3.62
America Fortune	Subsidiary	10,033,254.66	3.35
Beijing Beikai Electric Co., Ltd.	Under control of the same controlling shareholder	2,094,548.90	0.70
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Joint venture entities	1,528,644.79	0.51
Jingcheng HK	Investor with significant influence	1,244,914.45	0.41
Total	–	25,756,063.67	8.59

Receivables due from related parties as at 31 December 2011

Name of Company	Relationship with the Company	Amount	Proportion to total accounts receivable
America Fortune	Subsidiary	6,430,527.79	5.00
Beijing Beikai Electric Co., Ltd.	Under control of the same controlling shareholder	2,359,000.00	1.84
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Joint venture entities	1,528,644.79	1.19
Jingcheng HK	Investor with significant influence	1,238,799.98	0.96
Total	–	11,556,972.56	8.99

Receivables due from related parties as at 31 December 2010

Name of Company	Relationship with the Company	Amount	Proportion to total accounts receivable
Beijing Beikai Electric Co., Ltd.	Under control of the same controlling shareholder	4,000,000.00	4.38
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Joint venture entities	1,501,786.73	1.64
Jingcheng HK	Investor with significant influence	1,302,068.05	1.43
Total	–	6,803,854.78	7.45

Receivables due from related parties as at 31 December 2009

Name of Company	Relationship with the Company	Amount	Proportion to total accounts receivable
Beijing Beikai Electric Co., Ltd.	Under control of the same controlling shareholder	2,000,000.00	2.39
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Joint venture entities	3,097,456.92	3.70
Jingcheng HK	Investor with significant influence	1,342,470.76	1.60
Total	–	6,439,927.68	7.69

(5) The balance of accounts receivable in foreign currencies

Foreign currency	Original currency	31 Jul 2012		Original currency	31 Dec 2011	
		Exchange rate	RMB		Exchange rate	RMB
USD	6,691,928.50	6.3320	42,373,291.26	3,019,712.49	6.3009	19,026,906.43
EUR	10,446.09	7.7627	81,089.86	49,558.09	8.1625	404,517.91
Total	-	-	<u>42,454,381.12</u>	-	-	<u>19,431,424.34</u>

Foreign currency	Original currency	31 Jul 2010		Original currency	31 Dec 2009	
		Exchange rate	RMB		Exchange rate	RMB
USD	4,665,455.59	6.6227	30,897,912.74	2,756,002.47	6.83	18,818,536.07
EUR	313.00	8.8065	2,756.43	0.00	0.00	0.00
Total	-	-	<u>30,900,669.17</u>	-	-	<u>18,818,536.07</u>

2. Other accounts receivables

(1) Classification of risk for other receivables

Item	31 Jul 2012			
	Book balances		Provision for bad debt	
	Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00
Other receivables of which provision of bad debts made by groups	124,152,865.11	99.96	1,397,125.75	100.00
Of which: Aging group	2,673,954.35	2.15	1,397,125.75	100.00
Related party group within the scope of consolidation	121,478,910.76	97.81	0.00	0.00
Individual other receivables below significant level	40,000.00	0.04	0.00	0.00
Total	<u>124,192,865.11</u>	<u>100.00</u>	<u>1,397,125.75</u>	<u>100.00</u>

(Continued)

Item	31 Dec 2011			
	Book balances		Provision for bad debt	
	Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00
Other receivables of which provision of bad debts made by groups	132,324,424.20	100.00	1,377,957.11	100.00
Of which: Aging group	10,914,424.20	8.25	1,377,957.11	100.00
Related party group within the scope of consolidation	121,410,000.00	91.75	0.00	0.00
Individual other receivables below significant level	0.00	0.00	0.00	0.00
Total	<u>132,324,424.20</u>	<u>100.00</u>	<u>1,377,957.11</u>	<u>100.00</u>

(Continued)

Item	31 Dec 2010			
	Book balances		Provision for bad debt	
	Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00
Other receivables of which provision of bad debts made by groups	5,888,039.99	100.00	1,026,560.51	100.00
Of which: Aging group	5,888,039.99	100.00	1,026,560.51	100.00
Related party group within the scope of consolidation	0.00	0.00	0.00	0.00
Individual other receivables below significant level	0.00	0.00	0.00	0.00
Total	<u>5,888,039.99</u>	<u>100.00</u>	<u>1,026,560.51</u>	<u>100.00</u>

(Continued)

Item	31 Dec 2009		Provision for bad debt	
	Book balances Amount	Percentage (%)	Amount	Percentage (%)
Individual other receivables above significant level	0.00	0.00	0.00	0.00
Other receivables of which provision of bad debts made by groups	49,472,111.26	100.00	1,030,979.13	100.00
Of which: Aging group	5,065,111.26	10.24	1,030,979.13	100.00
Related party group within the scope of consolidation	44,407,000.00	89.76	0.00	0.00
Individual other receivables below significant level	0.00	0.00	0.00	0.00
Total	49,472,111.26	100.00	1,030,979.13	100.00

1) *Related party group within the scope of consolidation*

Related party group within the scope of consolidation as at 31 July 2012

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Langfang Tianhai	121,410,000.00	0.00	0.00	Related Party without provision for bad debts within the scope of consolidation
Shanghai Tianhai	68,910.76	0.00	0.00	
Total	121,478,910.76	0.00	0.00	-

Related party group within the scope of consolidation as at 31 December 2011

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Langfang Tianhai	121,410,000.00	0.00	0.00	Related Party without provision for bad debts within the scope of consolidation
Total	121,410,000.00	0.00	0.00	-

There was no related party group within the scope of consolidation as at 31 December 2010

Related party group within the scope of consolidation as at 31 December 2009

Name of Company	Book balance	Bad debts provision	Proportion (%)	Reason of bad debts provision
Shanghai Tianhai	29,407,000.00	0.00	0.00	Related Party without provision for bad debts within the scope of consolidation
Tianhai Cryogenic	15,000,000.00	0.00	0.00	
Total	44,407,000.00	0.00	0.00	-

2) Aging group

Item	31 Jul 2012			31 Dec 2011		
	Amount	Proportion (%)	Bad debts provision	Amount	Proportion(%)	Bad debts provision
Within 1 year	1,276,828.60	0.00	0.00	8,725,741.68	0.00	0.00
1-2 years	0.00	30.00	0.00	1,135,322.01	30.00	340,596.60
2-3 years	0.00	60.00	0.00	24,000.00	60.00	24,000.00
Above 3 years	1,397,125.75	100.00	1,397,125.75	1,013,360.51	100.00	1,013,360.51
Total	2,673,954.35	—	1,397,125.75	10,914,424.20	—	1,377,957.11

(Continued)

Item	31 Dec 2010			31 Dec 2009		
	Amount	Proportion (%)	Bad debts provision	Amount	Proportion(%)	Bad debts provision
Within 1 year	4,832,679.48	0.00	0.00	4,020,053.05	0.00	0.00
1-2 years	40,000.00	30.00	12,000.00	2,000.00	30.00	600.00
2-3 years	2,000.00	60.00	1,200.00	31,697.70	60.00	19,018.62
Above 3 years	1,013,360.51	100.00	1,013,360.51	1,011,360.51	100.00	1,011,360.51
Total	5,888,039.99	—	1,026,560.51	5,065,111.26	—	1,030,979.13

- (2) The balance of other accounts receivable as at 31 July 2012, 31 December 2011, 31 December 2010 and 31 December 2009 did not included amounts due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(3) Details of the other top five accounts receivable

Other top five accounts receivable as at 31 July 2012

Name of Company	Relationship with the Company	Amount	Age	Proportion to total accounts receivable (%)
Langfang Tianhai	Subsidiary	121,410,000.00	Within 1 year	97.76
Rao Xin (姚欣)	Staff	457,578.30	Within 1 year	0.37
Baogang Ganglian Sales Co., Ltd. (包鋼鋼聯銷售有限公司)	Customer	400,648.84	Above 5 years	0.32
Sichuan Huaxing (四川華星)	Customer	238,809.20	Above 5 years	0.19
Luohe Mold Factory (螺河鑄造廠)	Customer	151,000.00	Above 5 years	0.12
Total	—	122,658,036.34	—	98.76

(4) Receivable due from related parties

Receivable due from related parties as at 31 July 2012

Name of Company	Relationship with the Company	Balance due	Proportion to total accounts receivable (%)
Langfang Tianhai	Subsidiary	121,410,000.00	97.76
Shanghai Tianhai	Subsidiary	68,910.76	0.06
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Under control of the same controlling shareholder	40,000.00	0.03
Total	—	121,518,910.76	97.85

Receivable due from related parties as at 31 December 2011

Name of Company	Relationship with the Company	Balance due	Proportion to total accounts receivable (%)
Langfang Tianhai	Subsidiary	121,410,000.00	91.75
Total	–	121,410,000.00	91.75

There was no receivable due from related parties as at 31 December 2010

Receivable due from related parties as at 31 December 2009

Name of Company	Relationship with the Company	Balance due	Proportion to total accounts receivable (%)
Shanghai Tianhai	Subsidiary	29,407,000.00	59.44
Tianhai Cryogenic	Subsidiary	15,000,000.00	30.32
Total	–	44,407,000.00	89.76

3. Long-term equity investment

(1) Long-term equity investment

Item	31 Jul 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Calculated long-term equity investment according to cost method	243,339,284.23	243,339,284.23	81,101,439.90	44,774,513.93
Calculated long-term equity investment according to rights and interests method	510,032.61	622,526.29	1,090,547.18	2,172,702.75
Sum of long term stock rights investment	243,849,316.84	243,961,810.52	82,191,987.08	46,947,216.68
Less: provide of devaluation for long-term equity investment	0.00	0.00	0.00	0.00
Net value of long-term equity investment	243,849,316.84	243,961,810.52	82,191,987.08	46,947,216.68

(2) Long-term equity investments under Cost Method and Equity Method

Long-term equity investments under Cost Method and Equity Method as at 31 July 2012

Name of invested companies	Percentage of share holding (%)	Percentage of voting rights (%)	Original amount	31 Dec 2011	Increase during the current period	Decrease during the current period	31 Jul 2012	Dividends of the period
Cost method								
Langfang Tianhai High Pressure Cylinder Co., Ltd.	70.00	70.00	54,873,773.29	54,873,773.29	0.00	0.00	54,873,773.29	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	89.32	89.32	17,176,284.97	17,176,284.97	0.00	0.00	17,176,284.97	0.00
Beijing Panni Gaokong Equipment Co., Ltd.	100.00	100.00	20,234,235.97	20,234,235.97	0.00	0.00	20,234,235.97	0.00
America Fortune Company	51.00	51.00	18,361,890.00	18,361,890.00	0.00	0.00	18,361,890.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.52	55.00	102,693,100.00	102,693,100.00	0.00	0.00	102,693,100.00	0.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	75.00	75.00	30,000,000.00	30,000,000.00	0.00	0.00	30,000,000.00	0.00
Subtotal	–	–	243,339,284.23	243,339,284.23	0.00	0.00	243,339,284.23	0.00
Equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	50.00	50.00	3,059,000.00	622,526.29	-112,493.68	0.00	510,032.61	0.00
Subtotal	–	–	3,059,000.00	622,526.29	-112,493.68	0.00	510,032.61	0.00
Total	–	–	246,398,284.23	243,961,810.52	-112,493.68	0.00	243,849,316.84	0.00

Long-term equity investment under Cost Method and Equity Method as at 31 December 2011

Name of invested companies	Percentage of share holding (%)	Percentage of voting rights (%)	Original amount	31 Dec 2010	Increase	Decrease	31 Dec 2011	Dividends of the period
Cost method								
Langfang Tianhai High Pressure Cylinder Co., Ltd.	70.00	70.00	54,873,773.29	0.00	54,873,773.29	0.00	54,873,773.29	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	89.32	89.32	17,176,284.97	4,124,513.93	13,051,771.04	0.00	17,176,284.97	0.00
Beijing Panni Gaokong Equipment Co., Ltd.	100.00	100.00	20,234,235.97	2,965,035.97	17,269,200.00	0.00	20,234,235.97	0.00
America Fortune Company	51.00	51.00	18,361,890.00	18,361,890.00	0.00	0.00	18,361,890.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.52	55.00	102,693,100.00	25,650,000.00	77,043,100.00	0.00	102,693,100.00	0.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	75.00	75.00	30,000,000.00	30,000,000.00	0.00	0.00	30,000,000.00	0.00
Subtotal	-	-	243,339,284.23	81,101,439.90	162,237,844.33	0.00	243,339,284.23	0.00
Equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	50.00	50.00	3,059,000.00	1,090,547.18	-468,020.89	0.00	622,526.29	0.00
Subtotal	-	-	3,059,000.00	1,090,547.18	-468,020.89	0.00	622,526.29	0.00
Total	-	-	246,398,284.23	82,191,987.08	161,769,823.44	0.00	243,961,810.52	0.00

Long-term equity investment under Cost Method and Equity Method as at 31 December 2010

Name of invested companies	Percentage of share holding (%)	Percentage of voting rights (%)	Original amount	31 Dec 2009	Increase	Decrease	31 Dec 2010	Dividends of the period
Cost method								
Langfang Tianhai High Pressure Cylinder Co., Ltd.	70.00	70.00	54,873,773.29	0.00	0.00	0.00	0.00	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	89.32	89.32	17,176,284.97	4,124,513.93	0.00	0.00	4,124,513.93	0.00
Beijing Panni Gaokong Equipment Co., Ltd.	100.00	100.00	20,234,235.97	0.00	2,965,035.97	0.00	2,965,035.97	0.00
America Fortune Company	51.00	51.00	18,361,890.00	0.00	18,361,890.00	0.00	18,361,890.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.52	55.00	102,693,100.00	25,650,000.00	0.00	0.00	25,650,000.00	0.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	75.00	75.00	30,000,000.00	15,000,000.00	15,000,000.00	0.00	30,000,000.00	0.00
Subtotal	-	-	243,339,284.23	44,774,513.93	36,326,925.97	0.00	81,101,439.90	0.00
Equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	50.00	50.00	3,059,000.00	2,172,702.75	-1,082,155.57	0.00	1,090,547.18	0.00
Subtotal	-	-	3,059,000.00	2,172,702.75	-1,082,155.57	0.00	1,090,547.18	0.00
Total	-	-	246,398,284.23	46,947,216.68	35,244,770.40	0.00	82,191,987.08	0.00

Long-term equity investment under Cost Method and Equity Method as at 31 December 2009

Name of invested companies	Percentage of share holding (%)	Percentage of voting rights (%)	Original amount	31 Dec 2008	Increase	Decrease	31 Dec 2009	Dividends of the period
Cost method								
Langfang Tianhai High Pressure Cylinder Co., Ltd.	70.00	70.00	54,873,773.29	0.00	0.00	0.00	0.00	0.00
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	89.32	89.32	17,176,284.97	0.00	4,124,513.93	0.00	4,124,513.93	0.00
Beijing Panni Gaokong Equipment Co., Ltd.	100.00	100.00	20,234,235.97	0.00	0.00	0.00	0.00	0.00
America Fortune Company	51.00	51.00	18,361,890.00	0.00	0.00	0.00	0.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.52	55.00	102,693,100.00	25,650,000.00	0.00	0.00	25,650,000.00	0.00
Beijing Tianhai Cryogenic Equipment Co., Ltd.	75.00	75.00	30,000,000.00	15,000,000.00	0.00	0.00	15,000,000.00	0.00
Subtotal	-	-	243,339,284.23	40,650,000.00	4,124,513.93	0.00	44,774,513.93	0.00
Equity method								
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	50.00	50.00	3,059,000.00	2,942,978.17	-770,275.42	0.00	2,172,702.75	0.00
Subtotal	-	-	3,059,000.00	2,942,978.17	-770,275.42	0.00	2,172,702.75	0.00
Total	-	-	246,398,284.23	43,592,978.17	3,354,238.51	0.00	46,947,216.68	0.00

(3) Investment in joint ventures and associated companies

Name of invested company	Place of Registration	Business Type	Percentage of share holding (%)	Percentage of voting rights (%)	Total net assets as at 31 Jul 2012	Total operating income of Jan – Jul 2012	Net profit of Jan – Jul 2012
Joint venture entities							
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Chaoyang District, Beijing City	Sales	50.00	50.00	1,020,065.22	0.00	-224,987.35
Total		-	-	-	1,020,065.22	0.00	-224,987.35

(continued)

Name of invested company	Total net assets as at 31 Dec 2011	Total operating income of 2011	Net profit of 2011	Total net assets as at 31 Dec 2010	Total operating income of 2010	Net profit of 2010	Total net assets as at 31 Dec 2009	Total operating income of 2009	Net profit of 2009
Joint venture entities									
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	1,245,052.57	22,478.63	-936,041.79	2,181,094.36	6,640,694.09	-2,164,311.14	4,345,405.50	13,744,681.47	-1,540,550.83
Total	1,245,052.57	22,478.63	-936,041.79	2,181,094.36	6,640,694.09	-2,164,311.14	4,345,405.50	13,744,681.47	-1,540,550.83

For the inconsistent between percentage of share holding and percentage of voting rights of the Company in Tianjin Tianhai, please refer to note VI(2) “The reason of the equity ratio is not more than half, but included in the consolidated statements”.

4. Operating revenue and operating costs

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Main operating income	1,335,495,049.98	1,289,616,335.23	2,196,957,064.43	2,000,179,742.87	1,730,600,185.07
Other operating income	214,339,567.39	226,935,946.46	396,426,052.08	105,770,309.62	71,345,353.21
Total	<u>1,549,834,617.37</u>	<u>1,516,552,281.69</u>	<u>2,593,383,116.51</u>	<u>2,105,950,052.49</u>	<u>1,801,945,538.28</u>
Main operating costs	1,197,680,051.96	1,179,476,555.12	1,973,071,898.71	1,840,895,921.19	1,559,690,631.49
Other operating costs	213,051,737.55	222,412,392.38	389,343,165.13	99,403,544.66	66,222,407.44
Total	<u>1,410,731,789.51</u>	<u>1,401,888,947.50</u>	<u>2,362,415,063.84</u>	<u>1,940,299,465.85</u>	<u>1,625,913,038.93</u>

(1) Main operating income and costs (classified by business)

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Main operating income					
Industrial gas cylinders	1,324,640,349.11	1,289,616,335.23	2,161,895,525.97	1,991,917,349.72	1,723,698,475.70
Engineering machinery	10,854,700.87	0.00	35,061,538.46	8,262,393.15	6,901,709.37
Total	<u>1,335,495,049.98</u>	<u>1,289,616,335.23</u>	<u>2,196,957,064.43</u>	<u>2,000,179,742.87</u>	<u>1,730,600,185.07</u>
Main operating cost					
Industrial gas cylinders	1,186,825,351.09	1,179,476,555.12	1,937,624,062.87	1,834,232,087.30	1,555,663,117.40
Engineering machinery	10,854,700.87	0.00	35,447,835.84	6,663,833.89	4,027,514.09
Total	<u>1,197,680,051.96</u>	<u>1,179,476,555.12</u>	<u>1,973,071,898.71</u>	<u>1,840,895,921.19</u>	<u>1,559,690,631.49</u>

(2) Main operating income and costs (classified by product)

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Main operating income					
Seamless steel gas cylinders	757,429,448.14	790,386,487.14	1,307,004,206.93	1,144,401,753.10	1,023,219,983.86
Hoop-wrapped cylinders	344,521,552.51	347,872,467.45	574,513,356.94	436,154,024.07	415,190,691.96
Cryogenic cylinders	104,661,158.65	63,467,123.49	129,924,789.07	103,593,055.90	83,294,735.05
Cryogenic storage and transportation equipment	4,647,521.37	9,238,034.19	13,292,188.05	21,636,803.43	9,052,527.40
Others	124,235,369.31	78,652,222.96	172,222,523.44	294,394,106.37	199,842,246.80
Total	<u>1,335,495,049.98</u>	<u>1,289,616,335.23</u>	<u>2,196,957,064.43</u>	<u>2,000,179,742.87</u>	<u>1,730,600,185.07</u>
Main operating cost					
Seamless steel gas cylinders	733,021,319.07	747,474,369.30	1,235,828,043.01	1,083,250,262.00	966,837,144.69
Hoop-wrapped cylinders	253,909,294.15	290,248,008.98	444,192,706.43	354,293,970.31	312,411,887.09
Cryogenic cylinders	82,984,996.35	57,253,298.61	113,804,243.45	90,645,299.27	74,250,175.73
Cryogenic storage and transportation equipment	3,414,102.50	9,010,801.40	13,252,501.44	21,498,820.85	8,984,222.41
Others	124,350,339.89	75,490,076.82	165,994,404.38	291,207,568.76	197,207,201.57
Total	<u>1,197,680,051.96</u>	<u>1,179,476,555.12</u>	<u>1,973,071,898.71</u>	<u>1,840,895,921.19</u>	<u>1,559,690,631.49</u>

(3) Details of sales of the top five customers

Period	Total main operating income from the top five customers	Percentage of the revenues for the current period (%)
Jan – Jul 2012	354,790,616.11	22.89
Jan – Jul 2011 (unaudited)	237,631,122.07	15.59
2011	471,076,619.15	18.16
2010	349,698,646.74	16.61
2009	293,885,163.00	16.31

5. Investment income

(1) Source of investment income

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Long-term equity investments accounted for using cost method	0.00	0.00	1,560,000.00	0.00	0.00
Long-term equity investments accounted for using equity method	-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42
Total	<u>-112,493.68</u>	<u>-420,732.27</u>	<u>1,091,979.11</u>	<u>-1,082,155.57</u>	<u>-770,275.42</u>

(2) Long-term equity investments accounted for using cost method

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Total	0.00	0.00	<u>1,560,000.00</u>	0.00	0.00
Tianjin Tianhai High Pressure Containers Co., Ltd.	0.00	0.00	1,560,000.00	0.00	0.00

The long-term equity investments accounted for using cost method for 2011 was the cash dividend RMB1.56 million received by the Company from its subsidiary Tianjin Tianhai.

(3) Long-term equity investments accounted for using equity method

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Total	<u>-112,493.68</u>	<u>-420,732.27</u>	<u>-468,020.89</u>	<u>-1,082,155.57</u>	<u>-770,275.42</u>
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	-112,493.68	-420,732.27	-468,020.89	-1,082,155.57	-770,275.42

6. Supplementary information of consolidated cash flow statement of the Parent

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
1.Reconciliation of net profits to cash flows from operating activities:					
Net profits	21,993,957.25	22,045,348.91	40,778,317.02	12,810,074.34	34,061,261.11
Add:	2,821,887.33	105,210.11	1,369,265.36	-314,516.79	565,796.21
Depreciation of fixed assets, oil and gas assets and productive biological assets	15,894,055.09	14,535,068.22	25,453,809.71	24,796,957.35	20,473,381.37
Amortisation of intangible assets	437,027.04	437,027.04	749,189.24	704,146.06	341,704.19
Amortisation of long-term prepayments	0.00	0.00	0.00	0.00	0.00
Loss on disposal of fixed assets, intangible assets and other long-term assets (income marked with “-”)	-415,479.41	199,848.00	568,199.94	517,745.73	-71,092.29
Loss on discarding of fixed assets (income marked with “-”)	0.00	0.00	0.00	0.00	0.00
Gain or loss on changes in fair value (income marked with “-”)	0.00	0.00	0.00	0.00	0.00
Finance costs (income marked with “-”)	10,089,376.29	8,152,997.19	13,796,145.62	12,589,087.49	8,479,146.22
Loss on investment (income marked with “-”)	112,493.68	420,732.27	-1,091,979.11	1,082,155.57	770,275.42
Decrease in deferred income tax assets (increase marked with “-”)	-716,511.73	-15,781.52	-205,389.81	131,821.03	-141,449.05
Increase in deferred income tax liabilities (decrease marked with “-”)	0.00	0.00	0.00	0.00	0.00
Decrease in inventories (increase marked with “-”)	13,333,288.48	17,080,221.96	-42,710,303.46	-57,686,635.44	94,062,261.63
Decrease in operating accounts receivables (increase marked with “-”)	-132,004,013.08	-161,707,830.98	-88,145,821.52	1,408,177.07	-81,025,254.37
Increase in operating accounts payables (decrease marked with “-”)	82,807,507.65	41,050,642.04	-51,869,417.81	45,516,996.27	-86,347,150.38
Others	0.00	0.00	0.00	0.00	0.00
Net cash flow from operating activities	14,353,588.59	-57,696,516.76	-101,307,984.82	41,556,008.68	11,168,880.06
2. Significant non-cash investing and financing transactions:					
Conversion of debt into capital	0.00	0.00	0.00	0.00	0.00
Convertible corporate bonds expiring within one year	0.00	0.00	0.00	0.00	0.00
Acquisition of fixed assets under finance leases	0.00	0.00	0.00	0.00	0.00
3. Changes in cash and cash equivalents:					
Balance of cash at the end of the period	35,061,145.82	23,909,889.70	49,297,387.69	19,846,836.93	14,626,454.66
Less: Balance of cash at the beginning of the period	49,297,387.69	19,846,836.93	19,846,836.93	14,626,454.66	17,484,196.68
Add: Balance of cash equivalents at the end of the period	0.00	0.00	0.00	0.00	0.00
Less: Balance of cash equivalents at the beginning of the year	0.00	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	-14,236,241.87	4,063,052.77	29,450,550.76	5,220,382.27	-2,857,742.02

XIII. NON-RECURRING PROFIT OR LOSS STATEMENT

In accordance with the requirements of “Interpretation on Information Disclosures by Listed Companies No.1 [2008] – Non-recurring profit or loss” issued by the CSRC, the non-recurring profit or loss items of the Company are as follows:

Item	Jan – Jul 2012	Jan – Jul 2011 (unaudited)	2011	2010	2009
Gain or loss on disposal of non-current assets	400,877.96	-190,966.60	-572,629.52	-617,861.84	70,272.29
Government grants credited to the current profit or loss	81,000.00	575,994.80	1,582,500.00	81,643.00	2,967,248.00
Net profit/loss for the period of subsidiary formed from the merger of enterprises under same control from the beginning of period/year to the date of merger		1,034,174.83	2,251,077.49	-32,200,996.52	-36,939,144.33
Other non-operating income and expense	127,550.51	-1,270.30	6,431.63	-77,547.01	-2,091.00
Sub-total	609,428.47	1,417,932.73	3,267,379.60	-32,814,762.37	-33,903,715.04
Effect on income tax	108,206.45	99,465.51	283,016.04	-91,748.34	529,293.12
Effect on income tax	-2,382.27	554,259.53	1,448,980.12	-9,248,437.13	-10,065,342.43
Total	503,604.29	764,207.69	1,535,383.44	-23,474,576.90	-24,367,665.73

XIV. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for issuance by the Board of Directors on 25 October 2012.

Beijing Tianhai Industry Company Limited
25 October 2012

The following is the text of a report received from the reporting accountants, ShineWing Certified Public Accountants, Certified Public Accountants, Beijing, the PRC in respect of the audited financial information of the Target Companies solely for the purpose of incorporation into this circular.

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話： +86(010)6554 2288 telephone: +86(010)6554 2288 傳真： +86(010)6554 7190 facsimile: +86(010)6554 7190

To all the shareholders of Beiren Printing Machinery Holdings Limited

We set out below our report on the financial information(the “Financial Information”) of **Beijing Jingcheng Environmental Protection Development Co., Ltd.** (the “Jingcheng Environment”) and its subsidiaries (collectively referred to as the “Jingcheng Environment and its subsidiaries”) for each of three years ended 31 December 2009, 2010 and 2011, and the seven months ended 31 July 2012 (the “Relevant Periods”), prepared on the basis set out in Note 2 below, for inclusion in the circular of Beiren Printing Machinery Holdings Limited (the “Circular”).

Jingcheng Environment was incorporated in August 2008 with limited liability.

Jingcheng Environment and its subsidiaries have adopted 31 December as their financial year end date. As at the date of this report, **Jingcheng Environment** is interested in the subsidiaries as set out in Appendix VI of this report.

The statutory financial statements of **Jingcheng Environment and its subsidiaries** prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) and were audited by **ShineWing Certified Public Accountants (special general partnership)**, a certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

For the purpose of this report, the management of **Jingcheng Environment** have prepared the financial statements of **Jingcheng Environment and its subsidiaries** and **Jingcheng Environment** for the Relevant Period that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2, for which the management of Jingcheng Environment are solely responsible for. We have carried out the independent audit in accordance with China Auditing Standards for Certified Public Accountants.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing Standards for Certified Public

Accountants and Statement 3.340 Auditing Guideline “Prospectuses and the Reporting Accountant” issued by Hong Kong Institute of Certified Public Accountants.

The management of Jingcheng Environment are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of **Jingcheng Environment and its subsidiaries** and **Jingcheng Environment** as at 31 December 2009, 2010 and 2011 and 31 July 2012, and of the operating results and cash flows of **Jingcheng Environment and its subsidiaries** and **Jingcheng Environment** for the Relevant Periods.

REVIEW ON THE COMPARATIVE FINANCIAL INFORMATION AT THE END OF THE REPORTING PERIOD

We have reviewed the comparative financial information contained in this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of **Jingcheng Environment**, **Jingcheng Environment and its subsidiaries** for the seven months ended 31 July 2011 (“comparative financial information”).

The management of **Jingcheng Environment** has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2 of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the basis set out in Note 2(1) of this report.

ShineWing Certified Public Accountants (Special General Partnership)

Beijing, PRC
26 October 2012

Consolidated Balance Sheet

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current Assets:					
Cash	VII.1	55,408,549.79	42,316,611.27	26,615,708.13	19,216,710.76
Clearing settlement funds					
Placement with banks and non-financial Institutions					
Tradable financial assets	VII.2	27,000,000.00			
Notes receivable	VII.3	11,375,697.79	5,258,061.28	5,130,921.80	7,203,720.00
Accounts receivable	VII.4	29,641,903.59	34,045,054.66	30,955,455.12	29,837,186.69
Prepayments	VII.5	11,347,474.94	11,111,966.59	6,240,245.26	4,700,625.52
Premiums receivable					
Reinsurance receivable					
Reinsurance policy reserves receivable					
Interests receivable	VII.6	28,416.67			
Dividends receivable					
Other receivables	VII.7	4,829,308.43	2,152,448.72	2,496,223.59	1,795,154.85
Buying back the sale of financial assets					
Inventories	VII.8	102,077,290.36	83,968,807.84	65,649,531.99	59,696,848.70
Non-current assets maturing within one year					
Other current assets					
Total current assets		<u>241,708,642.17</u>	<u>178,852,950.36</u>	<u>137,088,085.89</u>	<u>122,450,246.52</u>
Non-current assets:					
Loans and advances					
Financial assets available for sale					
Held-to-maturity investments					
Long-term receivables					
Long-term equity investments	VII.9	72,303,855.86	63,697,926.09	53,852,351.79	46,385,025.66
Investment properties					
Fixed assets	VII.10	25,890,926.93	27,725,778.19	29,458,761.28	31,832,658.17
Construction in progress	VII.11	844,400.00	188,000.00		
Project materials					
Disposal of fixed assets					
Productive biological assets					
Oil and gas assets					
Intangible assets	VII.12	9,451,302.84	9,651,922.80	9,828,162.74	10,140,642.68
Research and development expenses					
Goodwill					
Long-term prepaid expenses				24,417.01	92,053.93
Deferred income tax assets	VII.13	3,771,198.57	3,458,087.85	3,383,912.19	3,438,496.13
Other non-current assets					
Total non-current assets		<u>112,261,684.20</u>	<u>104,721,714.93</u>	<u>96,547,605.01</u>	<u>91,888,876.57</u>
Total assets		<u><u>353,970,326.37</u></u>	<u><u>283,574,665.29</u></u>	<u><u>233,635,690.90</u></u>	<u><u>214,339,123.09</u></u>

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Balance Sheet (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current liabilities:					
Short-term borrowings	VII.15	300,000.00			20,000,000.00
Borrowings from the Central Bank					
Receipt of deposits and deposits from other banks					
Loans to banks and other financial institutions					
Tradable financial liabilities					
Notes payable	VII.16	764,000.00			1,095,254.20
Accounts payable	VII.17	23,580,808.13	30,844,040.33	21,358,026.09	16,026,535.58
Receipts in advance	VII.18	71,964,301.45	54,371,483.45	46,069,520.29	49,228,498.20
Financial assets sold for repurchase					
Handling charges and commission payable					
Employee benefit payables	VII.19		3,070,403.79	2,751,527.40	2,009,728.39
Tax payables	VII.20	-7,090,878.18	-6,197,459.01	-1,827,867.86	-1,678,780.78
Interest payable	VII.21	603,557.68	70,111.11	30,194.44	29,500.00
Dividend payable	VII.22	1,551,900.00	1,551,900.00	1,551,900.00	1,551,900.00
Other payables	VII.23	114,463,622.74	52,287,118.38	33,501,159.38	8,565,562.48
Dividend payable for reinsurance					
Insurance contract reserves					
Customer brokerage deposits					
Securities underwriting brokerage deposits					
Non-current Liabilities maturing within one year					
Other current liabilities					
Total current liabilities		<u>206,137,311.82</u>	<u>135,997,598.05</u>	<u>103,434,459.74</u>	<u>96,828,198.07</u>
Non-Current Liabilities:					
Long-term borrowings					
Bonds payable					
Long-term accounts payable					
Special payable	VII.24	1,780,000.00			
Estimated liabilities	VII.25	505,634.85	471,925.86	414,139.02	356,352.18
Deferred income tax liabilities					
Other non-current liabilities					
Total Non-current liabilities		<u>2,285,634.85</u>	<u>471,925.86</u>	<u>414,139.02</u>	<u>356,352.18</u>
Total liabilities		<u><u>208,422,946.67</u></u>	<u><u>136,469,523.91</u></u>	<u><u>103,848,598.76</u></u>	<u><u>97,184,550.25</u></u>

Consolidated Balance Sheet (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Shareholder's Equity:					
Share capital	VII.26	109,281,460.92	109,281,460.92	109,281,460.92	109,281,460.92
Capital reserves	VII.27	8,128,305.13	8,128,305.13	8,124,088.79	8,092,405.35
Less: treasury stock					
Special reserve					
Surplus reserves	VII.28	6,673,088.40	6,673,088.40	5,341,705.11	4,448,389.85
Provision for general risk					
Undistributed profit	VII.29	11,644,672.71	18,022,286.93	7,039,837.32	-4,667,683.28
Converted difference in foreign currency statements					
Total Shareholder's Equity attributed to the Parent		135,727,527.16	142,105,141.38	129,787,092.14	117,154,572.84
Minority interests	VII.30	9,819,852.54	5,000,000.00		
Total shareholders' equity		<u>145,547,379.70</u>	<u>147,105,141.38</u>	<u>129,787,092.14</u>	<u>117,154,572.84</u>
Total liabilities and shareholders' equity		<u>353,970,326.37</u>	<u>283,574,665.29</u>	<u>233,635,690.90</u>	<u>214,339,123.09</u>

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Balance Sheet of the Parent

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current assets:					
Cash		48,583,821.41	17,316,611.27	26,615,708.13	19,216,710.76
Tradable financial assets					
Notes receivable		11,375,697.79	5,258,061.28	5,130,921.80	7,203,720.00
Accounts receivable	XIII.1	29,641,903.59	34,045,054.66	30,955,455.12	29,837,186.69
Prepayments		11,306,374.94	11,111,966.59	6,240,245.26	4,700,625.52
Interest receivable		28,416.67			
Dividends receivable					
Other receivables	XIII.2	4,691,405.43	2,152,448.72	2,496,223.59	1,795,154.85
Inventories		101,945,959.24	83,968,807.84	65,649,531.99	59,696,848.70
Non-current assets maturing within one year					
Other current assets					
Total current assets		<u>207,573,579.07</u>	<u>153,852,950.36</u>	<u>137,088,085.89</u>	<u>122,450,246.52</u>
Non-current assets:					
Financial assets available for sale					
Held-to-maturity investments					
Long-term receivables					
Long-term equity investments	XIII.3	112,303,855.86	83,697,926.09	53,852,351.79	46,385,025.66
Investment properties					
Fixed assets		25,884,231.36	27,725,778.19	29,458,761.28	31,832,658.17
Construction in progress		844,400.00	188,000.00		
Project materials					
Disposal of fixed assets					
Productive biological assets					
Oil and gas assets					
Intangible assets		9,451,302.84	9,651,922.80	9,828,162.74	10,140,642.68
Research and development expenses					
Goodwill					
Long-term prepaid expenses				24,417.01	92,053.93
Deferred income tax assets		3,771,198.57	3,458,087.85	3,383,912.19	3,438,496.13
Other non-current assets					
Total non-current assets		<u>152,254,988.63</u>	<u>124,721,714.93</u>	<u>96,547,605.01</u>	<u>91,888,876.57</u>
Total assets		<u><u>359,828,567.70</u></u>	<u><u>278,574,665.29</u></u>	<u><u>233,635,690.90</u></u>	<u><u>214,339,123.09</u></u>

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Balance Sheet of the Parent (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current liabilities:					
Short-term borrowings		300,000.00			20,000,000.00
Tradable financial liabilities					
Notes payable		764,000.00			1,095,254.20
Accounts payable		23,538,108.13	30,844,040.33	21,358,026.09	16,026,535.58
Receipts in advance		86,964,301.45	54,371,483.45	46,069,520.29	49,228,498.20
Employee benefit payables			3,070,403.79	2,751,527.40	2,009,728.39
Tax payables		-7,076,503.31	-6,197,459.01	-1,827,867.86	-1,678,780.78
Interest payable		603,557.68	70,111.11	30,194.44	29,500.00
Dividend payable		1,551,900.00	1,551,900.00	1,551,900.00	1,551,900.00
Other payables		114,449,451.91	52,287,118.38	33,501,159.38	8,565,562.48
Non-current Liabilities maturing within one year					
Other current liabilities					
Total current liabilities		<u>221,094,815.86</u>	<u>135,997,598.05</u>	<u>103,434,459.74</u>	<u>96,828,198.07</u>
Non-Current Liabilities:					
Long-term borrowings					
Bonds payable					
Long-term accounts payable					
Special payable		1,780,000.00			
Estimated liabilities		505,634.85	471,925.86	414,139.02	356,352.18
Deferred income tax liabilities					
Other non-current liabilities					
Total Non-current liabilities		<u>2,285,634.85</u>	<u>471,925.86</u>	<u>414,139.02</u>	<u>356,352.18</u>
Total liabilities		<u>223,380,450.71</u>	<u>136,469,523.91</u>	<u>103,848,598.76</u>	<u>97,184,550.25</u>
Shareholder's Equity:					
Share capital		109,281,460.92	109,281,460.92	109,281,460.92	109,281,460.92
Capital reserves		8,128,305.13	8,128,305.13	8,124,088.79	8,092,405.35
Less: treasury stock					
Special reserve					
Surplus reserves		6,673,088.40	6,673,088.40	5,341,705.11	4,448,389.85
Provision for general risk					
Undistributed profit		12,365,262.54	18,022,286.93	7,039,837.32	-4,667,683.28
Total shareholders' equity		<u>136,448,116.99</u>	<u>142,105,141.38</u>	<u>129,787,092.14</u>	<u>117,154,572.84</u>
Total liabilities and shareholders' equity		<u>359,828,567.70</u>	<u>278,574,665.29</u>	<u>233,635,690.90</u>	<u>214,339,123.09</u>

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Income Statement

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Total Operating Income		29,772,589.31	32,642,322.36	142,096,085.97	105,488,456.80	95,205,592.43
Of which: operating income	VII.31	29,772,589.31	32,642,322.36	142,096,085.97	105,488,456.80	95,205,592.43
Interest income						
Earned premium						
Handling charges and commission income						
2. Total Operating Cost		44,534,351.66	35,904,316.94	146,133,886.31	106,326,223.54	99,943,468.04
Of which: operating cost	VII.31	22,216,282.02	23,029,622.15	108,003,395.41	78,979,928.89	63,105,315.04
Interest expense						
Handling charges and commission expenses						
Surrender value						
Net claim expenses						
Net provision for insurance contracts reserve						
Policyholder dividends expenses						
Expenses for reinsurance accepted						
Business tax and surcharge	VII.32	81,185.10	158,820.71	466,357.61	593,770.39	667,600.49
Sales expenses	VII.33	5,510,971.04	4,875,159.22	10,124,531.81	7,202,282.38	8,363,264.97
Administrative expenses	VII.34	14,855,311.21	12,157,108.95	28,103,262.89	23,841,681.89	19,932,398.35
Financial expenses	VII.35	530,706.37	641,740.83	1,024,390.37	1,102,027.02	1,222,834.33
Impairment loss on assets	VII.36	1,339,895.92	-4,958,134.92	-1,588,051.78	-5,393,467.03	6,652,054.86
Add: Gain on changes of fair value (loss marked "-")						
Income on investment (loss marked "-")	VII.37	8,784,009.22	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
Of which: income from investments in associates and joint Venture		8,784,009.22	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
Exchange gains (loss marked "-")						
3. Operating Profit (loss marked "-")		-5,977,753.13	4,113,745.08	13,972,924.08	13,644,264.59	6,910,677.20
Add: non-operating income	VII.38	445,399.05	73,000.00	365,508.85	473,272.54	941,116.38
Less: non-operating expense	VII.39	1,338,489.82	46,714.20	1,098,775.69	164,400.39	99,492.89
Of which: loss from disposal of non-current assets		1,102,511.16	33,649.64	33,650.64	16,918.29	14,529.80
4. Total Profit (loss marked "-")		-6,870,843.90	4,140,030.88	13,239,657.24	13,953,136.74	7,752,300.69
Less: income tax expense	VII.40	-313,082.22	236,361.64	-74,175.66	352,300.88	-701,325.31
5. Net Profit (net loss marked "-")		-6,557,761.68	3,903,669.24	13,313,832.90	13,600,835.86	8,453,626.00
Net profit attributable to the Parent's Shareholders		-6,377,614.22	3,903,669.24	13,313,832.90	13,600,835.86	8,453,626.00
Minority interest income		-180,147.46				

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
6. Earnings per Share:						
(1) Basic earnings per share						
(2) Diluted earnings per share						
7. Other Comprehensive Income				4,216.34	31,683.44	435.00
8. Total Comprehensive Income		-6,557,761.68	3,903,669.24	13,318,049.24	13,632,519.30	8,454,061.00
Total comprehensive income attributable to the Parent's shareholders		-6,377,614.22	3,903,669.24	13,318,049.24	13,632,519.30	8,454,061.00
Total comprehensive income attributable to the minority shareholders		-180,147.46				
Legal Person: Kang Yiqing		Accounting Director: Li Wen		Accounting Manager: Dong Xiaodong		

Income Statement of the Parent

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Operating Income	<i>XIII.4</i>	30,322,589.31	32,642,322.36	142,096,085.97	105,488,456.80	95,205,592.43
Less: Operating cost	<i>XIII.4</i>	22,216,282.02	23,029,622.15	108,003,395.41	78,979,928.89	63,105,315.04
Tax and additional expense		81,185.10	158,820.71	466,357.61	593,770.39	667,600.49
Sales expense		5,510,971.04	4,875,159.22	10,124,531.81	7,202,282.38	8,363,264.97
Administration expense		14,280,861.56	12,157,108.95	28,103,262.89	23,841,681.89	19,932,398.35
Financial expense		576,387.45	641,740.83	1,024,390.37	1,102,027.02	1,222,834.33
Losses from assets impairment		1,339,895.92	-4,958,134.92	-1,588,051.78	-5,393,467.03	6,652,054.86
Add: Gain on changes of fair value (loss marked "-")						
Income on investment (loss marked "-")	<i>XIII.5</i>	8,605,929.77	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
Of which: income from investments in associates and joint Venture		8,605,929.77	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
2. Operating Profit (loss marked "-")		-5,077,064.01	4,113,745.08	13,972,924.08	13,644,264.59	6,910,677.20
Add: non-operating income		445,399.05	73,000.00	365,508.85	473,272.54	941,116.38
Less: non-operating expense		1,338,470.15	46,714.20	1,098,775.69	164,400.39	99,492.89
of which: loss from disposal of non-current assets		1,081,387.57	33,649.64	33,650.64	16,918.29	14,529.80
3. Total Profit (loss marked "-")		-5,970,135.11	4,140,030.88	13,239,657.24	13,953,136.74	7,752,300.69
Less: income tax expense		-313,110.72	236,361.64	-74,175.66	352,300.88	-701,325.31
4. Net Profit (net loss marked "-")		-5,657,024.39	3,903,669.24	13,313,832.90	13,600,835.86	8,453,626.00
5. Earnings per Share:						
(1) Basic earnings per share						
(2) Diluted earnings per share						
6. Other Comprehensive Income				4,216.34	31,683.44	435.00
7. Total Comprehensive Income		-5,657,024.39	3,903,669.24	13,318,049.24	13,632,519.30	8,454,061.00

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Cash Flow Statement

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Cash flows from operating activities:						
Cash receipts from the sale of goods and the rendering of services		49,467,276.05	89,780,357.68	172,863,557.29	140,282,137.68	119,182,632.86
Net increase in customer deposits and interbank placement						
Net increase in loans from central bank						
Net increase in loans from other financial institutions						
Cash received from premiums of existing insurance policies						
Net cash received from reinsurance business						
Net increase in reserves and investment from policy holders						
Net increase in disposal of held-for-trading financial assets						
Cash received from interests, handling fees and commission						
Net increase in borrowed funds						
Net increase in funds for repurchase of business						
Receipts of taxes and levy refunds						
Other cash receipts in operating activities	VII.41	2,380,464.78	118,815.56	534,546.41	610,880.55	1,103,567.62
Sub-total of cash inflows from operating activities		51,847,740.83	89,899,173.24	173,398,103.70	140,893,018.23	120,286,200.48
Cash payments for goods and services acquired		47,755,360.94	61,442,584.17	125,549,979.64	94,436,488.81	81,834,212.43
Net increase in loans and advances to customers						
Net increase in deposit with central bank and peers						
Cash paid for claims under existing insurance policies						
Cash paid for interests, handling fees and commission						
Cash paid for bonus of insurance policies						
Cash payments to and on behalf of employees		14,594,288.30	12,551,451.88	23,544,917.37	21,829,924.24	20,504,056.14
Payments of taxes and levy		1,539,013.11	6,684,127.18	11,327,662.91	7,580,475.37	11,457,139.08
Other cash payments from Operating Activities	VII.41	10,383,372.75	9,170,288.88	27,309,437.76	18,445,191.51	15,792,919.50
Sub-total of cash outflows from operating activities		74,272,035.10	89,848,452.11	187,731,997.68	142,292,079.93	129,588,327.15
Net cash flows from operating activities		-22,424,294.27	50,721.13	-14,333,893.98	-1,399,061.70	-9,302,126.67

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
2. Cash flows from investing activities:						
Cash receipts from return of investments		5,000,000.00				
Cash receipts from investment income		178,079.45		8,169,366.46	7,046,388.64	6,320,864.37
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		51,285.50		115,000.00	243,370.00	118,585.00
Net cash received from disposal of subsidiaries and other operating units						
Other cash receipts relating to investing activities						
Sub-total of cash inflows from investing activities		5,229,364.95		8,284,366.46	7,289,758.64	6,439,449.37
Cash paid to acquire fixed assets, intangible assets and other long-term assets		1,604,919.29	495,806.95	3,102,602.67	411,113.46	428,029.04
Cash paid on investment		32,000,000.00				
Net increase in pledge loans						
Net cash paid for acquisition of subsidiaries and other business units						
Other cash payments relating to investing activities						
Sub-total of cash outflows from investing activities		33,604,919.29	495,806.95	3,102,602.67	411,113.46	428,029.04
Net cash flows from investing activities		-28,375,554.34	-495,806.95	5,181,763.79	6,878,645.18	6,011,420.33
3. Cash flows from financing activities:						
Cash received from capital contributions		5,000,000.00		5,000,000.00		
Of which: cash receipts from absorbing minority shareholders' investment by subsidiary		5,000,000.00		5,000,000.00		
Cash receipts from borrowings		300,000.00				20,000,000.00
Cash received from bond issue						
Other cash receipts relating to financing activities	VII.7	110,000,000.00	50,000,000.00	62,000,000.00	24,000,000.00	3,000,000.00
Sub-total of cash inflows from financing activities		115,300,000.00	50,000,000.00	67,000,000.00	24,000,000.00	23,000,000.00

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Cash repayments of amount borrowed					20,000,000.00	20,000,000.00
Cash payments for distribution of dividends, profits or repayment of interest expenses		1,408,212.87	567,872.22	2,146,966.67	2,080,586.11	1,258,900.00
Of which: dividends and profits paid by subsidiaries to minority shareholders						
Other cash payments relating to financing activities	VII.41	<u>50,000,000.00</u>	<u>10,000,000.00</u>	<u>40,000,000.00</u>	<u> </u>	<u> </u>
Sub-total of cash outflows from financing activities		<u>51,408,212.87</u>	<u>10,567,872.22</u>	<u>42,146,966.67</u>	<u>22,080,586.11</u>	<u>21,258,900.00</u>
Net cash flows from financing activities		<u>63,891,787.13</u>	<u>39,432,127.78</u>	<u>24,853,033.33</u>	<u>1,919,413.89</u>	<u>1,741,100.00</u>
4. Effect of exchange rate changes on cash and cash equivalents		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
5. Net increase in cash and cash equivalents		13,091,938.52	38,987,041.96	15,700,903.14	7,398,997.37	-1,549,606.34
Add: Balance of cash and cash equivalents at the beginning of the period		<u>42,316,611.27</u>	<u>26,615,708.13</u>	<u>26,615,708.13</u>	<u>19,216,710.76</u>	<u>20,766,317.10</u>
6. Balance of cash and cash equivalents at the end of the period		<u>55,408,549.79</u>	<u>65,602,750.09</u>	<u>42,316,611.27</u>	<u>26,615,708.13</u>	<u>19,216,710.76</u>
Legal Person: Kang Yiqing		Accounting Director: Li Wen		Accounting Manager: Dong Xiaodong		

Cash Flow Statement of the Parent

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
1. Cash flows from operating activities:						
Cash received from the sales of goods and the rendering of services		65,017,276.05	89,780,357.68	172,863,557.29	140,282,137.68	119,182,632.86
Receipts of taxes and levy refunds						
Other cash receipts relating to operating activities		<u>2,333,814.70</u>	<u>118,815.56</u>	<u>534,546.41</u>	<u>610,880.55</u>	<u>1,103,567.62</u>
Sub-total of cash inflows from operating activities		<u>67,351,090.75</u>	<u>89,899,173.24</u>	<u>173,398,103.70</u>	<u>140,893,018.23</u>	<u>120,286,200.48</u>
Cash paid for goods purchased and services received		47,666,729.22	61,442,584.17	125,549,979.64	94,436,488.81	81,834,212.43
Cash payments to and on behalf of employees		14,268,791.31	12,551,451.88	23,544,917.37	21,829,924.24	20,504,056.14
Payments of taxes and levy		1,538,984.61	6,684,127.18	11,327,662.91	7,580,475.37	11,457,139.08
Other cash payments relating to operating activities		<u>9,995,543.34</u>	<u>9,170,288.88</u>	<u>27,309,437.76</u>	<u>18,445,191.51</u>	<u>15,792,919.50</u>
Sub-total of cash outflows from operating activities		<u>73,470,048.48</u>	<u>89,848,452.11</u>	<u>187,731,997.68</u>	<u>142,292,079.93</u>	<u>129,588,327.15</u>
Net cash flows from operating activities		<u>-6,118,957.73</u>	<u>50,721.13</u>	<u>-14,333,893.98</u>	<u>-1,399,061.70</u>	<u>-9,302,126.67</u>
2. Cash flows from investing activities:						
Cash receipts from return of investments						
Cash receipts from investment income				8,169,366.46	7,046,388.64	6,320,864.37
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		51,285.50		115,000.00	243,370.00	118,585.00
Net cash received from disposal of subsidiaries and other operating units						
Other cash receipts relating to investing activities						
Sub-total of cash inflows from investing activities		<u>51,285.50</u>		<u>8,284,366.46</u>	<u>7,289,758.64</u>	<u>6,439,449.37</u>

APPENDIX IV(2)

AUDIT REPORT OF JINGCHENG COMPRESSOR

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
Cash paid to acquire fixed assets, intangible assets and other long-term assets		1,556,904.76	495,806.95	3,102,602.67	411,113.46	428,029.04
Cash paid on investment		20,000,000.00		20,000,000.00		
Net cash paid for acquisition of subsidiaries and other business units						
Other cash payments relating to investing activities						
Sub-total of cash outflows from investing activities		21,556,904.76	495,806.95	23,102,602.67	411,113.46	428,029.04
Net cash flows from investing activities		-21,505,619.26	-495,806.95	-14,818,236.21	6,878,645.18	6,011,420.33
3. Cash flows from financing activities:						
Cash received from capital contributions						
Cash receipts from borrowings		300,000.00				20,000,000.00
Cash received from bond issue						
Other cash receipts relating to financing activities		110,000,000.00	50,000,000.00	62,000,000.00	24,000,000.00	3,000,000.00
Sub-total of cash inflows from financing activities		110,300,000.00	50,000,000.00	62,000,000.00	24,000,000.00	23,000,000.00
Cash repayments of amount borrowed					20,000,000.00	20,000,000.00
Cash payments for distribution of dividends, profits or repayment of interest expenses		1,408,212.87	567,872.22	2,146,966.67	2,080,586.11	1,258,900.00
Other cash payments relating to financing activities		50,000,000.00	10,000,000.00	40,000,000.00		
Sub-total of cash outflows from financing activities		51,408,212.87	10,567,872.22	42,146,966.67	22,080,586.11	21,258,900.00
Net cash flows from financing activities		58,891,787.13	39,432,127.78	19,853,033.33	1,919,413.89	1,741,100.00
4. Effect of exchange rate changes on cash and cash equivalents						
5. Net increase in cash and cash equivalents		31,267,210.14	38,987,041.96	-9,299,096.86	7,398,997.37	-1,549,606.34
Add: Balance of cash and cash equivalents at the beginning of the period		17,316,611.27	26,615,708.13	26,615,708.13	19,216,710.76	20,766,317.10

Items	Notes	Jan-Jul 2012	Jan-Jul 2011	2011	2010	2009
6. Balance of cash and cash equivalents at the end of the period		<u>48,583,821.41</u>	<u>65,602,750.09</u>	<u>17,316,611.27</u>	<u>26,615,708.13</u>	<u>19,216,710.76</u>

Legal Person:
Kang Yiqing

Accounting Director:
Li Wen

Accounting Manager:
Dong Xiaodong

Consolidated Statement of Movement on Equity

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Jan-Jul 2012 (unaudited)					Undistributed profit	Others	Minority interests	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Shareholder's Equity Attributable to the Parent	Surplus Reserves	Provision for general risk			
1. The ending balance for last year	109,281,460.92	8,128,305.13			6,673,088.40			5,000,000.00	147,105,141.38
Add: Changes in accounting policies									
Corrections for previous errors									
Others									
2. The beginning balance of this year	109,281,460.92	8,128,305.13			6,673,088.40			5,000,000.00	147,105,141.38
3. Increase and decrease for this year (decrease and increase represents as "+,-")									
(1) Net profit								4,819,852.54	-1,557,761.68
(2) Other comprehensive income								-180,147.46	-6,557,761.68
Subtotal of (1) and (2)								-180,147.46	-6,557,761.68
(3) Shareholders investing and reducing capital								5,000,000.00	5,000,000.00
I. Shareholders investing capital								5,000,000.00	5,000,000.00
II. Shares payment in shareholder's equity									
III. Others									
(4) Profit distribution									
I. Provision of surplus reserves									
II. Provision for general risk reserves									
III. Distribution to shareholders									
IV. Others									
(5) Shareholder's equity internal transfer									
I. Capital reserve transfer to capital (or share capital)									
II. Surplus reserve transfer to capital (or share capital)									
III. Surplus reserve offset losses									
IV. Others									
(6) Special reserves									
I. Amount provided for the current year									
II. Amount used for the current year									
(7) Others									
4. The ending balance for this year	109,281,460.92	8,128,305.13			6,673,088.40			9,819,852.54	145,547,379.70

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Statement of Movement on Equity (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Jan-Jul 2011 (unaudited)					Minority interests	Others	Undistributed profit	Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Shareholder's Equity Attributable to the Parent	Provision for general risk				
				Surplus Reserves					Total Shareholder's Equity
1. The ending balance for last year	109,281,460.92	8,124,088.79		5,341,705.11				7,039,837.32	129,787,092.14
Add: Changes in accounting policies									
Corrections for previous errors									
Others									
2. The beginning balance of this year	109,281,460.92	8,124,088.79		5,341,705.11				7,039,837.32	129,787,092.14
3. Increase and decrease for this year (decrease represents as "+")		4,216.34						3,903,669.24	3,907,885.58
(1) Net profit		4,216.34						3,903,669.24	3,903,669.24
(2) Other comprehensive income		4,216.34						3,903,669.24	4,216.34
Subtotal of (1) and (2)		4,216.34						3,903,669.24	3,907,885.58
(3) Shareholders investing and reducing capital									
I. Shareholders investing capital									
II. Shares payment in shareholder's equity									
III. Others									
(4) Profit distribution									
I. Provision of surplus reserves									
II. Provision for general risk reserves									
III. Distribution to shareholders									
IV. Others									
(5) Shareholder's equity internal transfer									
I. Capital reserve transfer to capital (or share capital)									
II. Surplus reserve transfer to capital (or share capital)									
III. Surplus reserve offset losses									
IV. Others									
(6) Special reserves									
I. Amount provided for the current year									
II. Amount used for the current year									
(7) Others									
4. The ending balance for this year	109,281,460.92	8,128,305.13		5,341,705.11				10,943,506.56	133,694,977.72

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Statement of Movement on Equity (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Shareholder's Equity Attributable to the Parent							Undistributed profit	Others	Minority interests	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Provision for general risk					
2011											
1. The ending balance for last year	109,281,460.92	8,124,088.79			5,341,705.11		7,039,837.32				129,787,092.14
Add: Changes in accounting policies											
Corrections for previous errors											
Others											
2. The beginning balance of this year	109,281,460.92	8,124,088.79			5,341,705.11		7,039,837.32				129,787,092.14
3. Increase and decrease for this year (decrease and increase represents as "+,-")											
(1) Net profit											
(2) Other comprehensive income		4,216.34			1,331,383.29		10,982,449.61		5,000,000.00		17,318,049.24
Subtotal of (1) and (2)		4,216.34					13,313,832.90				13,313,832.90
(3) Shareholders investing and reducing capital											
I. Shareholders investing capital											
II. Shares payment in shareholder's equity											
III. Others											
(4) Profit distribution											
I. Provision of surplus reserves					1,331,383.29		-2,331,383.29				-1,000,000.00
II. Provision for general risk reserves					1,331,383.29		-1,331,383.29				
III. Distribution to shareholders											
IV. Others											
(5) Shareholder's equity internal transfer											
I. Capital reserve transfer to capital (or share capital)											
II. Surplus reserve transfer to capital (or share capital)											
III. Surplus reserve offset losses											
IV. Others											
(6) Special reserves											
I. Amount provided for the current year											
II. Amount used for the current year											
(7) Others											
4. The ending balance for this year	109,281,460.92	8,128,305.13			6,673,088.40		18,022,286.93		5,000,000.00		147,105,141.38

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Statement of Movement on Equity (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Share capital	Capital reserves	Less: Treasury Stock	Shareholder's Equity Attributable to the Parent			Undistributed profit	Others	Minority interests	Total Shareholder's Equity
				Special Reserve	Surplus Reserves	Provision for general risk				
2010										
1. The ending balance for last year	109,281,460.92	8,092,405.35			4,448,389.85		-4,667,683.28			117,154,572.84
Add: Changes in accounting policies										
Corrections for previous errors										
Others										
2. The beginning balance of this year	109,281,460.92	8,092,405.35			4,448,389.85		-4,667,683.28			117,154,572.84
3. Increase and decrease for this year (decrease and increase represents as "+")		31,683.44			893,315.26		11,707,520.60			12,632,519.30
(1) Net profit							13,600,835.86			13,600,835.86
(2) Other comprehensive income		31,683.44								31,683.44
Subtotal of (1) and (2)		31,683.44					13,600,835.86			13,632,519.30
(3) Shareholders investing and reducing capital										
I. Shareholders investing capital										
II. Shares payment in shareholder's equity										
III. Others										
(4) Profit distribution										
I. Provision of surplus reserves					893,315.26		-1,893,315.26			-1,000,000.00
II. Provision for general risk reserves					893,315.26		-893,315.26			
III. Distribution to shareholders										
IV. Others							-1,000,000.00			-1,000,000.00
(5) Shareholder's equity internal transfer										
I. Capital reserve transfer to capital (or share capital)										
II. Surplus reserve transfer to capital (or share capital)										
III. Surplus reserve offset losses										
IV. Others										
(6) Special reserves										
I. Amount provided for the current year										
II. Amount used for the current year										
(7) Others										
4. The ending balance for this year	109,281,460.92	8,124,088.79			5,341,705.11		7,039,837.32			129,787,092.14

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Consolidated Statement of Movement on Equity (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	2009						Minority interests	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Shareholder's Equity Attributable to the Parent	Surplus Reserves	Provision for general risk	Undistributed profit	Others
1. The ending balance for last year	109,281,460.92	8,091,970.35			4,448,389.85		-13,121,309.28	
Add: Changes in accounting policies								
Corrections for previous errors								
Others								
2. The beginning balance of this year	109,281,460.92	8,091,970.35			4,448,389.85		-13,121,309.28	
3. Increase and decrease for this year (decrease and increase represents as "+")		435.00					8,453,626.00	
(1) Net profit		435.00					8,453,626.00	
(2) Other comprehensive income		435.00						
Subtotal of (1) and (2)		435.00					8,453,626.00	
(3) Shareholders investing and reducing capital								
I. Shareholders investing capital								
II. Shares payment in shareholder's equity								
III. Others								
(4) Profit distribution								
I. Provision of surplus reserves								
II. Provision for general risk reserves								
III. Distribution to shareholders								
IV. Others								
(5) Shareholder's equity internal transfer								
I. Capital reserve transfer to capital (or share capital)								
II. Surplus reserve transfer to capital (or share capital)								
III. Surplus reserve offset losses								
IV. Others								
(6) Special reserves								
I. Amount provided for the current year								
II. Amount used for the current year								
(7) Others								
4. The ending balance for this year	109,281,460.92	8,092,405.35			4,448,389.85		-4,667,683.28	

117,154,572.84

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Statement of Movement on Equity of the Parent

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Jan-Jul 2012					Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	
1. The ending balance for last year	109,281,460.92	8,128,305.13			6,673,088.40	142,105,141.38
Add: Changes in accounting policies						
Corrections for previous errors						
Others						
2. The beginning balance of this year	109,281,460.92	8,128,305.13			6,673,088.40	142,105,141.38
3. Increase and decrease for this year (decrease represents as "+")						
(1) Net profit						
(2) Other comprehensive income						
Subtotal of (1) and (2)						
(3) Shareholders investing and reducing capital						
I. Shareholders investing capital						
II. Shares payment in shareholder's equity						
III. Others						
(4) Profit distribution						
I. Provision of surplus reserves						
II. Provision for general risk reserves						
III. Distribution to shareholders						
IV. Others						
(5) Shareholder's equity internal transfer						
I. Capital reserve transfer to capital (or share capital)						
II. Surplus reserve transfer to capital (or share capital)						
III. Surplus reserve offset losses						
IV. Others						
(6) Special reserves						
I. Amount provided for the current year						
II. Amount used for the current year						
(7) Others						
4. The ending balance for this year	109,281,460.92	8,128,305.13			6,673,088.40	136,448,116.99

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Statement of Movement on Equity of the Parent (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	Jan-Jul 2011					Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	
1. The ending balance for last year	109,281,460.92	8,124,088.79			5,341,705.11	129,787,092.14
Add: Changes in accounting policies						
Corrections for previous errors						
Others						
2. The beginning balance of this year	109,281,460.92	8,124,088.79			5,341,705.11	129,787,092.14
3. Increase and decrease for this year (decrease represents as "+")						
(1) Net profit		4,216.34				3,907,885.58
(2) Other comprehensive income		4,216.34				3,903,669.24
Subtotal of (1) and (2)		4,216.34				4,216.34
(3) Shareholders investing and reducing capital						
I. Shareholders investing capital						
II. Shares payment in shareholder's equity						
III. Others						
(4) Profit distribution						
I. Provision of surplus reserves						
II. Provision for general risk reserves						
III. Distribution to shareholders						
IV. Others						
(5) Shareholder's equity internal transfer						
I. Capital reserve transfer to capital (or share capital)						
II. Surplus reserve transfer to capital (or share capital)						
III. Surplus reserve offset losses						
IV. Others						
(6) Special reserves						
I. Amount provided for the current year						
II. Amount used for the current year						
(7) Others						
4. The ending balance for this year	109,281,460.92	8,128,305.13			5,341,705.11	133,694,977.72

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Statement of Movement on Equity of the Parent (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	2011						Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed profit	
1. The ending balance for last year	109,281,460.92	8,124,088.79			5,341,705.11	7,039,837.32	129,787,092.14
Add: Changes in accounting policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	109,281,460.92	8,124,088.79			5,341,705.11	7,039,837.32	129,787,092.14
3. Increase and decrease for this year (decrease represents as "+")							
(1) Net profit		4,216.34			1,331,383.29	10,982,449.61	12,318,049.24
(2) Other comprehensive income		4,216.34				13,313,832.90	13,313,832.90
Subtotal of (1) and (2)		4,216.34				13,313,832.90	4,216.34
(3) Shareholders investing and reducing capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of surplus reserves					1,331,383.29	-2,331,383.29	-1,000,000.00
II. Provision for general risk reserves					1,331,383.29	-1,331,383.29	
III. Distribution to shareholders							
IV. Others						-1,000,000.00	-1,000,000.00
(5) Shareholder's equity internal transfer							
I. Capital reserve transfer to capital (or share capital)							
II. Surplus reserve transfer to capital (or share capital)							
III. Surplus reserve offset losses							
IV. Others							
(6) Special reserves							
I. Amount provided for the current year							
II. Amount used for the current year							
(7) Others							
4. The ending balance for this year	109,281,460.92	8,128,305.13			6,673,088.40	18,022,286.93	142,105,141.38

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

Statement of Movement on Equity of the Parent (Continued)

Prepared by Beijing Jingcheng Environmental Protection Development Co., Ltd.

Unit: RMB

Items	2009						Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Provision for general risk	
1. The ending balance for last year	109,281,460.92	8,091,970.35			4,448,389.85	-13,121,309.28	108,700,511.84
Add: Changes in accounting policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	109,281,460.92	8,091,970.35			4,448,389.85	-13,121,309.28	108,700,511.84
3. Increase and decrease for this year (decrease represents as "+,-")							
(1) Net profit		435.00				8,453,626.00	8,454,061.00
(2) Other comprehensive income		435.00				8,453,626.00	8,453,626.00
Subtotal of (1) and (2)		435.00				8,453,626.00	435.00
(3) Shareholders investing and reducing capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of surplus reserves							
II. Provision for general risk reserves							
III. Distribution to shareholders							
IV. Others							
(5) Shareholder's equity internal transfer							
I. Capital reserve transfer to capital (or share capital)							
II. Surplus reserve transfer to capital (or share capital)							
III. Surplus reserve offset losses							
IV. Others							
(6) Special reserves							
I. Amount provided for the current year							
II. Amount used for the current year							
(7) Others							
4. The ending balance for this year	109,281,460.92	8,092,405.35			4,448,389.85	-4,667,683.28	117,154,572.84

Legal Person:
Kang YiqingAccounting Director:
Li WenAccounting Manager:
Dong Xiaodong

I. GENERAL

1. History

Beijing Jingcheng Environmental Protection Development Co., Ltd. (hereinafter the “Company” and together with its subsidiaries, collectively the “Group”) was incorporated on 6 August 2002. The Company was jointly established by Beijing State-Owned Assets Management Co., Ltd. (“Beijing Guotou”), Beiren Group Corporation (“Beiren Group”) and Jingcheng Machinery Electric Holding Co., Ltd. (“Jingcheng Holding”) with the then registered capital of RMB61 million. The Company’s shareholding structure is shown below:

Investors	Amount	Percentage (%)
Jingcheng Holding	21,000,000.00	34.42
Beiren Group	20,000,000.00	32.79
Beijing Guotou	20,000,000.00	32.79
Total	61,000,000.00	100.00

In June 2004, it was resolved at the general meeting of Company to increase its registered capital by RMB34.0041 million, which was contributed by Jingcheng Holding and Beiren Group of RMB17.0052 million and RMB16.9989 million respectively. After the capital increase, the registered capital of the Company was changed to RMB95.0041 million. The Company’s changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	21,000,000.00	17,005,200.00	38,005,200.00	40.00
Beiren Group	20,000,000.00	16,998,900.00	36,998,900.00	38.95
Beijing Guotou	20,000,000.00	0.00	20,000,000.00	21.05
Total	61,000,000.00	34,004,100.00	95,004,100.00	100.00

In January 2005, it was resolved at the general meeting of Company to increase its registered capital by RMB6 million, which was wholly contributed by Beijing Guotou. After the capital increase, the registered capital of the Company was changed to RMB101.0041 million. The Company’s changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00	0.00	38,005,200.00	37.63
Beiren Group	36,998,900.00	0.00	36,998,900.00	36.63
Beijing Guotou	20,000,000.00	6,000,000.00	26,000,000.00	25.74
Total	95,004,100.00	6,000,000.00	101,004,100.00	100.00

According to the resolution at the general meeting of Company dated 20 June 2005 and the share transfer agreement signed between Beijing Guotou and Beijing Industrial Development Investment Management Co., Ltd. (“Beijing Gongtou”) on 22 December 2005, Beijing Guotou has transferred its 25.74% equity rights in the Company to Beijing Gongtou with nil consideration. The Company’s changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00	0.00	38,005,200.00	37.63
Beiren Group	36,998,900.00	0.00	36,998,900.00	36.63
Beijing Guotou	26,000,000.00	-26,000,000.00	0.00	0.00
Beijing Gongtou	0.00	26,000,000.00	26,000,000.00	25.74
Total	101,004,100.00	0.00	101,004,100.00	100.00

In April 2008, it was resolved at the general meeting of Company to increase its registered capital by RMB8,277.4 million, which was wholly contributed by Jingcheng Holding. After the capital increase, the registered capital of the Company was changed to RMB109,281.5 million. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00	8,277,400.00	46,282,600.00	42.35
Beiren Group	36,998,900.00	0.00	36,998,900.00	33.86
Beijing Gongtong	26,000,000.00	0.00	26,000,000.00	23.79
Total	101,004,100.00	8,277,400.00	109,281,500.00	100.00

According to the resolution at the extraordinary general meeting of Company dated 5 June 2007 and the Transfer Agreement of Enterprises State-owned Property Right without Consideration signed between Beiren Group and Jingcheng Holding in October 2008, Beiren Group has transferred its 33.86% equity rights in our Company to Jingcheng Holding with nil consideration. The procedure for changing industrial and commercial registration relating to the aforesaid equity transfer has been completed on 10 February 2009. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	46,282,600.00	36,998,900.00	83,281,500.00	76.21
Beiren Group	36,998,900.00	-36,998,900.00	0.00	0.00
Beijing Gongtong	26,000,000.00	0.00	26,000,000.00	23.79
Total	109,281,500.00	0.00	109,281,500.00	100.00

According to the resolution at the extraordinary general meeting of the Company dated 18 June 2012 and the share transfer agreement signed between Jingcheng Holding and Beijing Gongtong, Beijing Gongtong has transferred its 23.79% equity rights in our Company to Jingcheng Holding. The Company has become the subsidiary of Jingcheng Holding after the transfer of equity rights. This transfer of equity rights has confirmed by Beijing Equity Exchange and the equity transaction Certificate was issued. The procedure for changing industrial and commercial registration has been completed and the business license was obtained on 30 August 2012. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	83,281,460.92	26,000,000.00	109,281,460.92	100.00
Beijing Gongtong	26,000,000.00	-26,000,000.00	0.00	0.00
Total	109,281,460.92	0.00	109,281,460.92	100.00

The Company is principally engaged in gas storage and transportation equipment and environmental protection businesses, which belongs to the machinery industry. As for the gas storage and transportation equipment business, the Company is mainly engaged in the research and development, production and sales of gas compressors and its major products comprises of piston compressor and membrane compressor, which are mainly applied in gas filling, polysilicon, coal chemical industry, nuclear power and military industries, etc. As for the environmental protection business, the Company is mainly engaged in design, production and sales of sorting equipments for household waste and its terminal treatment, and its major products involving sorting equipments for household waste, fuel oil and related highly processed products are mainly applied in such areas as refuse treatment, petroleum refining, boiler combustion, marine power fuel and chemical raw materials.

The business scope of the Company covers: ordinary freight (subject to operation by branches), import & export of commodities, technologies and acting as import and export agent; specialist contractor; excluding those prohibited by the law, administrative rules and regulations and the State Council's decision, which are not allowed to operate; Those prescribed of a license by law, administrative rules and regulations and the State Council's decision shall only be permitted of operation after being approved by competent authorities and registered in the commercial and industrial administration; and those not prescribed of a license by law, administrative rules and regulations and the State Council's decision shall be at the applicant's own discretion for its business items and activities.

The Company has established its board of shareholders and board of directors, and has a number of functional departments such as General Manager Office, Financial Operation and Control Department, Human Resources Department, Technical Centre, Marketing Department, Environmental Protection Industrial Division, Piston Compressor Product Division and Membrane Compressor Product Division.

Jingcheng Machinery Electric Holding Co., Ltd. is the controlling shareholder of the Company and also the ultimate controller of the Group.

II. BASIS FOR PREPARATION OF FINANCIAL STATEMENT

The Group's financial statements have been prepared on a going concern basis and based on the actual transactions and matters incurred, in accordance with Enterprise Accounting Standards and relevant requirements, and the accounting policies and estimates as stated in Note IV "Significant Accounting Policies, Accounting Estimates and Compilation Method of Consolidated Financial Statements".

III. DECLARATION OF COMPLIANCE WITH ENTERPRISE ACCOUNTING STANDARDS

These financial statements are in compliance with requirements of the Enterprise Accounting Standards and give a true view on the entire financial position, operating results and cash flow of the Company and the Group.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting period

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

2. Reporting currency

The reporting currency of the Group is RMB.

3. Principles of accounting and measurement

The Group uses the accrual method as its basis of accounting. All assets are measured at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement of the Group represents cash on hand and deposits held at call with banks. Cash equivalents in the cash flow statement represent short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

5. Foreign currency transactions

Foreign currency transactions of the Group are translated into RMB at the spot exchange rate of the date of transaction. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly recorded in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences is directly included in the profit and loss for the current period as a change of fair value. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction, while the translated amount in RMB should not be changed.

6. Financial assets and financial liabilities

(1) Financial assets

1) Classification of financial assets

Financial assets of the Group are classified as financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables, and available-for-sale financial assets according to the purposes of investments and the economic substance of the assets.

Financial assets at fair value through profit or loss for the current period are those financial assets that have been acquired principally for the purpose of selling in 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 recoverable amounts that the management intends and is able to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable recoverable amounts that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are designated in this category and financial assets not classified into any other class upon initial recognition.

2) Recognition and measurement of financial assets

Financial asset are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss for the current period and available-for-sale financial assets are subsequently measured at fair value. Loans 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 for the current period are recorded as gain or loss on changes in fair value. Interest or cash dividends received during the period in which such financial assets are held are recognised as investment income. On disposal, the difference between fair value and initial recognised amount is recognised as gain or loss on investment and adjust the gain or loss into changes in fair value accordingly.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

3) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset 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 losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If the fair value of available-for-sale financial asset experienced a significant or non-temporary decline, the cumulative losses arising from the decline in fair value that had been recognised directly in equity shall be reversed and included in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

4) Transfer of financial assets

A financial asset is derecognised when any of the below condition is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition condition, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

(2) Financial liabilities

Financial liabilities of the Group are classified as financial liabilities at fair value through profit or loss for the current period and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss for the current period include financial liabilities held for trading and those designated at fair value through profit or loss for the current period on initial recognition. They are subsequently measured at fair value. The gain or loss on changes in fair value, and dividends and interest expense in relation to such financial liabilities are charged to profit or loss for the current period as incurred.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the current period.

(3) Method for Determination of fair values of financial assets and financial liabilities

- a) If there is an active market for financial instrument, the quoted market price in an active market is used to determine the fair value of the financial instrument. In the active market, financial assets held or financial liabilities intending to bear by the Group take the current quoted price as the fair value of the relevant assets and liabilities. Financial assets intending to buy or financial liabilities borne by the Group take the current offer price as the fair value of the relevant assets and liabilities. If there are no quoted price and offer price for financial assets and liabilities, and the economic conditions do not change significantly after the latest transaction, the latest quotation is used to determine the fair value of such financial assets or liabilities. If the economic conditions changed significantly after the latest transaction, the fair value of such financial assets or financial liabilities shall be determined by adjusting the quoted price of the latest transaction through preferring to the current price or interest of the similar financial assets or financial liabilities. If the Group has sufficient evidence to prove that the quoted price of the latest transaction did not based on fair value, the fair value of such financial assets or financial liabilities shall be determined through appropriate adjustment on the quoted price of the latest transaction.
- b) If there is no active market for financial instrument, the fair values are determined by evaluation method, including consulting the latest prices in the marketing transaction by the parties who are familiar with the market and make the transaction voluntarily, the current fair values of the other identified financial assets, discounted method of cash flow and option pricing modes.

7. Provisions for bad debts on receivables

The Group recognises losses from bad debts on receivables when any of the following circumstances occur: the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended their businesses due to natural disaster and unable to settle the debts in the foreseeable period; or the receivables are defaulted for more than 3 years; or when there is objective evidence indicating that the debts cannot be recovered or are not likely to be recovered.

Potential loss on bad debts is provided for using allowance account method. At the end of the period, receivables are tested for impairment on individual or group basis and the provisions for bad debts are recognised in the profit or loss for the current period. When there is objective evidence indicating that the receivables cannot be collected, such receivables are written off against the provisions for bad debts as losses on bad debts after granting of approval by the Group according to the required procedures.

(1) Receivables that are individually significant and are provided for bad debts on individual basis

Basis of determination or threshold of individually significant receivables	Receivables of more than RMB5 million are regarded as individually significant receivables
Method of provision for bad debts on receivables that are individually significant and are provided on individual basis	Provisions for bad debts are made for the excess of the carrying amount over the present value of the future cash flows

(2) Receivables provided for bad debts on group basis

Basis for determination of groups	
Aged group	Determine the credit risk characteristics by age of the receivables
Method of provision for bad debts on group basis	
Aged group	Provision of bad debts is made by aging analysis

1) Proportion of provisions for bad debts on receivables by aging analysis basis:

Aging	Proportion to accounts receivable (%)	Proportion to other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

8. Inventories

The inventories of the Group mainly include raw materials, work in process and finished goods, etc.

The Group maintains a perpetual inventory system. Inventories are recorded at cost of purchase when received. Actual cost is calculated using weighted average method when the inventories are acquired or sent out.

At the end of the period, inventories are stated at the lower of costs and net realisable value. Where the inventories are not expected to be recoverable as they become damaged, partially or wholly obsolete or whose selling price is well below its cost, provision for inventory impairment is made for the excess of its cost and net realisable value. For finished goods and bulk raw material, inventory impairment provision is provided at the difference of cost of individual item of inventory exceeding its net realizable value. For inventories with tremendous number and relatively low unit price, provision is determined according to the type of inventory.

Net realisable value of finished goods, work in process or held-for-sale raw materials are determined by their estimated selling price less estimated selling expenses and related taxes. Net realisable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

9. Long-term equity investments

Long-term equity investments mainly include the equity investments in the invested company over which the Group has control, joint control or significant influence and entity over which the Group does not have control, joint control nor significant influence and do not have quoted prices in active market and its fair value cannot be reliably measured.

Joint control represents a contractual agreed common control over an economic activity. Joint control exists when any party does not have unilateral power to control the operating activities, and the decisions making relating to the operating activities of the jointly controlled entity require unanimous consent of the parties.

Significant influence exists when a party has the power to influence the decision making of the invested company's financial and operating policies, but is not able to have control or have joint control with other parties over the formulation of these policies. Significant influence exists when the Group directly or indirectly (through its subsidiary) owns 20% (inclusive) or more but less than 50% of shares with voting rights in the invested company. Significant influence cannot be established where there is explicit evidence indicating that the Group is unable to participate in the decision-making of the operating policy in the invested company.

The investment cost for long-term equity investment acquired through a business combination under common control is the carrying value of the share of equity in the absorbing company at the date of combination. The combination cost for long-term equity investment acquired through business combination not under common control is the fair value as at date of combination (acquisition) of the assets given, liabilities incurred or assumed and equity securities issued for the control of the party being absorbed (acquired) at the date of combination (acquisition).

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment, the investment cost is based on the actual amount of cash paid for the acquisition. For long-term equity investment acquired by issuing equity securities, the investment cost is the fair value of the equity securities issued. For long-term equity investment invested by the investor, the investment cost is the agreed consideration as specified in the contract or agreement. For long-term equity investment acquired through transactions such as debts restructuring and exchange of non-monetary assets, the investment cost is determined according to the relevant accounting standards.

Investments in subsidiaries are accounted for by the Group using cost method and adjusted for using equity method during the preparation of consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using equity method. Long-term equity investments are accounted for using cost method where the Group does not have control, joint control or significant influence over the invested company and there are no quoted prices in active market and the fair value of the invested company cannot be reliably measured. Long-term equity investments are accounted for as available-for-sale financial assets where the Group does not have control, joint control or significant influence over the invested company but there are quoted prices in active market and the fair value of the invested company can be reliably measured.

Under the cost method, long-term equity investments are measured at its investment cost, and its cost is adjusted by the amount of additional investment or the amount recovered. Under the equity method, investment gain or loss for the current period represents the Group's share of the net profits or losses made by the invested company for the current period. The share of the net profits or losses of the invested company is recognised based on the fair value of each of the identifiable assets of the invested company at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group and the gain or loss on transactions entered into between the Company and its associates and jointly controlled entities is eliminated for those attributable to the Company based on its share in the invested company. If long-term equity investments in associates and jointly controlled entities is held prior to the date on which investment is made at the first time, the debit balances in the investment-related equity investment shall be recognised as investment gain or loss after deducting the debit balance amortised over the original remaining period of the equity investment on straight-line basis.

The long-term equity investment will be accounted for by using cost method where the Group reduces the investment in the invested company so that the Company no longer has common control or significant influence over the invested company and there are no quoted prices in active market and fair value of the invested company cannot be reliably measured; or where the Company has control over the invested company due to the reasons such as making additional investment in the invested company; the long-term investment will be accounted for by using equity method where the Company has common control or significant influence over the invested company due to such reasons as making additional investment in the invested company or where the Company no longer has control but remain to have joint control or significant influence over the invested company due to reasons such as disposal of the investment.

On disposal of long-term equity investments, the difference between the carrying value of a long-term equity investments and the actual consideration received is recognised as investment income for the current period. For long-term equity investments accounted for using equity method, the movements of owner's equity, other than the net profit or loss, of the invested company, previously recorded in the owner's equity will be transferred and expensed as investment income for the current period on disposal.

10. Fixed assets

Fixed assets of the Group are tangible assets with unit value of more than RMB2000 that are held for the purpose of producing goods, rendering services, leasing or operation and management, and have a useful life of more than one year.

Fixed assets consist of buildings, plant and machinery, transportation facilities, office and electronic equipments. The cost for fixed asset is measured at cost at the time when it is acquired. The cost of fixed asset purchased from outsiders includes purchase prices, import tax and other related taxes and other expenses incurred to bring the assets to the condition of intended use. The cost of fixed asset constructed by the Group includes the required expenses incurred to bring the assets to the condition of intended use. The fixed asset acquired by an investor is measured at the agreed considerations as specified in the investment contracts or agreements, or the fair value where the agreed consideration as specified in the contracts or agreements is not justified. The fixed asset acquired under a finance lease is measured at the lower of its fair value and the present value of the minimum lease payment at the date of inception of the lease.

Subsequent expenditures incurred for a fixed asset, such as maintenance expenses and renovation and improvement expenses, are included in the cost of fixed asset when they meet the recognition criteria of a fixed asset, and the carrying amount of the replaced parts is derecognised. The subsequent expenditures incurred for a fixed asset are recognised in profit or loss for the current period in which they are incurred when they do not meet the criteria of a fixed asset.

Depreciation is provided for all fixed assets, except for the fixed assets that are fully depreciated and remain in use as well as the lands that are separately recorded. Fixed assets are depreciated using the straight-line method to measure the cost or expenses of the assets for the current period based on the usage of the assets. The useful lives, estimated residual rates and depreciation rate of each type of the fixed asset of the Group are as follows:

No.	Classes	Useful lives (years)	Estimated residual value rate (%)	Annual depreciation (%)
1	Buildings	20-40	5	2.38-4.75
2	Plant and Machinery	10	5	9.50
3	Transportation facilities	5	5	19.00
4	Office and electronic equipments	5	5	19.00

The Group re-assesses the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

A fixed asset is derecognised on disposal or it is expected that there shall be no economic benefit arising from using or after disposal. Where the fixed assets are sold, transferred, retired or damaged, the income received after disposal after deducting the carrying amount and related taxes are recognised in profit or loss for the current period.

11. Construction in progress

Cost of construction in progress is measured at the expenditure actually incurred for the construction. Cost of self-operating construction is recorded at such cost as direct materials, direct wages, and direct construction expenditures. Cost of sub-contracting construction is recorded at the amount of construction cost payable. Cost of equipment installation work is measured at such cost as cost of the equipment being installed, installation cost, and test running cost. Cost of construction in progress also includes capitalized borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets or intangible assets when the assets are ready for their intended use at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation or amortization is provided for from the next month of the transfer. The cost of the asset will be adjusted when the construction finalization procedures are completed.

12. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, is commenced when expenditures for the asset are being incurred; borrowing costs are being incurred; and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those

funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above that amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

Assets eligible for capitalization represent the fixed assets, investment property and inventories, etc, which shall take a long time (generally over one year) for acquisition, construction or production to be ready for its intended uses or sales.

When an asset eligible for capitalization is interrupted abnormally and the suspending period lasts more than 3 months during acquisition, construction or production, the capitalisation of borrowing costs shall be suspended until the acquisition, construction or production of such assets resume.

13. Intangible assets

Intangible assets of the Group, including land use rights and software, are recognised at actual cost at the time of acquisition. The actual cost of the purchased intangible assets is measured at the actual payment and other related expenses. The actual cost of intangible asset acquired by an investor is measured at the agreed considerations as specified in the investment contracts or agreements. In case where the agreed consideration of the contracts or agreements is not justified, the assets are measured at fair value.

Land-use rights are amortised over lease terms from the date of purchase. Patents, non-patented technologies and other intangible assets are evenly amortised over the shortest of their estimated useful lives, contractual beneficial period and useful life specified in the law. Amortisation amount is included in the cost of related assets and profit or loss for the current period based on the beneficiary of the assets.

The estimated useful lives and amortization method of intangible assets with finite useful lives are re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates. The estimated useful lives of intangible assets with indefinite infinite useful lives are reviewed in each accounting period. Where there is objective evidence to prove that the useful life of an intangible asset is finite, the Company shall estimate the useful life and amortise that intangible asset over its estimated useful life.

14. Research and development expenditure

Research and development expenditure of the Group is classified into expenditure on the research phase and expenditure on the development phase according to the nature of expenditures and uncertainty of the final achievement. Expenditure on the research phase is expensed in the period as incurred. Expenditure on the development phase is recognised as an intangible asset only when all of the following conditions are satisfied:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) the products produced using the intangible asset has a market or there is market for the intangible asset itself;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenditures on the development phase not meeting the above recognition conditions are expensed in the period as incurred. Expenditure expensed in prior periods will not be recognised as an asset in subsequent periods. Capitalised expenditure on the research phase are stated in the balance sheet as 'Development Expenditure' and transfer to as Intangible assets when it gets ready for their intended use.

15. Impairment of long-term non-financial assets

As at each balance sheet date, the Group assesses whether there is any indication indicating that the long-term equity investments, fixed assets, construction in progress and intangible assets with definite useful lives may be impaired. If there is any indication indicating that an asset may be impaired, the asset will be tested for impairment. Goodwill and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication indicating that the asset may be impaired. When it is impossible to make the impairment test on the recoverable amount of an individual asset, the impairment test should be made on the basis of the corresponding assets group or the portfolio to which such assets belongs.

After the test of impairment, if the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss. Once an impairment loss on the assets is recognised, it will not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher of the net of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators of impairment are as follows:

- (1) The current market price of an asset declines substantially, exceeding obviously the expected decline caused by time changes or normal application;
- (2) There are significant changes in the economic, technical or legal environment in which the enterprise operates and in the market where the asset is located in the current period or near future, resulting in adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other market investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of the asset estimated future cash flow which results in a substantial decline in the recoverable amount of the assets;
- (4) There is evidence to demonstrate that the asset has already gone obsolete or its entity has already been damaged;
- (5) The asset has already been or will be left idle, ceased to be used, or planned to be disposed in advance;
- (6) There is evidence from the internal reports demonstrating that the economic returns of asset, such as the net cash flows generated by asset or operating profit (or loss) realised by asset, are much lowered (higher) than that as expected;
- (7) Any other indicator indicates that the value of an asset may have already been impaired.

16. Long-term prepaid expenses

Long-term prepaid expenses of the Group are expenditures that have been incurred but shall be undertaken in more than 1 year of amortization period (not including 1 year) of the current and future periods. They are amortized evenly over the estimated beneficial period. If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the period.

17. Employee Remuneration

The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and allocates it to related cost of assets and expenses based on the beneficiaries of the services. Compensation for termination of employment with any employee is recognised in the profit or loss for the period.

Employee remuneration includes salaries, bonus, allowances and subsidies, staff benefits, social security insurance, housing fund, union fund and staff education fund and expenditure incurred in connection with the services rendered by employees.

When the Group terminates the employment with an employee before the expiry of the employment contract or provides compensation for acceptance of voluntary redundancy, if the Group has developed a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group is not allowed to unilaterally withdraw the termination plan or the redundancy offer, the estimated liability for compensation arising from the termination of employment with employees should be charged to the profit or loss for the current period.

18. Estimated liabilities

Estimated liabilities are recognised for an obligation related to a contingency, such as guarantee given to external parties, discounted bills and notes, pending litigation or arbitration, product quality warranty, as a liability when all of the following conditions are satisfied: the obligation is a present obligation to the Group; it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and the amount of the obligation can be measured reliably.

Estimated liabilities are measured at the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. Where the impact of time value of money is material, the best estimate shall be determined through discounting the relevant future cash flows. The carrying amounts of estimated liabilities are reviewed at each balance sheet date. If there are any changes, the carrying amount will be adjusted to reflect the current best estimate.

19. Principles of revenue recognition

The business revenues of the Group are generated mainly from sales of goods and rendering of services. The principles of revenue recognition are as follows:

- (1) Revenues from sales of goods are recognised when the major risks and rewards in the ownership of commodities has been transferred to the buyer; when the Group no longer exercises continuing management generally related to the ownership and no longer has effective control over the commodities sold; when the amount of revenue can be reliably measured; when it is very likely that the economic benefits will be flowed to the Company; and when the related costs has incurred or will be incurred can be reliably measured.
- (2) Revenue from rendering of services is recognised when total revenue and total costs of the services can be measure reliably and the associated economic benefits are probably flow to the Group. When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue is recognised using the percentage of completion method in which the percentage shall be determined by measurement of the completed works or the proportion of services rendered to date over the total contracted services. Where the results of the service rendering transaction cannot be reliably estimated but the labour cost incurred is expected to be compensated, the revenue shall be recognised at the amount of such labour cost which is expected to be compensated and the incurred labour costs shall be carried forward; Where the results of the service rendering transaction cannot be reliably estimated and all costs incurred are not expected to be compensated, the costs incurred are recorded in profit or loss for the current period and no revenue will be recognised.

20. Government grants

A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant. If a government grant is in the form of a monetary asset, it is measured at the actually amount received. For a fixed quota for the allocation of the grant, it is measured at the amount receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If fair value can not be reliably obtained, it is measured at its nominal amount (RMB1).

The government grant pertinent to assets is recognized as deferred revenue, and equally accounted into the current profit and loss over its useful life. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised directly in profit or loss for the current period.

21. Deferred income tax assets and deferred income tax liabilities

The deferred income tax assets and deferred income tax liabilities of the Group are recognised based on the differences between the tax bases of assets and liabilities and their respective book values (temporary differences). For deductible tax losses or tax credit that can be brought forward in accordance with tax law for deduction of taxable income in subsequent years, it is considered as temporary differences and related deferred income tax assets are recognised. On the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rates that are expected to apply to the period in which the assets are realised or liability is settled.

The deferred income tax assets arising from the deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to the Group to offset such deductible temporary difference. If it is anticipated that no future taxable profits will be available to offset the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount so reduced will be reversed.

22. Accounting for income tax

Income tax is accounted by using the balance sheet liability method. Income tax expenses represent the sum of current income tax and deferred income tax. Current income tax and deferred income tax in connection with the transactions and matters that are directly recorded in shareholders' equity are dealt with in shareholders' equity. Deferred income tax arising from business combination is adjusted to the carrying value of goodwill. Expenses or income of all other current income tax and deferred income tax are recognised in the profit or loss for the period.

The current income tax payable is the amount of tax payable to taxation authority by the enterprises 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 income tax assets and deferred income tax liabilities that should be recognised using the balance sheet liabilities method at the end of the period and their balances originally recognised.

23. Business combination

Business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Group recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. The combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

Assets and liabilities that are obtained through a business combination for entities under common control are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserves. Any excess over capital reserves is adjusted against retained earnings.

For a business combination for entities not under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the Group in exchange for control of the acquiree. Where the cost of combination exceeds the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

24. Preparation of consolidated financial statements

(1) Determination of the scope of consolidation

The scope of consolidated financial statements of the Group covers subsidiaries and special purpose entities in which the Group has actual control.

(2) Accounting method adopted in consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements and the relevant requirements. On consolidation, all the significant intra-group transactions and balances are eliminated. The shareholders' equity of the subsidiaries not attributable to the parent company is separately presented as minority interests under shareholders' equity in the consolidated financial statements.

When there is any inconsistency on the accounting policies or accounting period adopted between subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or accounting period adopted by the Company when preparing the consolidated financial statement.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries at the original carrying value from the beginning of the year presented as if the business combinations had occurred at the beginning of the year the combination took place.

V. TAX

1. Enterprise Income Tax ("EIT")

The Company is subject to EIT at an applicable rate of 15%.

On 18 December 2008, the Company obtained the Certificate of High and New Technology Enterprise with No. GR200811000213 jointly issued by the Beijing Science and Technology Committee, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau, which has a validity period of 3 years. The Company was subject to EIT at a rate of 15% from 2008 to 2010.

On 28 October 2011, the Company obtained the Certificate of High and New Technology Enterprise with No. GF201111001877 jointly issued by the Beijing Science and Technology Committee, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau, which has a validity period of 3 years. The Company was subject to EIT at a rate of 15% from 2011 to 2013.

Beijing Jingcheng Tianyi Environment Technology Co., Ltd., a subsidiary of the Company, is subject to EIT at a rate of 25%.

2. Value added tax (“VAT”)

The VAT is applicable to the income arising from sales of goods, in which the rate of output tax for the goods for domestic market is 17%.

The input VAT paid on purchase of raw materials can be used to offset the output VAT on sales, and its applicable tax rate is 17%. VAT refund can be applied for the input tax paid for exporting products.

The amount of VAT payable is the balance of VAT on sales less the input VAT for the current period.

3. Business tax

The Group is subject to the business tax at the applicable rate of 5% on its lease income.

4. Urban maintenance & construction tax and education surcharge

The urban maintenance and construction tax and education surcharge both are based on the amounts of VAT and business tax payable, and shall be paid at the applicable rate of 7% and 3% respectively. Local education surcharge were levied starting from 1 January 2012, the applicable rate of which was 2%.

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiary

Name of company	Type of company	Place of Registration	Business Nature	Registered Capital	Business Scope	Investment Amount at the end of the period	Balances of other items which substantively constitute net investment on subsidiary	Shareholding (%)	Voting Right (%)	Consolidated (Yes/No)
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	Limited liability company	Beijing City	Refuse disposal	RMB50 million	Development of environmental protection technologies, wholesale of special equipments, specialized contracting, general construction contractor, investment management and technical consultation	RMB40 million	0.00	80.00	80.00	Yes

Balances after writing off losses for the current period/year shared by minority shareholders of a subsidiary in the Parent's equity which are over the shares those shareholders entitled to within the owner's equity of such subsidiary at the beginning of the period/year

Amount used for writing off profit or loss in minority interest

Name of company	Minority Interest			Amount used for writing off profit or loss in minority interest			Balances after writing off losses for the current period/year shared by minority shareholders of a subsidiary in the Parent's equity which are over the shares those shareholders entitled to within the owner's equity of such subsidiary at the beginning of the period/year		
	31 July 2012	31 December 2011	31 December 2010	31 July 2012	31 December 2011	31 December 2010	31 July 2012	31 December 2011	31 December 2010
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	9,819,852.54	5,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(2) Changes in the consolidation scope of consolidated financial statements during the reporting period

I. Details of subsidiaries newly included in the consolidation scope in 2011

Name of company	Reason for newly inclusion in the consolidation scope	Shareholding (%)	31 December 2011	
			Total assets	Total liabilities
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	a newly established subsidiary	80.00	25,000,000.00	0.00
			Net assets	Net profit
			25,000,000.00	0.00

VII. EXPLANATORY NOTES TO MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Monetary fund

Item	31 July 2012			31 December 2011		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash on hand	–	–	30,179.74	–	–	9,305.39
RMB	30,179.74	1.0000	30,179.74	9,305.39	1.0000	9,305.39
Bank deposits	–	–	55,378,370.05	–	–	42,307,305.88
RMB	55,378,370.05	1.0000	55,378,370.05	42,307,305.88	1.0000	42,307,305.88
Other currency fund	–	–	0.00	–	–	0.00
Total	–	–	55,408,549.79	–	–	42,316,611.27

Item	31 July 2010			31 December 2009		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash on hand	–	–	9,964.57	–	–	54,069.00
RMB	9,964.57	1.0000	9,964.57	54,069.00	1.0000	54,069.00
Bank deposits	–	–	21,605,743.56	–	–	9,162,641.76
RMB	21,605,743.56	1.0000	21,605,743.56	9,162,641.76	1.0000	9,162,641.76
Other currency fund	5,000,000.00	1.0000	5,000,000.00	10,000,000.00	1.0000	10,000,000.00
Total	–	–	26,615,708.13	–	–	19,216,710.76

Other currency fund represents the investment and wealth management products purchased.

2. Financial assets held for trading

(1) Category of financial assets held for trading

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Wealth management products	27,000,000.00	0.00	0.00	0.00
Total	27,000,000.00	0.00	0.00	0.00

(2) Details of financial assets held for trading

Item	Amount	Type of products
Bank of China Fund of Funds Wealth Management Plan	19,000,000.00	non-capital preservation and floating income
Bank of Beijing M011205011	8,000,000.00	non-capital preservation and floating income
Total	27,000,000.00	–

3. Notes receivable

(1) Category

Category	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Bank acceptance notes	11,375,697.79	5,258,061.28	5,130,921.80	7,203,720.00
Total	<u>11,375,697.79</u>	<u>5,258,061.28</u>	<u>5,130,921.80</u>	<u>7,203,720.00</u>

(2) As at 31 July 2012, none of the notes receivable of the Group was used in any pledge.

(3) As at 31 July 2012, the top five notes receivable that were endorsed to other parties by the Group for payments and yet to mature were as follows:

Category	Issuing Company	Issuing date	Maturity date	Amount
Bank acceptance notes	China Petroleum & Chemical Corporation Zhongyuan Oilfield Branch Company	2012-3-26	2012-9-26	1,070,000.00
Bank acceptance notes	Xinjiang Daqo New Energy Co., Ltd	2012-2-16	2012-8-16	579,700.00
Bank acceptance notes	Hebei Xiangguang Silicon Industry Technology Co., Ltd. (河北邢礦硅業科技有限公司)	2012-2-21	2012-8-21	500,000.00
Bank acceptance notes	Shandong Xingkai Petroleum Co., Ltd. (山東勝凱石化有限公司)	2012-2-23	2012-8-23	500,000.00
Bank acceptance notes	Shandong Yuanda Trading Co., Ltd. (山東源大工貿有限公司)	2012-6-12	2012-12-12	500,000.00
Total	—	—	—	<u>3,149,700.00</u>

4. Accounts receivable

(1) Classification of accounts receivable by risks

Item	31 July 2012				31 December 2011			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	—	—	—	—	—	—	—	—
Aging group	41,035,578.25	100.00	11,393,674.66	100.00	44,193,206.64	100.00	10,148,151.98	100.00
Sub-total	41,035,578.25	100.00	11,393,674.66	100.00	44,193,206.64	100.00	10,148,151.98	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	<u>41,035,578.25</u>	<u>100.00</u>	<u>11,393,674.66</u>	<u>100.00</u>	<u>44,193,206.64</u>	<u>100.00</u>	<u>10,148,151.98</u>	<u>100.00</u>

Item	31 December 2010				31 December 2009			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	-	-	-	-	-	-	-	-
Aging group	42,871,325.88	100.00	11,915,870.76	100.00	48,047,477.95	100.00	18,210,291.26	100.00
Sub-total	42,871,325.88	100.00	11,915,870.76	100.00	48,047,477.95	100.00	18,210,291.26	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	42,871,325.88	100.00	11,915,870.76	100.00	48,047,477.95	100.00	18,210,291.26	100.00

1) Details of accounts receivable that are provided for bad debts based on ageing analysis:

Item	31 July 2012			31 December 2011		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	21,932,692.03	0.00	0.00	26,314,517.99	0.00	0.00
1-2 years	9,224,213.37	30.00	2,767,264.01	9,205,449.30	30.00	2,761,634.79
2-3 years	3,130,655.50	60.00	1,878,393.30	3,216,805.39	60.00	1,930,083.23
3-4 years	2,064,280.39	100.00	2,064,280.39	228.00	100.00	228.00
4-5 years	1,265,918.20	100.00	1,265,918.20	1,480,449.20	100.00	1,480,449.20
Over 5 years	3,417,818.76	100.00	3,417,818.76	3,975,756.76	100.00	3,975,756.76
Total	41,035,578.25	-	11,393,674.66	44,193,206.64	-	10,148,151.98

Item	31 December 2010			31 December 2009		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	20,583,864.60	0.00	0.00	26,191,924.45	0.00	0.00
1-2 years	14,794,713.32	30.00	4,438,414.00	1,247,028.00	30.00	374,108.40
2-3 years	38,228.00	60.00	22,936.80	6,930,856.60	60.00	4,158,513.96
3-4 years	2,231,601.20	100.00	2,231,601.20	647,707.69	100.00	647,707.69
4-5 years	332,084.00	100.00	332,084.00	5,506,000.00	100.00	5,506,000.00
Over 5 years	4,890,834.76	100.00	4,890,834.76	7,523,961.21	100.00	7,523,961.21
Total	42,871,325.88	-	11,915,870.76	48,047,477.95	-	18,210,291.26

- (2) There were no accounts receivable from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

(3) Details of the top five accounts receivable as at 31 July 2012

Name of company	Relationship with the Company	Amount	Age	Proportion to total accounts receivable (%)
Shaanxi Tianhong Silicon Material Co., Ltd.	Not related party	6,128,800.00	Within 1 year	14.94
ORISI Silicon Co.,Ltd.	Not related party	1,957,984.00	Within 1 year	4.77
Henan Kaixiang Fine Chemicals Co., Ltd. (河南開祥精細化工有限公司)	Not related party	1,469,277.75	Within 1 year	3.58
Zhenjiang Jiangnan Chemicals Co., Ltd. (鎮江江南化工有限公司)	Not related party	1,440,000.00	Within 1 year	3.51
Xinjiang Daqo New Energy Co.,Ltd	Not related party	1,431,060.00	Within 1 year	3.49
Total		<u>12,427,121.75</u>		<u>30.29</u>

(4) For details of the receivables due from related parties, please refer to Note VIII (3) Current Accounts Balances with Related Parties.

5. Prepayments

(1) The ageing analysis of prepayments

Item	31 July 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	10,030,621.11	88.39	10,377,759.46	93.39
1-2 years	1,080,516.46	9.52	236,338.20	2.13
2-3 years	14,401.95	0.13	15,684.00	0.14
Over 3 years	<u>221,935.42</u>	<u>1.96</u>	<u>482,184.93</u>	<u>4.34</u>
Total	<u>11,347,474.94</u>	<u>100.00</u>	<u>11,111,966.59</u>	<u>100.00</u>

Item	31 December 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	5,229,165.53	83.80	3,785,684.09	80.54
1-2 year	448,298.30	7.18	102,360.00	2.18
2-3 year	66,000.00	1.06	172,690.00	3.67
Over 3 years	<u>496,781.43</u>	<u>7.96</u>	<u>639,891.43</u>	<u>13.61</u>
Total	<u>6,240,245.26</u>	<u>100.00</u>	<u>4,700,625.52</u>	<u>100.00</u>

(2) Details of the main units of prepayments as at 31 July 2012

	Relationship with the Company	Amount	Age	Reason for not settlement
Nantong Tianyi Environmental Protection Energy Equipment Co., Ltd.	Not related party	4,836,000.00	Within 1 year	yet to be completed
Shenyang Kejin Special Material Co., Ltd.	Not related party	906,640.00	Within 1 year	yet to be completed
Beijing Yitong General Mechanics Co. Ltd., Gas Compressor Plant	Not related party	809,123.69	Within 1 year	yet to be completed
Anshan Boiler Factory Co., Ltd	Not related party	543,000.00	Within 1 year	yet to be completed
Gaobeidian General Environmental Ventilation Equipment Co., Ltd. (高碑店通 環保通風設備有限公司)	Not related party	408,410.00	Within 1 year	yet to be completed
Total		<u>7,503,173.69</u>		

(3) There were no prepayments from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

6. Interest receivables

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Interest from fixed deposits	<u>28,416.67</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>28,416.67</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

7. Other receivables

(1) Classification of other receivables by risks

Item	31 July 2012				31 December 2011			
	Book balance Amount	Provision for bad debts Percentage (%)	Book balance Amount	Provision for bad debts Percentage (%)	Book balance Amount	Provision for bad debts Percentage (%)	Book balance Amount	Provision for bad debts Percentage (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables with bad debt provision made on group basis	-	-	-	-	-	-	-	-
Aging group	5,084,984.67	100.00	255,676.24	100.00	2,313,751.72	100.00	161,303.00	100.00
Sub-total	5,084,984.67	100.00	255,676.24	100.00	2,313,751.72	100.00	161,303.00	100.00
Other receivables that are individually insignificant but are individually provided for bad debts	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>5,084,984.67</u>	<u>100.00</u>	<u>255,676.24</u>	<u>100.00</u>	<u>2,313,751.72</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>

(continued)

Item	31 December 2010				31 December 2009			
	Book balance	Provision for bad debts		Percentage	Book balance	Provision for bad debts		Percentage
	Amount	Percentage	Amount		Amount	Percentage	Amount	
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables with bad debt provision made on group basis	-	-	-	-	-	-	-	-
Aging group	2,590,783.59	100.00	94,560.00	100.00	1,899,875.78	100.00	104,720.93	100.00
Sub-total	2,590,783.59	100.00	94,560.00	100.00	1,899,875.78	100.00	104,720.93	100.00
Other receivables that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	2,590,783.59	100.00	94,560.00	100.00	1,899,875.78	100.00	104,720.93	100.00

1) Details of other receivables that are provided for bad debts based on ageing analysis

Item	31 July 2012			31 December 2011		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
	Amount	(%)		Amount	(%)	
Within 1 year	4,469,297.22	0.00	0.00	1,889,741.72	0.00	0.00
1-2 years	409,787.45	30.00	122,936.24	341,010.00	30.00	102,303.00
2-3 years	182,900.00	60.00	109,740.00	60,000.00	60.00	36,000.00
3-4 years	0.00	100.00	0.00	23,000.00	100.00	23,000.00
4-5 years	23,000.00	100.00	23,000.00	0.00	100.00	0.00
Over 5 years	0.00	100.00	0.00	0.00	100.00	0.00
Total	5,084,984.67	-	255,676.24	2,313,751.72	-	161,303.00

(continued)

Item	31 December 2010			31 December 2009		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
	Amount	(%)		Amount	(%)	
Within 1 year	2,328,183.59	0.00	0.00	1,550,806.00	0.00	0.00
1-2 years	210,000.00	30.00	63,000.00	349,069.78	30.00	104,720.93
2-3 years	52,600.00	60.00	31,560.00	0.00	60.00	0.00
3-4 years	0.00	100.00	0.00	0.00	100.00	0.00
4-5 years	0.00	100.00	0.00	0.00	100.00	0.00
Over 5 years	0.00	100.00	0.00	0.00	100.00	0.00
Total	2,590,783.59	-	94,560.00	1,899,875.78	-	104,720.93

(2) Amounts due to the shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

Name of company	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Jingcheng Holdings	1,234,466.67	0.00	0.00	0.00
Total	1,234,466.67	0.00	0.00	0.00

(3) Details of the top five other receivables as at 31 July 2012

Name of company	Relationship with the Company	Amount	Age	Proportion to total other receivables (%)	Nature or content
Jingcheng Holding	Controlling shareholders	1,234,466.67	Within 1 year	24.28	Advance for interest
Qinghai Yanhu Magnesium Industry Co., Ltd. (青海鹽湖鎂業有限公司)	Non-related party	960,000.00	Within 1 year	18.88	Performance Bond
Goudian Longyuan Power Technology and Engineering Co., Ltd.	Non-related party	450,000.00	Within 1 year	8.85	Bid bond
Shanxi Hengyu Bidding Agency Co., Ltd.	Non-related party	300,000.00	Within 1 year	5.90	Technical service fee
China Nuclear Power Engineering Co., Ltd	Non-related party	170,000.00	Within 3 years	3.34	Bid bond
Total	–	<u>3,114,466.67</u>	–	<u>61.25</u>	–

8. Inventories

(1) Categories of inventories

Item	31 July 2012			31 December 2011		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	29,095,845.65	2,249,607.01	26,846,238.64	32,983,163.57	2,249,607.01	30,733,556.56
Cost of production	6,731,470.54	8,683.08	6,722,787.46	5,444,380.50	27,086.72	5,417,293.78
Finished goods	<u>68,692,930.57</u>	<u>184,665.71</u>	<u>68,508,264.86</u>	<u>48,238,747.60</u>	<u>420,790.10</u>	<u>47,817,957.50</u>
Total	<u>104,520,246.76</u>	<u>2,442,955.80</u>	<u>102,077,290.96</u>	<u>86,666,291.67</u>	<u>2,697,483.83</u>	<u>83,968,807.84</u>

(continued)

Item	31 December 2010			31 December 2009		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	30,859,674.13	2,249,607.01	28,610,067.12	23,392,994.79	1,686,191.50	21,706,803.29
Cost of production	6,808,450.25	27,086.72	6,781,363.53	3,733,599.36	232,258.00	3,501,341.36
Finished goods	<u>30,805,233.60</u>	<u>547,132.26</u>	<u>30,258,101.34</u>	<u>35,198,365.64</u>	<u>709,661.59</u>	<u>34,488,704.05</u>
Total	<u>68,473,357.98</u>	<u>2,823,825.99</u>	<u>65,649,531.99</u>	<u>62,324,959.79</u>	<u>2,628,111.09</u>	<u>59,696,848.70</u>

The decrease of provision for impairment for inventories during the current period was due to realisation of sales of the same for which the impairment was provided.

9. Long-term equity investments

(1) Categories of long-term equity investments

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Long-term equity investments accounted for using equity method	72,303,855.86	63,697,926.09	53,852,351.79	46,385,025.66
Total long-term equity investments	72,303,855.86	63,697,926.09	53,852,351.79	46,385,025.66
Less: provision for impairment loss	0.00	0.00	0.00	0.00
Net value of long-term equity investments	72,303,855.86	63,697,926.09	53,852,351.79	46,385,025.66

(2) Long-term equity investments accounted for using equity method

Name of the invested company	Shareholding (%)	Voting right (%)	Original amount
Beijing Fusheng Machine Co., Ltd.	30.00	30.00	16,960,563.13
Total	—	—	16,960,563.13

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Beijing Fusheng Machine Co., Ltd.	41,056,902.22	11,648,987.81	6,320,864.37	46,385,025.66
Total	41,056,902.22	11,648,987.81	6,320,864.37	46,385,025.66

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Beijing Fusheng Machine Co., Ltd.	46,385,025.66	14,513,714.77	7,046,388.64	53,852,351.79
Total	46,385,025.66	14,513,714.77	7,046,388.64	53,852,351.79

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Beijing Fusheng Machine Co., Ltd.	53,852,351.79	18,014,940.76	8,169,366.46	63,697,926.09
Total	53,852,351.79	18,014,940.76	8,169,366.46	63,697,926.09

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 December 2012
Beijing Fusheng Machine Co., Ltd.	63,697,926.09	8,605,929.77	0.00	72,303,855.86
Total	63,697,926.09	8,605,929.77	0.00	72,303,855.86

10. Fixed assets

(1) Breakdown of fixed assets

Item	31 December 2008	Increase during the current period	Decrease during the current period	As at 31 December 2009
Original cost	59,572,079.70	428,029.04	1,019,902.25	58,980,206.49
Buildings	25,725,154.97	0.00	0.00	25,725,154.97
Plant and machinery	27,409,492.28	230,854.68	884,815.00	26,755,531.96
Transportation facilities	3,188,156.00	0.00	0.00	3,188,156.00
Office and electronic equipment	3,249,276.45	197,174.36	135,087.25	3,311,363.56
Accumulated depreciation	23,424,929.34	4,626,529.81	903,910.83	27,147,548.32
Buildings	3,420,836.08	974,643.16	0.00	4,395,479.24
Plant and machinery	15,971,475.52	2,955,367.82	776,213.38	18,150,629.96
Transportation facilities	1,637,353.37	407,234.16	0.00	2,044,587.53
Office and electronic equipment	2,395,264.37	289,284.67	127,697.45	2,556,851.59
Provision for impairment loss	0.00	0.00	0.00	0.00
Buildings	0.00	0.00	0.00	0.00
Plant and machinery	0.00	0.00	0.00	0.00
Transportation facilities	0.00	0.00	0.00	0.00
Office and electronic equipment	0.00	0.00	0.00	0.00
Book Value	36,147,150.36	—	—	31,832,658.17
Buildings	22,304,318.89	—	—	21,329,675.73
Plant and machinery	11,438,016.76	—	—	8,604,902.00
Transportation facilities	1,550,802.63	—	—	1,143,568.47
Office and electronic equipment	854,012.08	—	—	754,511.97

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	As at 31 December 2010
Original cost	58,980,206.49	899,574.46	823,023.50	59,056,757.45
Buildings	25,725,154.97	0.00	0.00	25,725,154.97
Plant and machinery	26,755,531.96	187,667.35	62,010.00	26,881,189.31
Transportation facilities	3,188,156.00	488,461.00	466,752.00	3,209,865.00
Office and electronic equipment	3,311,363.56	223,446.11	294,261.50	3,240,548.17
Accumulated depreciation	27,147,548.32	3,062,344.64	611,896.79	29,597,996.17
Buildings	4,395,479.24	974,643.16	0.00	5,370,122.40
Plant and machinery	18,150,629.96	1,417,840.22	58,909.50	19,509,560.68
Transportation facilities	2,044,587.53	410,327.73	273,438.88	2,181,476.38
Office and electronic equipment	2,556,851.59	259,533.53	279,548.41	2,536,836.71
Provision for impairment loss	0.00	0.00	0.00	0.00
Buildings	0.00	0.00	0.00	0.00
Plant and machinery	0.00	0.00	0.00	0.00
Transportation facilities	0.00	0.00	0.00	0.00
Office and electronic equipment	0.00	0.00	0.00	0.00
Book Value	31,832,658.17	—	—	29,458,761.28
Buildings	21,329,675.73	—	—	20,355,032.57
Plant and machinery	8,604,902.00	—	—	7,371,628.63
Transportation facilities	1,143,568.47	—	—	1,028,388.62
Office and electronic equipment	754,511.97	—	—	703,711.46

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	As at 31 December 2011
Original cost	59,056,757.45	1,260,192.67	804,603.05	59,512,347.07
Buildings	25,725,154.97	55,632.00	0.00	25,780,786.97
Plant and machinery	26,881,189.31	104,760.67	143,254.05	26,842,695.93
Transportation facilities	3,209,865.00	438,760.00	512,132.00	3,136,493.00
Office and electronic equipment	3,240,548.17	661,040.00	149,217.00	3,752,371.17
Accumulated depreciation	29,597,996.17	2,909,085.18	720,512.47	31,786,568.88
Buildings	5,370,122.40	974,642.86	0.00	6,344,765.26
Plant and machinery	19,509,560.68	1,232,478.06	92,230.95	20,649,807.79
Transportation facilities	2,181,476.38	408,399.65	486,525.40	2,103,350.63
Office and electronic equipment	2,536,836.71	293,564.61	141,756.12	2,688,645.20
Provision for impairment loss	0.00	0.00	0.00	0.00
Buildings	0.00	0.00	0.00	0.00
Plant and machinery	0.00	0.00	0.00	0.00
Transportation facilities	0.00	0.00	0.00	0.00
Office and electronic equipment	0.00	0.00	0.00	0.00
Book Value	29,458,761.28	–	–	27,725,778.19
Buildings	20,355,032.57	–	–	19,436,021.71
Plant and machinery	7,371,628.63	–	–	6,192,888.14
Transportation facilities	1,028,388.62	–	–	1,033,142.37
Office and electronic equipment	703,711.46	–	–	1,063,725.97

(continued)

Item	As at 31 December 2011	Increase during the current period	Decrease during the current period	As at 31 July 2012
Original cost	59,512,347.07	955,483.31	1,769,386.18	58,698,444.20
Buildings	25,780,786.97	0.00	1,297,519.68	24,483,267.29
Plant and machinery	26,842,695.93	150,018.49	152,080.00	26,840,634.42
Transportation facilities	3,136,493.00	501,052.00	208,288.00	3,429,257.00
Office and electronic equipment	3,752,371.17	304,412.82	111,498.50	3,945,285.49
Accumulated depreciation	31,786,568.88	1,667,901.63	646,953.24	32,807,517.27
Buildings	6,344,765.26	567,669.63	221,613.77	6,690,821.12
Plant and machinery	20,649,807.79	718,966.30	124,835.07	21,243,939.02
Transportation facilities	2,103,350.63	231,864.60	194,580.84	2,140,634.39
Office and electronic equipment	2,688,645.20	149,401.10	105,923.56	2,732,122.74
Provision for impairment loss	0.00	0.00	0.00	0.00
Buildings	0.00	0.00	0.00	0.00
Plant and machinery	0.00	0.00	0.00	0.00
Transportation facilities	0.00	0.00	0.00	0.00
Office and electronic equipment	0.00	0.00	0.00	0.00
Book Value	27,725,778.19	–	–	25,890,926.93
Buildings	19,436,021.71	–	–	17,792,446.17
Plant and machinery	6,192,888.14	–	–	5,596,695.40
Transportation facilities	1,033,142.37	–	–	1,288,622.61
Office and electronic equipment	1,063,725.97	–	–	1,213,162.75

- (2) (The increases of fixed assets during the current period were wholly purchased assets). The increases of accumulated depreciation during the current period were wholly the depreciation provided for the same period.
- (3) As at 31 July 2012, for 5 properties consisting of the assembly shop located in the base of our Company with the original costs of RMB14,033,443.42, accumulated depreciation of RMB2,206,143.59 and net book value of RMB11,827,299.83, their property rights certificates have yet to be obtained.

11. Construction in progress

(1) Breakdown of construction in progress

Item	31 July 2012			31 December 2011		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Capacity expansion of production base project	844,400.00	0.00	844,400.00	188,000.00	0.00	188,000.00
Total	844,400.00	0.00	844,400.00	188,000.00	0.00	188,000.00

(continued)

Item	31 December 2010			31 December 2009		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Capacity expansion of production base project	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00

(2) Movement of significant construction in progress project

Name of project	31 December 2011	Increase during the current period	Decrease during the current period		31 July 2012
			Transfer to fixed assets	Other deductions	
Capacity expansion of production base project	188,000.00	656,400.00	0.00	0.00	844,400.00
Total	188,000.00	656,400.00	0.00	0.00	844,400.00

(continued)

Name of project	Budget amount	Proportion of project investment to budget (%)	Progress	Accumulated capitalised interest	Including: Interest capitalised for the period	Rate of interest capitalisation for the period (%)	Source of funds
Capacity expansion of production base project	61,482,800	1.37	0.00	0.00	0.00	0.00	Self-financed

12. Intangible assets

(1) Intangible assets

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Original cost	11,754,646.54	0.00	0.00	11,754,646.54
Land use rights	11,324,646.54	0.00	0.00	11,324,646.54
Software	430,000.00	0.00	0.00	430,000.00
Accumulated amortisation	1,301,523.92	312,479.94	0.00	1,614,003.86
Land use rights	1,208,357.25	226,479.94	0.00	1,434,837.19
Software	93,166.67	86,000.00	0.00	179,166.67
Net book value	10,453,122.62	0.00	0.00	10,140,642.68
Land use rights	10,116,289.29	0.00	0.00	9,889,809.35
Software	336,833.33	0.00	0.00	250,833.33
Provision for impairment	0.00	0.00	0.00	0.00
Land use rights	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	10,453,122.62	–	–	10,140,642.68
Land use rights	10,116,289.29	–	–	9,889,809.35
Software	336,833.33	–	–	250,833.33

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Original cost	11,754,646.54	0.00	0.00	11,754,646.54
Land use rights	11,324,646.54	0.00	0.00	11,324,646.54
Software	430,000.00	0.00	0.00	430,000.00
Accumulated amortisation	1,614,003.86	312,479.94	0.00	1,926,483.80
Land use rights	1,434,837.19	226,479.94	0.00	1,661,317.13
Software	179,166.67	86,000.00	0.00	265,166.67
Net book value	10,140,642.68	0.00	0.00	9,828,162.74
Land use rights	9,889,809.35	0.00	0.00	9,663,329.41
Software	250,833.33	0.00	0.00	164,833.33
Provision for impairment	0.00	0.00	0.00	0.00
Land use rights	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	10,140,642.68	–	–	9,828,162.74
Land use rights	9,889,809.35	–	–	9,663,329.41
Software	250,833.33	–	–	164,833.33

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Original cost	11,754,646.54	157,200.00	0.00	11,911,846.54
Land use rights	11,324,646.54	0.00	0.00	11,324,646.54
Software	430,000.00	157,200.00	0.00	587,200.00
Accumulated amortisation	1,926,483.80	333,439.94	0.00	2,259,923.74
Land use rights	1,661,317.13	226,479.94	0.00	1,887,797.07
Software	265,166.67	106,960.00	0.00	372,126.67
Net book value	9,828,162.74	0.00	0.00	9,651,922.80
Land use rights	9,663,329.41	0.00	0.00	9,436,849.47
Software	164,833.33	0.00	0.00	215,073.33
Provision for impairment	0.00	0.00	0.00	0.00
Land use rights	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	9,828,162.74	–	–	9,651,922.80
Land use rights	9,663,329.41	–	–	9,436,849.47
Software	164,833.33	–	–	215,073.33

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Original cost	11,911,846.54	0.00	0.00	11,911,846.54
Land use rights	11,324,646.54	0.00	0.00	11,324,646.54
Software	587,200.00	0.00	0.00	587,200.00
Accumulated amortisation	2,259,923.74	200,619.96	0.00	2,460,543.70
Land use rights	1,887,797.07	132,113.27	0.00	2,019,910.34
Software	372,126.67	68,506.69	0.00	440,633.36
Net book value	9,651,922.80	0.00	0.00	9,451,302.84
Land use rights	9,436,849.47	0.00	0.00	9,304,736.20
Software	215,073.33	0.00	0.00	146,566.64
Provision for impairment	0.00	0.00	0.00	0.00
Land use rights	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Book value	9,651,922.80	–	–	9,451,302.84
Land use rights	9,436,849.47	–	–	9,304,736.20
Software	215,073.33	–	–	146,566.64

The increases of accumulated amortisation during the current period were wholly the amortization for the current period.

13. Deferred income tax assets and deferred income tax liabilities

(1) Recognised deferred income tax assets

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Provision for bad debts	1,747,402.64	1,546,418.24	1,801,564.61	2,747,251.83
Provision for impairment for inventories	366,443.37	404,622.58	423,573.90	394,216.67
Receipts in advance	1,657,352.56	1,507,047.03	1,158,773.68	297,027.63
Total	<u>3,771,198.57</u>	<u>3,458,087.85</u>	<u>3,383,912.19</u>	<u>3,438,496.13</u>

(2) Temporary difference

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Provision for bad debts	11,649,350.90	10,309,454.98	12,010,430.76	18,315,012.19
Provision for impairment for inventories	2,442,955.80	2,697,483.83	2,823,825.99	2,628,111.09
Receipts in advance	11,049,017.07	10,046,980.23	7,725,157.89	1,980,184.18
Total	<u>25,141,323.77</u>	<u>23,053,919.04</u>	<u>22,559,414.64</u>	<u>22,923,307.46</u>

14. Breakdown of provision for impairment of assets

Item	31 December 2008	Increase during the current period	Decrease during the current period		31 December 2009
			Reversal	Other transfer out	
Provision for bad debts	14,206,243.12	4,576,873.55	0.00	468,104.48	18,315,012.19
Provision for impairment for inventories	552,929.78	2,075,181.31	0.00	0.00	2,628,111.09
Total	<u>14,759,172.90</u>	<u>6,652,054.86</u>	<u>0.00</u>	<u>468,104.48</u>	<u>20,943,123.28</u>

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period		31 December 2010
			Reversal	Other transfer out	
Provision for bad debts	18,315,012.19	-5,589,181.93	0.00	715,399.50	12,010,430.76
Provision for impairment for inventories	2,628,111.09	195,714.90	0.00	0.00	2,823,825.99
Total	<u>20,943,123.28</u>	<u>-5,393,467.03</u>	<u>0.00</u>	<u>715,399.50</u>	<u>14,834,256.75</u>

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period		31 December 2011
			Reversal	Other transfer out	
Provision for bad debts	12,010,430.76	-1,588,051.78	0.00	112,924.00	10,309,454.98
Provision for impairment for inventories	2,823,825.99	0.00	0.00	126,342.16	2,697,483.83
Total	<u>14,834,256.75</u>	<u>-1,588,051.78</u>	<u>0.00</u>	<u>239,266.16</u>	<u>13,006,938.81</u>

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period		31 July 2012
			Reversal	Other transfer out	
Provision for bad debts	10,309,454.98	1,339,895.92	0.00	0.00	11,649,350.90
Provision for impairment for inventories	2,697,483.83	0.00	0.00	254,528.03	2,442,955.80
Total	13,006,938.81	1,339,895.92	0.00	254,528.03	14,092,306.70

15. Short-term borrowings**(1) Category of short-term borrowings**

Category	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Unsecured loan	0.00	0.00	0.00	20,000,000.00
Guaranteed loan	300,000.00	0.00	0.00	0.00
Total	300,000.00	0.00	0.00	20,000,000.00

For details of guaranteed loan, please refer to Note XIII (2) 4 Guarantee with related parties.

16. Notes payable

Type of note	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Bank acceptance notes	764,000.00	0.00	0.00	1,095,254.20
Total	764,000.00	0.00	0.00	1,095,254.20

17. Accounts payable**(1) Accounts payable**

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Total	23,580,808.13	30,844,040.33	21,358,026.09	16,026,535.58
Of which: over 1 year	3,180,340.86	1,819,682.65	2,066,763.12	2,542,648.89

(2) There were no accounts payable due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

(3) For details of amounts due to related parties, please refer to Note VIII (3) Current Accounts Balances with Related Parties.

18. Receipts in advance

(1) Receipts in advance

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Total	<u>71,964,301.45</u>	<u>54,371,483.45</u>	<u>46,069,520.29</u>	<u>49,228,498.20</u>
Of which: over 1 year	32,447,447.78	8,055,920.00	2,854,750.00	2,171,526.00

(2) There were no receipts in advance due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

(3) For details of receipts in advance from related parties, please refer to Note VIII (3) Current Accounts Balances with Related Parties.

19. Employee emolument payable

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Salaries, bonus, allowance and subsidies	2,653,030.60	14,193,975.63	14,837,277.84	2,009,728.39
Staff welfare	0.00	1,452,510.40	1,452,510.40	0.00
Social insurance charges	0.00	2,880,326.35	2,880,326.35	0.00
In which: Pension insurance	0.00	1,627,176.10	1,627,176.10	0.00
Medical insurance	0.00	1,036,388.09	1,036,388.09	0.00
Unemployment insurance	0.00	84,194.12	84,194.12	0.00
Injury insurance	0.00	70,985.13	70,985.13	0.00
Maternity insurance	0.00	61,582.91	61,582.91	0.00
Housing provident fund	0.00	867,915.00	867,915.00	0.00
Union operation cost and staff education cost	94,719.92	352,311.63	447,031.55	0.00
Non-monetary benefit	0.00	0.00	0.00	0.00
Termination benefits	0.00	18,995.00	18,995.00	0.00
Others	0.00	0.00	0.00	0.00
Total	<u>2,747,750.52</u>	<u>19,766,034.01</u>	<u>20,504,056.14</u>	<u>2,009,728.39</u>

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Salaries, bonus, allowance and subsidies	2,009,728.39	16,066,546.40	15,324,747.39	2,751,527.40
Staff welfare	0.00	1,506,069.54	1,506,069.54	0.00
Social insurance charges	0.00	3,353,297.59	3,353,297.59	0.00
In which: Pension insurance	0.00	1,923,221.56	1,923,221.56	0.00
Medical insurance	0.00	1,196,201.03	1,196,201.03	0.00
Unemployment insurance	0.00	89,226.20	89,226.20	0.00
Injury insurance	0.00	78,728.96	78,728.96	0.00
Maternity insurance	0.00	65,919.84	65,919.84	0.00
Housing provident fund	0.00	970,801.00	970,801.00	0.00
Union operation cost and staff education cost	0.00	675,008.72	675,008.72	0.00
Non-monetary benefit	0.00	0.00	0.00	0.00
Termination benefits	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00
Total	<u>2,009,728.39</u>	<u>22,571,723.25</u>	<u>21,829,924.24</u>	<u>2,751,527.40</u>

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Salaries, bonus, allowance and subsidies	2,751,527.40	16,922,049.33	16,603,172.94	3,070,403.79
Staff welfare	0.00	1,719,702.59	1,719,702.59	0.00
Social insurance charges	0.00	3,656,189.55	3,656,189.55	0.00
In which: Pension insurance	0.00	2,103,697.56	2,103,697.56	0.00
Medical insurance	0.00	1,295,924.94	1,295,924.94	0.00
Unemployment insurance	0.00	102,302.74	102,302.74	0.00
Injury insurance	0.00	85,381.64	85,381.64	0.00
Maternity insurance	0.00	68,882.67	68,882.67	0.00
Housing provident fund	0.00	1,086,685.00	1,086,685.00	0.00
Union operation cost and staff education cost	0.00	448,533.27	448,533.27	0.00
Non-monetary benefit	0.00	0.00	0.00	0.00
Termination benefits	0.00	30,634.02	30,634.02	0.00
Others	0.00	0.00	0.00	0.00
Total	<u>2,751,527.40</u>	<u>23,863,793.76</u>	<u>23,544,917.37</u>	<u>3,070,403.79</u>

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Salaries, bonus, allowance and subsidies	3,070,403.79	7,056,920.37	10,127,324.16	0.00
Staff welfare	0.00	1,039,328.67	1,039,328.67	0.00
Social insurance charges	0.00	2,429,518.91	2,429,518.91	0.00
In which: Pension insurance	0.00	1,332,895.87	1,332,895.87	0.00
Medical insurance	0.00	921,103.14	921,103.14	0.00
Unemployment insurance	0.00	66,443.48	66,443.48	0.00
Injury insurance	0.00	55,439.57	55,439.57	0.00
Maternity insurance	0.00	53,636.85	53,636.85	0.00
Housing provident fund	0.00	681,290.00	681,290.00	0.00
Union operation cost and staff education cost	0.00	262,768.06	262,768.06	0.00
Non-monetary benefit	0.00	0.00	0.00	0.00
Termination benefits	0.00	54,058.50	54,058.50	0.00
Total	<u>3,070,403.79</u>	<u>11,523,884.51</u>	<u>14,594,288.30</u>	<u>0.00</u>

20. Tax payable

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
VAT	-7,246,662.86	-6,308,202.11	-2,496,540.17	-2,389,350.68
Business tax	0.00	0.00	18.00	150.00
EIT	94,956.73	94,956.73	133,874.33	606,237.12
Individual income tax	20,722.07	14,075.25	285,435.70	26,851.96
Urban maintenance and construction tax		1,069.45	155,840.17	48,331.76
Property tax	20,416.54		0.00	0.00
Land use tax	19,689.34		0.00	0.00
Education surcharge		641.67	93,504.11	28,999.06
Total	<u>-7,090,878.18</u>	<u>-6,197,459.01</u>	<u>-1,827,867.86</u>	<u>-1,678,780.78</u>

21. Interest payable

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Interest on borrowings	603,557.68	70,111.11	30,194.44	29,500.00
Total	<u>603,557.68</u>	<u>70,111.11</u>	<u>30,194.44</u>	<u>29,500.00</u>

22. Dividends payable

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Beiren Group	727,500.00	727,500.00	727,500.00	727,500.00
Jingcheng Holding	824,400.00	824,400.00	824,400.00	824,400.00
Total	<u>1,551,900.00</u>	<u>1,551,900.00</u>	<u>1,551,900.00</u>	<u>1,551,900.00</u>

23. Other payables

(1) Other payables

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Total	<u>114,463,622.74</u>	<u>52,287,118.38</u>	<u>33,501,159.38</u>	<u>8,565,562.48</u>
Of which: over 1 year	9,660,577.10	10,223,827.10	7,692,386.10	4,339,557.10

(2) Amounts due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights

Name of company	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Jingcheng Holding	<u>109,000,000.00</u>	<u>48,134,127.78</u>	<u>27,000,000.00</u>	<u>3,000,000.00</u>
Total	<u>109,000,000.00</u>	<u>48,134,127.78</u>	<u>27,000,000.00</u>	<u>3,000,000.00</u>

(3) Other payables in large amount as at 31 July 2012

Item	Balance due	Age	Nature or content
Jingcheng Holding	109,000,000.00	1 to 3 years	Borrowings
Land Resources and Housing Administrative Bureau of Yanqing County	2,407,785.00	Over 3 years	Land grant fee
Industrial Development Service Centre of Kangzhuang Town, Yanqing County	<u>794,825.00</u>	Within 2 years	Heating expense
Total	<u>112,202,610.00</u>	—	—

24. Special payables

Item	31 December 2008	Increase during the current period	Balance carried forward for the current period	31 December 2009
Special funds of the nuclear material special issue	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

(continued)

Item	31 December 2009	Increase during the current period	Balance carried forward for the current period	31 December 2010
Special funds of the nuclear material special issue	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

(continued)

Item	31 December 2010	Increase during the current period	Balance carried forward for the current period	31 December 2011
Special funds of the nuclear material special issue	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

(continued)

Item	31 December 2011	Increase during the current period	Balance carried forward for the current period	31 July 2012
Special funds of the nuclear material special issue	0.00	1,780,000.00	0.00	1,780,000.00
Total	0.00	1,780,000.00	0.00	1,780,000.00

According to the Notice of the central financial funding in the third quarter of 2012 regarding to nuclear material special issue (《關於撥付核電重大專項課題2012年三季度中央財政經費的通知》) issued by National Energy Administration, the Company received RMB1,780,000.00 for the R & D projects in respect of high temperature gas-cooled reactor nuclear power plants helium auxiliary system compressor (高溫氣冷堆核電站氦氣輔助系統壓縮機研發項目) in July 2012.

25. Estimated liabilities

Item	31 December 2008	Increase during the current period	Balance carried forward for the current period	31 December 2009
Late payment penalties on land	298,565.34	57,786.84	0.00	356,352.18
Total	<u>298,565.34</u>	<u>57,786.84</u>	<u>0.00</u>	<u>356,352.18</u>

(continued)

Item	31 December 2009	Increase during the current period	Balance carried forward for the current period	31 December 2010
Late payment penalties on land	356,352.18	57,786.84	0.00	414,139.02
Total	<u>356,352.18</u>	<u>57,786.84</u>	<u>0.00</u>	<u>414,139.02</u>

(continued)

Item	31 December 2010	Increase during the current period	Balance carried forward for the current period	31 December 2011
Late payment penalties on land	414,139.02	57,786.84	0.00	471,925.86
Total	<u>414,139.02</u>	<u>57,786.84</u>	<u>0.00</u>	<u>471,925.86</u>

(continued)

Item	31 December 2011	Increase during the current period	Balance carried forward for the current period	31 July 2012
Late payment penalties on land	471,925.86	33,708.99	0.00	505,634.85
Total	<u>471,925.86</u>	<u>33,708.99</u>	<u>0.00</u>	<u>505,634.85</u>

As at 31 July 2012, the Company owed the Land Resources and Housing Administrative Bureau of Yanqing County (the "Land Resources Bureau") a land grant fee of RMB2,407,785.00. According to the stipulations in the land grant agreement signed between the Company and the Land Resources Bureau, the Company shall pay late payment penalties on land thereon of RMB505,634.85.

26. Share capital

Name of shareholders	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Jingcheng Holding	46,282,568.50	36,998,892.42	0.00	83,281,460.92
Beiren Group	36,998,892.42	0.00	36,998,892.42	0.00
Beijing Gongtou	26,000,000.00	0.00	0.00	26,000,000.00
Total	<u>109,281,460.92</u>	<u>36,998,892.42</u>	<u>36,998,892.42</u>	<u>109,281,460.92</u>

According to the resolution at the extraordinary general meeting of the Company dated 5 June 2007 and the Transfer Agreement of Enterprises State-owned Property Right without Consideration signed between Beiren Group and Jingcheng Holding in October 2008, Beiren Group has transferred its 33.86% equity rights in the Company to Jingcheng Holding with nil consideration. The aforesaid equity transfer has been authenticated by China Beijing Equity Exchange, who has also issued a Certificate of Equity Exchanges. The procedure for changing industrial and commercial registration in this regard has been completed on 10 February 2009.

Name of shareholders	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Jingcheng Holding	83,281,460.92	0.00	0.00	83,281,460.92
Beijing Gongtou	<u>26,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,000,000.00</u>
Total	<u>109,281,460.92</u>	<u>0.00</u>	<u>0.00</u>	<u>109,281,460.92</u>

Name of shareholders	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Jingcheng Holding	83,281,460.92	0.00	0.00	83,281,460.92
Beijing Gongtou	<u>26,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,000,000.00</u>
Total	<u>109,281,460.92</u>	<u>0.00</u>	<u>0.00</u>	<u>109,281,460.92</u>

Name of shareholders	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Jingcheng Holding	83,281,460.92	26,000,000.00	0.00	109,281,460.92
Beijing Gongtou	<u>26,000,000.00</u>	<u>0.00</u>	<u>26,000,000.00</u>	<u>0.00</u>
Total	<u>109,281,460.92</u>	<u>26,000,000.00</u>	<u>26,000,000.00</u>	<u>109,281,460.92</u>

According to the resolution at the extraordinary general meeting of the Company and the share transfer agreement signed between Jingcheng Holdings and Beijing Gongtou, Beijing Gongtou has transferred its 23.79% equity rights in the Company to Jingcheng Holding. The Company has become the subsidiary of Jingcheng Holding after the transfer of equity rights. This transfer of equity rights has confirmed by Beijing Equity Exchange and the Equity Transaction Certificate was issued on 13 June 2012. The procedure for changing industrial and commercial registration has been completed and the business license was obtained on 30 August 2012.

27. Capital reserve

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Other capital reserve	<u>8,091,970.35</u>	<u>435.00</u>	<u>0.00</u>	<u>8,092,405.35</u>
Total	<u>8,091,970.35</u>	<u>435.00</u>	<u>0.00</u>	<u>8,092,405.35</u>

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Other capital reserve	8,092,405.35	31,683.44	0.00	8,124,088.79
Total	<u>8,092,405.35</u>	<u>31,683.44</u>	<u>0.00</u>	<u>8,124,088.79</u>

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Other capital reserve	8,124,088.79	4,216.34	0.00	8,128,305.13
Total	<u>8,124,088.79</u>	<u>4,216.34</u>	<u>0.00</u>	<u>8,128,305.13</u>

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Other capital reserve	8,128,305.13	0.00	0.00	8,128,305.13
Total	<u>8,128,305.13</u>	<u>0.00</u>	<u>0.00</u>	<u>8,128,305.13</u>

The amounts of increase in capital reserve for above periods represented the portion which was attributable to the Company in proportion to the shareholding in movement of the owner's equity (excluding net profit or loss) of Beijing Fusheng Machine Co., Ltd. accounted for by using the equity method.

28. Surplus reserve

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Statutory surplus reserve	1,542,353.94	0.00	0.00	1,542,353.94
Discretionary surplus reserve	<u>2,906,035.91</u>	<u>0.00</u>	<u>0.00</u>	<u>2,906,035.91</u>
Total	<u>4,448,389.85</u>	<u>0.00</u>	<u>0.00</u>	<u>4,448,389.85</u>

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Statutory surplus reserve	1,542,353.94	893,315.26	0.00	2,435,669.20
Discretionary surplus reserve	<u>2,906,035.91</u>	<u>0.00</u>	<u>0.00</u>	<u>2,906,035.91</u>
Total	<u>4,448,389.85</u>	<u>893,315.26</u>	<u>0.00</u>	<u>5,341,705.11</u>

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Statutory surplus reserves	2,435,669.20	1,331,383.29	0.00	3,767,052.49
Discretionary surplus reserves	2,906,035.91	0.00	0.00	2,906,035.91
Total	<u>5,341,705.11</u>	<u>1,331,383.29</u>	<u>0.00</u>	<u>6,673,088.40</u>

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Statutory surplus reserves	3,767,052.49	0.00	0.00	3,767,052.49
Discretionary surplus reserves	2,906,035.91	0.00	0.00	2,906,035.91
Total	<u>6,673,088.40</u>	<u>0.00</u>	<u>0.00</u>	<u>6,673,088.40</u>

29. Undistributed profits

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Undistributed profits at the beginning of the period	18,022,286.93	7,039,837.32	7,039,837.32	-4,667,683.28	-13,121,309.28
Add: net profit attributable to the Parent	-6,377,614.22	3,903,669.24	13,313,832.90	13,600,835.86	8,453,626.00
Less: withdrawal of statutory surplus reserve			1,331,383.29	893,315.26	
Ordinary share dividends			1,000,000.00	1,000,000.00	
Undistributed profits at the end of the period	11,644,672.71	10,943,506.56	18,022,286.93	7,039,837.32	-4,667,683.28

30. Minority interests

Name of subsidiary	Proportion of equity held by minority shareholders (%)	31 July 2012	31 December 2011
Jingcheng Tianyi	20.00	9,819,852.54	5,000,000.00
Total	<u>20.00</u>	<u>9,819,852.54</u>	<u>5,000,000.00</u>

31. Operating revenue and operating costs

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Main operating income	29,087,858.42	32,252,559.20	141,297,523.93	104,687,354.92	94,596,345.11
Other operating income	684,730.89	389,763.16	798,562.04	801,101.88	609,247.32
Total	29,772,589.31	32,642,322.36	142,096,085.97	105,488,456.80	95,205,592.43
Main operating costs	21,578,929.16	22,908,947.43	107,403,394.02	78,424,303.71	62,588,645.29
Other operating costs	637,352.86	120,674.72	600,001.39	555,625.18	516,669.75
Total	<u>22,216,282.02</u>	<u>23,029,622.15</u>	<u>108,003,395.41</u>	<u>78,979,928.89</u>	<u>63,105,315.04</u>

(1) Primary business – by product

Name of product	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Main operating income					
Compressor	28,913,029.36	29,818,371.17	123,998,823.05	92,475,962.62	93,941,644.25
Environmental protection	174,829.06	2,434,188.03	17,298,700.88	12,211,392.30	654,700.86
Total	<u>29,087,858.42</u>	<u>32,252,559.20</u>	<u>141,297,523.93</u>	<u>104,687,354.92</u>	<u>94,596,345.11</u>
Main operating costs					
Compressor	21,394,834.16	21,581,306.98	91,637,243.26	71,014,524.70	62,311,460.33
Environmental protection	184,095.00	1,327,640.45	15,766,150.76	7,409,779.01	277,184.96
Total	<u>21,578,929.16</u>	<u>22,908,947.43</u>	<u>107,403,394.02</u>	<u>78,424,303.71</u>	<u>62,588,645.29</u>

(2) Details of sales of the top five customers

Period	Total operating revenues from the top five customers	Proportion to the revenues for the current period (%)
2009	44,030,769.25	46.25
2010	31,895,422.22	30.24
2011	49,117,333.36	34.57
Jan-Jul 2011 (unaudited)	14,059,829.06	43.07
Jan-Jul 2012	17,815,384.62	59.84

(3) The operating revenue for the year 2011 was increased by RMB36,607,629.17 or 34.70% as compared with 2010, which was mainly due to the increase of businesses of the Company.

32. Business taxes and additional taxes

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Business taxes	30,379.36		9,000.00	3,377.00	3,390.00
Urban maintenance and construction tax	25,402.87	99,262.94	285,848.50	368,995.86	415,131.57
Educational surcharge	25,402.87	59,557.77	171,509.11	221,397.53	249,078.92
Total	<u>81,185.10</u>	<u>158,820.71</u>	<u>466,357.61</u>	<u>593,770.39</u>	<u>667,600.49</u>

33. Sales expenses

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Employee compensation	1,719,203.34	1,474,313.51	2,750,764.67	2,401,260.05	3,102,835.74
Travel expense	944,953.60	800,328.30	1,504,310.50	1,478,689.32	1,226,571.65
Entertainment expense	618,153.50	636,970.39	1,137,647.99	906,108.90	1,039,057.26
Sales service fee	1,045,230.76	1,163,246.16	2,881,193.14	1,022,703.16	1,277,979.28
Transportation and storage fee	901,546.50	644,528.29	1,415,765.62	851,935.44	1,414,794.51
Exhibition fee	177,670.00	94,500.85	259,813.85	325,386.00	137,360.00
Other sales expenses	104,213.34	61,271.72	175,036.04	216,199.51	164,666.53
Total	<u>5,510,971.04</u>	<u>4,875,159.22</u>	<u>10,124,531.81</u>	<u>7,202,282.38</u>	<u>8,363,264.97</u>

The sales expense for the year 2011 was increased by RMB2,922,249.43 or 40.57% as compared with 2010, which was mainly because of the increase in operating revenue that leading to the increase of corresponding sales service fees and transportation expenses.

34. Administrative expenses

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Research and development expenses	5,508,732.54	3,881,901.37	10,896,827.68	7,325,200.00	5,513,500.00
Employee compensation	3,955,467.55	3,871,576.89	8,190,777.60	7,893,537.94	6,182,326.65
Energy and property management fee	205,809.44	523,684.68	905,602.72	574,062.41	1,247,137.14
Office expenses	333,543.04	365,592.78	817,765.58	406,806.52	451,466.55
Entertainment expense	269,920.80	499,723.94	864,540.00	542,159.42	378,652.47
Repair cost	798,477.26	360,656.13	1,130,676.78	1,313,006.92	442,440.00
Agency fee	359,339.90	508,339.78	815,539.78	566,115.07	839,504.00
Depreciation and amortization	524,668.44	551,096.59	978,444.20	892,688.00	973,807.77
Cost from vehicles	485,937.77	434,947.78	936,542.42	847,102.81	663,316.30
Tax	327,906.05	253,936.36	545,358.12	499,160.16	486,969.22
Others	2,085,508.42	905,652.65	2,021,188.01	2,981,842.64	2,753,278.25
Total	<u>14,855,311.21</u>	<u>12,157,108.95</u>	<u>28,103,262.89</u>	<u>23,841,681.89</u>	<u>19,932,398.35</u>

35. Finance costs

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest expenses	707,192.77	632,323.15	1,186,883.34	1,081,280.55	1,288,400.00
Less: Interest income	213,909.86	45,815.56	258,430.96	179,936.69	179,574.62
Add: Handling charge	37,423.46	55,233.24	76,826.40	194,159.00	112,319.45
Exchange gain or loss	0.00	0.00	19,111.59	6,524.16	1,689.50
Total	<u>530,706.37</u>	<u>641,740.83</u>	<u>1,024,390.37</u>	<u>1,102,027.02</u>	<u>1,222,834.33</u>

36. Impairment loss of assets

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Loss for bad debts	1,339,895.92	-4,958,134.92	-1,588,051.78	-5,589,181.93	4,576,873.55
Impairment loss on inventories	0.00	0.00	0.00	195,714.90	2,075,181.31
Total	<u>1,339,895.92</u>	<u>-4,958,134.92</u>	<u>-1,588,051.78</u>	<u>-5,393,467.03</u>	<u>6,652,054.86</u>

37. Investment income

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Long-term equity investment income accounted for using equity method	8,605,929.77	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
In which: Beijing Fusheng Machine Co., Ltd.	8,605,929.77	7,375,739.66	18,010,724.42	14,482,031.33	11,648,552.81
Investment gain generated during the period from the held-for-trading financial assets	178,079.45	0.00	0.00	0.00	0.00
Total	<u>8,784,009.22</u>	<u>7,375,739.66</u>	<u>18,010,724.42</u>	<u>14,482,031.33</u>	<u>11,648,552.81</u>

38. Non-operating income**(1) Non-operating income**

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Gain on disposal of non-current assets	30,427.46	0.00	89,393.40	42,328.68	17,123.38
In which: gain on disposal of fixed assets	30,427.46	0.00	89,393.40	42,328.68	17,123.38
Government grants	414,400.00	73,000.00	276,000.00	357,300.00	45,000.00
Indemnity income	0.00	0.00	0.00	0.00	820,000.00
Others	571.59	0.00	115.45	73,643.86	58,993.00
Total	<u>445,399.05</u>	<u>73,000.00</u>	<u>365,508.85</u>	<u>473,272.54</u>	<u>941,116.38</u>

(2) Government grants

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009	Source and basis
Specific subsidies from the Management Committee of Zhongguancun Science Park	0.00	0.00	0.00	0.00	45,000.00	Implementing Rules for Allowance for Auditing fees Arising from Qualification Accreditation of high-tech enterprises in Changping District
Post allowance from Disabled Persons' Federation	15,000.00	15,000.00	15,000.00	15,000.00	0.00	Provisional Regulations on Post Allowance for Arrangement of the Employment of Disabled Persons by Employer in Beijing City
Supporting funds from the Management Committee of Badaling Economic Development Zone	172,000.00	58,000.00	261,000.00	0.00	0.00	
Special fiscal funds for high-tech achievement transformation project	227,400.00	0.00	0.00	342,300.00	0.00	Notice on Disbursement of Special Fiscal Funds for High-tech Achievement Transformation Project in Beijing City for 2010 and 2011
Total	<u>414,400.00</u>	<u>73,000.00</u>	<u>276,000.00</u>	<u>357,300.00</u>	<u>45,000.00</u>	

39. Non-operating expenses

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Loss on disposal of non-current assets	1,102,511.16	0.00	33,650.64	16,918.29	14,529.80
In which: loss on disposal of fixed assets	1,102,511.16	0.00	33,650.64	16,918.29	14,529.80
Compensation	202,250.00	0.00	0.00	0.00	0.00
Donations	0.00	2,999.00	2,999.00	50,000.00	0.00
Penalties	33,728.66	43,715.20	1,062,126.05	85,235.31	84,963.09
Others	0.00	0.00	0.00	12,246.79	0.00
Total	<u>1,338,489.82</u>	<u>46,714.20</u>	<u>1,098,775.69</u>	<u>164,400.39</u>	<u>99,492.89</u>

40. Income tax expense

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Current income tax expense	28.50	0.00	0.00	297,716.94	1,168,282.26
Deferred income tax expense	-313,110.72	236,361.64	-74,175.66	54,583.94	-1,869,607.57
Total	<u>-313,082.22</u>	<u>236,361.64</u>	<u>-74,175.66</u>	<u>352,300.88</u>	<u>-701,325.31</u>

41. Cash flow statement**(1) Other cash relating to operating /investment/financing activities received/paid****1) Other cash receipts relating to operating activities**

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest income	185,493.19	45,815.56	258,430.96	179,936.69	179,574.62
Government grants	414,400.00	73,000.00	276,000.00	357,300.00	45,000.00
Funding for nuclear power projects	1,780,000.00	0.00	0.00	0.00	0.00
Indemnity income	0.00	0.00	0.00	0.00	820,000.00
Others	571.59	0.00	115.45	73,643.86	58,993.00
Total	<u>2,380,464.78</u>	<u>118,815.56</u>	<u>534,546.41</u>	<u>610,880.55</u>	<u>1,103,567.62</u>

2) Other cash payments relating to operating activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Various expenses	10,147,394.09	9,123,574.68	26,244,312.71	18,297,709.41	15,707,956.41
Donations	0.00	2,999.00	2,999.00	50,000.00	0.00
Penalties	33,728.66	43,715.20	1,062,126.05	85,235.31	84,963.09
Other non-operating expenses	202,250.00	0.00	0.00	12,246.79	0.00
Total	<u>10,383,372.75</u>	<u>9,170,288.88</u>	<u>27,309,437.76</u>	<u>18,445,191.51</u>	<u>15,792,919.50</u>

3) *Other cash receipts relating to financing activities*

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Borrowings received from Jingcheng Holding	110,000,000.00	50,000,000.00	62,000,000.00	24,000,000.00	3,000,000.00
Total	<u>110,000,000.00</u>	<u>50,000,000.00</u>	<u>62,000,000.00</u>	<u>24,000,000.00</u>	<u>3,000,000.00</u>

4) *Other cash payments relating to financing activities*

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Repayment borrowings of Jingcheng Holding	50,000,000.00	10,000,000.00	40,000,000.00	0.00	0.00
Total	<u>50,000,000.00</u>	<u>10,000,000.00</u>	<u>40,000,000.00</u>	<u>0.00</u>	<u>0.00</u>

(2) Supplementary information of consolidated cash flow statement

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Reconciliation of net profits to cash flows from operating activities					
Net profits	-6,557,761.68	3,903,669.24	13,313,832.90	13,600,835.86	8,453,626.00
Add: Provision for assets impairment	1,339,895.92	-4,958,134.92	-1,588,051.78	-5,393,467.03	6,652,054.86
Depreciation of fixed assets, oil and gas assets and productive biological assets	1,667,901.63	1,677,211.91	2,909,085.18	3,062,344.64	4,626,529.81
Amortisation of intangible assets	200,619.96	32,939.96	176,239.94	312,479.94	657,199.19
Amortisation of long-term prepayments	0.00	20,416.82	24,417.01	67,636.92	122,099.12
Loss on disposal of fixed assets, intangible assets and other long-term assets (income marked with "-")	1,072,083.70	0.00	-55,742.76	-25,410.39	-2,593.58
Loss on discarding of fixed assets (income marked with "-")	0.00	0.00	0.00	0.00	0.00
Gain or loss on changes in fair value (income marked with "-")	0.00	0.00	0.00	0.00	0.00
Finance costs (income marked with "-")	707,192.77	632,323.15	1,186,883.34	1,081,280.55	1,288,400.00
Loss on investment (income marked with "-")	-8,784,009.22	-7,375,739.66	-18,010,724.42	-14,482,031.33	-11,648,552.81
Decrease in deferred income tax assets (increase marked with "-")	-313,110.72	236,361.64	-74,175.66	54,583.94	-1,869,607.58
Increase in deferred income tax liabilities (decrease marked with "-")	0.00	0.00	0.00	0.00	0.00
Decrease in inventories (increase marked with "-")	-17,897,909.38	-24,860,197.78	-18,192,933.69	-6,148,398.19	-7,553,716.55
Decrease in operating accounts receivables (increase marked with "-")	-4,719,599.42	3,002,926.94	-6,255,930.98	3,814,562.22	-8,868,984.84
Increase in operating accounts payables (decrease marked with "-")	10,860,402.17	27,738,943.83	12,233,206.94	2,656,521.17	-1,158,580.29
Others	0.00	0.00	0.00	0.00	0.00
Net cash flow from operating activities	-22,424,294.27	50,721.13	-14,333,893.98	-1,399,061.70	-9,302,126.67
2. Significant non-cash investing and financing transactions:					
Conversion of debt into capital	0.00	0.00	0.00	0.00	0.00
Convertible corporate bonds expiring within one year	0.00	0.00	0.00	0.00	0.00

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Acquisition of fixed assets under finance leases	0.00	0.00	0.00	0.00	0.00
3. Changes in cash and cash equivalents:					
Balance of cash at the end of the period	55,408,549.79	65,602,750.09	42,316,611.27	26,615,708.13	19,216,710.76
Less: Balance of cash at the beginning of the period	42,316,611.27	26,615,708.13	26,615,708.13	19,216,710.76	20,766,317.10
Add: Balance of cash equivalents at the end of the period	0.00	0.00	0.00	0.00	0.00
Less: Balance of cash equivalents at the beginning of the period	0.00	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	13,091,938.52	38,987,041.96	15,700,903.14	7,398,997.37	-1,549,606.34

VIII. RELATED PARTY AND RELATED PARTY TRANSACTIONS

(1) Relationships of related parties

1. Controlling shareholder and ultimate controlling party

(1) Controlling shareholder and ultimate controlling party

Name	Type	Place of registration	Nature of business	Legal Representative	Code of the organization
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	Limited Company	Beijing	Operation and management of state-owned assets	Ren Yaguang	63368621-7

(2) Registered capital of the controlling shareholder and its movement

Controlling shareholder	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	1,634,545,500	0.00	0.00	1,634,545,500

(3) Shares or equity interests held by the controlling shareholder and their movements

Controlling shareholder	Amount of Shareholdings 31 July 2012	31 December 2011	Percentage (%) 31 July 2012	31 December 2011
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	109,281,460.92	83,281,460.92	100.00	76.21

2. *Subsidiary*(1) *Subsidiary*

Name of subsidiary	Type	Place of registration	Nature of business	Legal Representative	Code of the organization
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	Limited Company	Beijing	Production	Kang Yiqing	58443842-7

(2) *Registered capital of the subsidiary and its movement*

Name	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	0.00	25,000,000.00	0.00	25,000,000.00

Name	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	25,000,000.00	25,000,000.00	0.00	50,000,000.00

(3) *Shareholdings or equity interests of the subsidiary and their movements*

Name	Amount of Shareholding		Percentage (%)	
	31 July 2012	31 December 2011	31 July 2012	31 December 2011
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	40,000,000.00	20,000,000.00	80.00	80.00

3. *Other related parties*

Relationship	Name of related party	Main content of transaction	Code of organisation
(1) Other entities under control of the same controlling shareholder and ultimate controlling party	Beijing Jingcheng Industrial Logistics Limited	Procurement of goods	10162895-6
	Beijing Xihai Industrial & Trading Co., Ltd.	Lease of properties	10140281-8
	Beijing Machinery and Electricity Institute CO., LTD	Sales of goods	74040250-7

(2) Related-party transactions

1. Principles and pricing policies for related-party transactions

The pricing for the transactions between the Company and related parties shall be subject to the state fixed price if any or based on the market price in case of no state fixed price, and it shall be determined through negotiation by both parties with reference to the actual costs plus reasonable expenses in case of no market price.

2. Purchasing goods or receiving services

Type and name of related parties	Jan-Jul 2012		2011		2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other entities under control of the same controlling shareholder and ultimate controlling party	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
In which: Beijing Jingcheng Industrial Logistics Limited	190,293.00	1.69	2,177,342.31	2.33	1,454,313.60	2.14	750,888.99	1.30
Beijing Xihai Industrial & Trading Co., Ltd.	481,250.00	100.00	950,000.00	100.00	552,000.00	100.00	550,000.00	96.70
Total	671,543.00		3,127,342.31		2,006,313.60	0.00	1,300,888.99	0.00

3. Sales of goods/rendering of services

Type and name of related parties	Jan-Jul 2012		2011		2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other entities under control of the same controlling shareholder and ultimate controlling party	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
In which Beijing Machinery and Electricity Institute CO., LTD.	0.00	0.00	14,864,512.85	85.93	0.00	0.00	0.00	0.00
Total	0.00	0.00	14,864,512.85	85.93	0.00	0.00	0.00	0.00

4. Guarantee with related parties

Name of warrantor	Name of warrantee	Amount guaranteed	Date of commencement	Maturity date	Completed or not
Jingcheng Machinery Electric Holding Co., Ltd.	Beijing Jingcheng Environmental Protection Development Co., Ltd.	300,000.00	2012-02-28	2013-02-29	No

5. Borrowings with related parties

Name of related party	Borrowing amount	Rate	Date of commencement	Maturity Date	Notes
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	5.3100%	22 Mar 2010	23 Mar 2011	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	5.5600%	18 Nov 2010	19 Nov 2011	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	6.0600%	24 Mar 2011	25 Aug 2011	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	6.3100%	27 Jun 2011	25 Aug 2011	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	6.3100%	27 Jun 2011	25 Mar 2012	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	6.3100%	17 Nov 2011	25 Mar 2012	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	6.5600%	2 Feb 2012	25 Mar 2012	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	10,000,000.00	5.9040%	12 Mar 2012	11 Mar 2013	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	20,000,000.00	5.9040%	9 Apr 2012	9 Apr 2013	
Beijing Jingcheng Holding Machinery Electric Holding Co., Ltd.	7,000,000.00	0.0000%			R&D funding

6. Borrowing costs with related parties

Type and name of related parties	Jan-Jul 2012		2011		2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Controlling shareholder and ultimate controlling party								
In which: Beijing Jingcheng Machinery Electric Holding Co., Ltd.	698,295.77	99.54	1,186,883.34	100.00	482,430.55	44.62	0.00	0.00
Total	698,295.77	99.54	1,186,883.34	100.00	482,430.55	44.62	0.00	0.00

(3) Current Accounts Balances with Related Parties

1. Other receivables of related parties

Related parties (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Controlling shareholder and ultimate controlling party				
In which: Beijing Jingcheng Machinery Electric Holdings Co., Ltd.	1,234,466.67	0.00	0.00	0.00
Total	1,234,466.67	0.00	0.00	0.00

2. *Account payables of related parties*

Related party (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Other entities under control of the same controlling shareholder In which: Beijing Jingcheng Industrial Logistics Limited	1,666,506.06	1,525,779.15	840,668.52	554,468.70
Total	<u>1,666,506.06</u>	<u>1,525,779.15</u>	<u>840,668.52</u>	<u>554,468.70</u>

3. *Receipts in advance from related parties*

Related party (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Other entities under control of the same controlling shareholder In which: Beijing Machinery and Electricity Institute CO., LTD.	5,000,000.00	5,000,000.00	2,000,000.00	0.00
Total	<u>5,000,000.00</u>	<u>5,000,000.00</u>	<u>2,000,000.00</u>	<u>0.00</u>

4. *Other payables of related parties*

Related party (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Controlling shareholder and ultimate controlling party In which: Beijing Jingcheng Machinery Electric Holding Co., Ltd.	109,000,000.00	48,134,127.78	27,000,000.00	3,000,000.00
Total	<u>109,000,000.00</u>	<u>48,134,127.78</u>	<u>27,000,000.00</u>	<u>3,000,000.00</u>

IX. CONTINGENT EVENTS

As at 31 July 2012, the Group has no significant contingent events to be disclosed.

X. COMMITMENTS

As at 31 July 2012, the Group has no significant commitments to be disclosed.

XI. POST BALANCE SHEET EVENTS

- Jingcheng Holdings, being the controlling shareholder of the Company, injected capital contributions in cash totaling RMB29,990,000.00 to the Company on 12 September 2012. After the capital contribution, the registered capital of the Company was RMB139,271,500.00. This capital contribution was examined by the Beijing Anhuaxin Certified Public Accountants Company Limited (北京安華信會計師事務所有限責任公司) and the capital verification report (Jing An Hua Xin Yan Zi (2012) No. 012) has been issued. The Company has obtained the business license after capital changes on 18 September 2012.
- According to the resolution (Jing Ji Dong (Fu) [2012] No. 50) of the Board of Jingcheng Holdings, the controlling shareholder of the Company, 80% equity interests of Jingcheng Tianyi held by the Company and the correspondence liabilities were assigned to Beijing Xihai Trading Co., Ltd. (北京西海工貿公司) at nil consideration. The reference date was 31 March 2012. The Company has completed the reallocation of Jingcheng Tianyi's shareholdings on 3 October 2012 and obtained the Confirmation on Transfer of

State-owned Equity (企業國有產權交易憑證) issued by the Beijing Equity Exchange. Jingcheng Tianyi has obtained the business license after capital changes on 9 October 2012. After the shareholding reallocation, the Company will cease to have any shareholding of Jingcheng Tianyi.

On 3 September 2012, Jingcheng Environment, the controlling shareholder of the Company, has resolved and approved the proposed disposal of assets, liabilities and operations directly related to the environmental business of the Company at nil consideration. The reference date was 31 March 2012.

Assuming the proposed disposal of assets, liabilities and operating structure related to the environmental business of the Company was in existence and on a going concern basis on 1 January 2009 and in accordance with the actual transaction and events and following the Accounting Standards for Business Enterprises and related requirements issued by the Ministry of Finance in 2006, the estimated statement of environmental business prepared according to the accounting policies and estimations stated in "Significant Accounting Policies, Accounting Estimates and Compilation Method of Financial Statements" of Appendix IV are as follow:

(1) The pro forma balance sheets of the environmental business

Items	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current assets:				
Accounts receivable	169,751.00	413,507.89	711,582.70	150,000.00
Prepayments	8,062,626.71	1,435,104.48	1,603,185.60	981,379.50
Other receivables	45,800.00	21,500.00	28,000.00	25,200.00
Inventories	4,044,282.95	4,204,966.71	1,457,719.69	2,356,789.76
Total current assets	12,322,460.66	6,075,079.08	3,800,487.99	3,513,369.26
Non-current assets:				
Fixed assets	72,151.66	69,853.67	67,058.50	43,254.03
Total non-current assets	72,151.66	69,853.67	67,058.50	43,254.03
Total assets	12,394,612.32	6,144,932.75	3,867,546.49	3,556,623.29
Current liabilities:				
Accounts payable	2,230,616.71	4,529,731.14	4,496,012.37	2,263,039.83
Receipts in advance	17,041,800.00	5,052,000.00	2,000,000.00	5,956,457.80
Employee benefit payables	–	246,981.63	287,047.64	222,087.72
Other payables	2,000,000.00	2,000,000.00	0.00	0.00
Total current liabilities	21,272,416.71	11,828,712.77	6,783,060.01	8,441,585.35
Total liabilities	21,272,416.71	11,828,712.77	6,783,060.01	8,441,585.35
Total shareholder's equity:	-8,877,804.39	-5,683,780.02	-2,915,513.52	-4,884,962.06
Total liabilities and shareholders' equity	12,394,612.32	6,144,932.75	3,867,546.49	3,556,623.29

(2) The pro forma income statement of environmental business

Items	Jan-Jul 2012	2011	2010	2009
Operating income	174,829.06	17,298,700.88	12,211,392.30	654,700.86
Less: Operating cost	184,095.00	15,766,150.76	7,409,779.01	277,184.96
Operating fees	1,951,616.27	2,999,204.58	2,353,386.89	2,396,009.36
Assets Impairment Losses	-65,895.81	146,574.81	-364,890.00	449,890.00
Operating profit	-1,894,986.40	-1,613,229.27	2,813,116.40	-2,468,383.46
Less: Non-operating expenses	21,123.59	0.00	0.00	0.00
Total Profit	-1,916,109.99	-1,613,229.27	2,813,116.40	-2,468,383.46
Less: Income tax expenses	0.00	0.00	0.00	0.00
Net profit	-1,916,109.99	-1,613,229.27	2,813,116.40	-2,468,383.46

(3) The pro forma cash flow statement of the environmental business

Items	Jan-Jul 2012	2011	2010	2009
1. Cash flows from operating activities:				
Cash received from the sales of goods and the rendering of services	12,474,281.76	20,503,700.88	8,058,241.80	6,910,538.66
Sub-total of cash inflows from operating activities	<u>12,474,281.76</u>	<u>20,503,700.88</u>	<u>8,058,241.80</u>	<u>6,910,538.66</u>
Cash paid for goods purchased and services received	9,110,731.66	15,564,350.87	5,798,612.57	3,596,987.20
Cash payments to and on behalf of employees	1,056,938.94	1,704,951.87	1,471,665.87	1,135,164.03
Other cash payments relating to operating activities	883,019.96	1,294,252.71	872,092.62	1,250,438.20
Sub-total of cash outflows from operating activities	<u>11,050,690.56</u>	<u>18,563,555.45</u>	<u>8,142,371.06</u>	<u>5,982,589.43</u>
Net cash flows from operating activities	<u>1,423,591.20</u>	<u>1,940,145.43</u>	<u>-84,129.26</u>	<u>927,949.23</u>
2. Cash flows from investing activities:				
Sub-total of cash inflows from investing activities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	34,011.97	19,470.09	33,432.87	0.00
Sub-total of cash outflows from investing activities	<u>34,011.97</u>	<u>19,470.09</u>	<u>33,432.87</u>	<u>0.00</u>
Net cash flows from investing activities	<u>-34,011.97</u>	<u>-19,470.09</u>	<u>-33,432.87</u>	<u>0.00</u>
3. Cash flows from financing activities:				
Other cash receipts relating to financing activities	0.00	2,000,000.00	117,562.13	0.00
Sub-total of cash inflows from financing activities	<u>0.00</u>	<u>2,000,000.00</u>	<u>117,562.13</u>	<u>0.00</u>
Other cash payments relating to financing activities	1,389,579.23	3,920,675.34	0.00	927,949.23

Items	Jan-Jul 2012	2011	2010	2009
Sub-total of cash outflows from financing activities	<u>1,389,579.23</u>	<u>3,920,675.34</u>	<u>0.00</u>	<u>927,949.23</u>
Net cash flows from financing activities	<u>-1,389,579.23</u>	<u>-1,920,675.34</u>	<u>117,562.13</u>	<u>-927,949.23</u>
4. Effect of exchange rate changes on cash and cash equivalents				
5. Net increase in cash and cash equivalents	0.00	0.00	0.00	0.00
Add: Balance of cash and cash equivalents at the beginning of the period	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
6. Balance of cash and cash equivalents at the end of the period	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net profit	-1,916,109.99	-1,613,229.27	2,813,116.40	-2,468,383.46
Add: Provision for assets impairment	-65,895.81	146,574.81	-364,890.00	449,890.00
Depreciation of fixed assets	11,657.37	16,674.92	9,628.40	10,407.13
Amortisation of intangible assets	3,668.00	4,192.00	0.00	0.00
Loss on disposal of fixed assets, intangible assets and other long-term assets	21,123.59	0.00	0.00	0.00
Decrease in inventories	160,683.76	-2,747,247.02	899,070.07	-2,356,789.76
Decrease in operating accounts receivables	-6,408,065.34	321,081.12	-818,498.80	729,761.93
Increase in operating accounts payables	<u>9,616,529.62</u>	<u>5,812,098.87</u>	<u>-2,622,555.33</u>	<u>4,563,063.39</u>
Net cash flow from operating activities	<u>1,423,591.20</u>	<u>1,940,145.43</u>	<u>-84,129.26</u>	<u>927,949.23</u>

3. Up to the date of approval of the financial report, there was no other significant event required to be disclosed for the Group except the abovementioned event.

XII. OTHER SIGNIFICANT EVENTS

As at 31 July 2012, the Group has no other significant events to be disclosed.

XIII. EXPLANATORY NOTES TO MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT

1. Accounts receivable

(1) Classification of accounts receivable by risks

Item	31 July 2012				31 December 2011			
	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables with bad debt provision made on group basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Aging group	41,035,578.25	100.00	11,393,674.66	100.00	44,193,206.64	100.00	10,148,151.98	100.00
Sub-total	41,035,578.25	100.00	11,393,674.66	100.00	44,193,206.64	100.00	10,148,151.98	100.00
Accounts receivable that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	41,035,578.25	100.00	11,393,674.66	100.00	44,193,206.64	100.00	10,148,151.98	100.00

1) Details of accounts receivable that are provided for bad debts based on ageing analysis:

Item	Amount at the year end			Amount at the beginning of the year		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	21,932,692.03	0.00	0.00	26,314,517.99	0.00	0.00
1-2 years	9,224,213.37	30.00	2,767,264.01	9,205,449.30	30.00	2,761,634.79
2-3 years	3,130,655.50	60.00	1,878,393.30	3,216,805.39	60.00	1,930,083.23
3-4 years	2,064,280.39	100.00	2,064,280.39	228.00	100.00	228.00
4-5 years	1,265,918.20	100.00	1,265,918.20	1,480,449.20	100.00	1,480,449.20
Over 5 years	3,417,818.76	100.00	3,417,818.76	3,975,756.76	100.00	3,975,756.76
Total	41,035,578.25		11,393,674.66	44,193,206.64		10,148,151.98

- (2) There were no accounts receivable from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

(3) Details of the top five accounts receivable as at 31 July 2012

Name of company	Relationship with the Company	Amount	Age	Proportion to total accounts receivable (%)
Shanxi Tianhong Silicon Material Co., Ltd.	non-related party	6,128,800.00	Within 1 year	14.94
ORISI Silicon Co., Ltd.	non-related party	1,957,984.00	Within 1 year	4.77
Henan Kaixiang Fine Chemicals Co., Ltd. (河南開祥精細化工有限公司)	non-related party	1,469,277.75	Within 1 year	3.58
Zhenjiang Jiangnan Chemicals Co., Ltd. (鎮江江南化工有限公司)	non-related party	1,440,000.00	Within 1 year	3.51
Xinjiang Daqo New Energy Co., Ltd.	non-related party	1,431,060.00	Within 1 year	3.49
Total	—	<u>12,427,121.75</u>	—	<u>30.29</u>

2. Other receivables

(1) Classification of other receivables by risks

Item	31 July 2012				31 December 2011			
	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)	Book balance Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receivables with bad debt provision made on group basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Aging group	<u>4,947,081.67</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>	<u>2,313,751.72</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>
Sub-total	4,947,081.67	100.00	161,303.00	100.00	2,313,751.72	100.00	161,303.00	100.00
Other receivables that are individually insignificant but are individually provided for bad debts	<u>4,947,081.67</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>	<u>2,313,751.72</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>
Total	<u>4,947,081.67</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>	<u>2,313,751.72</u>	<u>100.00</u>	<u>161,303.00</u>	<u>100.00</u>

1) Details of other receivables that are provided for bad debts based on ageing analysis

Item	31 July 2012			31 December 2011		
	Amount	Percentage (%)	Provision for bad debts	Amount	Percentage (%)	Provision for bad debts
Within 1 year	4,331,394.22	0.00	0.00	1,889,751.72	0.00	0.00
1-2 years	409,787.45	30.00	122,936.24	341,010.00	30.00	102,303.00
2-3 years	182,900.00	60.00	109,740.00	60,000.00	60.00	36,000.00
3-4 years	0.00	100.00	0.00	23,000.00	100.00	23,000.00
4-5 years	23,000.00	100.00	23,000.00	0.00	0.00	0.00
Over 5 years	<u>0.00</u>	<u>100.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>4,947,081.67</u>	—	<u>255,676.24</u>	<u>2,313,751.72</u>	—	<u>161,303.00</u>

(2) There were no other receivables due from the shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 July 2012.

(3) *Details of the top five other receivables as at 31 July 2012*

Name of company	Relationship with the Company	Amount	Age	Proportion to total other receivables (%)	Nature or content
Jingcheng Holdings	Controlling shareholders	1,234,466.67	Within 1 year	24.95	Advance for interest
Qinghai Yanhu Magnesium Industry Co., Ltd. (青海鹽湖鎂業有限公司)	Non-related party	960,000.00	Within 1 year	19.41	Performance Bond
Goudian Longyuan Power Technology and Engineering Co., Ltd.	Non-related party	450,000.00	Within 1 year	9.10	Bid bond
Shanxi Hengyu Bidding Agency Co., Ltd.	Non-related party	300,000.00	Within 1 year	6.06	Technical service fee
China Nuclear Power Engineering Co., Ltd	Non-related party	170,000.00	Within 3 years	3.44	Bid bond
Total	—	<u>3,114,466.67</u>	—	<u>62.96</u>	—

3. Long-term equity investments

(1) *Categories of long-term equity investments*

Item	31 July 2012	31 December 2011
Long-term equity investments accounted for using cost method	40,000,000.00	20,000,000.00
Long-term equity investments accounted for using equity method	<u>72,303,855.86</u>	<u>63,697,926.09</u>
Total long-term equity investments	112,303,855.86	83,697,926.09
Less: provision for impairment loss	<u>0.00</u>	<u>0.00</u>
Net value of long-term equity investments	<u>112,303,855.86</u>	<u>83,697,926.09</u>

(2) *Long-term equity investments accounted for using cost and equity methods*

Name of the invested company	Shareholding (%)	Voting right (%)	Original amount	1 January 2011	Increase for the current period	Decrease for the current period	31 July 2012	Cash dividend for the current period
Cost method								
Beijing Jingcheng Tianyi Environment Technology Co., Ltd.	80.00	80.00	<u>20,000,000.00</u>	<u>20,000,000.00</u>	<u>20,000,000.00</u>	0.00	<u>40,000,000.00</u>	0.00
Subtotal	—	—	<u>20,000,000.00</u>	<u>20,000,000.00</u>	<u>20,000,000.00</u>	0.00	<u>40,000,000.00</u>	0.00
Equity method								
Beijing Fusheng Machine Co., Ltd.	30.00	30.00	<u>16,960,563.13</u>	<u>63,697,926.09</u>	<u>8,605,929.77</u>	0.00	<u>72,303,855.86</u>	0.00
Subtotal	—	—	<u>16,960,563.13</u>	<u>63,697,926.09</u>	<u>8,605,929.77</u>	0.00	<u>72,303,855.86</u>	0.00
Total	—	—	<u>36,960,563.13</u>	<u>83,697,926.09</u>	<u>8,605,929.77</u>	—	<u>12,303,855.86</u>	0.00

4. Operating revenue and operating costs

Item	Jan-Jul 2012	2011	2010	2009
Main operating income	29,087,858.42	141,297,523.93	104,687,354.92	94,596,345.11
Other operating income	<u>1,234,730.89</u>	<u>798,562.04</u>	<u>801,101.88</u>	<u>609,247.32</u>
Total	<u>30,322,589.31</u>	<u>142,096,085.97</u>	<u>105,488,456.80</u>	<u>95,205,592.43</u>
Main operating costs	21,578,929.16	107,403,394.02	78,424,303.71	62,588,645.29
Other operating costs	<u>637,342.86</u>	<u>600,001.39</u>	<u>555,625.18</u>	<u>516,669.75</u>
Total	<u>22,216,282.02</u>	<u>108,003,395.41</u>	<u>78,979,928.89</u>	<u>63,105,315.04</u>

(1) Primary business – by product

Name of product	Jan-Jul 2012	2011	2010	2009
Main operating income				
Compressor	28,367,174.66	123,998,823.05	92,475,962.62	93,941,644.25
Environmental protection	<u>720,683.76</u>	<u>17,298,700.88</u>	<u>12,211,392.30</u>	<u>654,700.86</u>
Total	<u>29,087,858.42</u>	<u>141,297,523.93</u>	<u>104,687,354.92</u>	<u>94,596,345.11</u>
Main operating cost				
Compressor	21,416,087.70	91,637,243.26	71,014,524.70	62,311,460.33
Environmental protection	<u>162,841.46</u>	<u>15,766,150.76</u>	<u>7,409,779.01</u>	<u>277,184.96</u>
Total	<u>21,578,929.16</u>	<u>107,403,394.02</u>	<u>78,424,303.71</u>	<u>62,588,645.29</u>

(2) Details of sales of the top five customers

Period	Total operating revenues from the top five customers	Proportion to the revenues for the current period (%)
2009	44,030,769.25	46.25
2010	31,895,422.22	30.24
2011	49,117,333.36	34.57
Jan-Jul 2012	17,815,384.62	58.75

5. Investment income

Item	Jan-Jul 2012	2011	2010	2009
Long-term equity investment income accounted for using equity method	8,605,929.77	18,010,724.42	14,482,031.33	11,648,552.81
In which: Beijing Fusheng Machine Co., Ltd.	8,605,929.77	18,010,724.42	14,482,031.33	11,648,552.81

6. Supplementary information of consolidated cash flow statement of the Parent

Item	Jan-Jul 2012	2011	2010	2009
1. Reconciliation of net profits to cash flows from operating activities:				
Net profits	-5,657,024.39	13,313,832.90	13,600,835.86	8,453,626.00
Add: Provision for assets impairment	1,339,895.92	-1,588,051.78	-5,393,467.03	6,652,054.86
Depreciation of fixed assets, oil and gas assets and productive biological assets	1,667,682.67	2,909,085.18	3,062,344.64	4,626,529.81
Amortisation of intangible assets	200,619.96	176,239.94	312,479.94	657,199.19
Amortisation of long-term prepayments	0.00	24,417.01	67,636.92	122,099.12
Loss on disposal of fixed assets, intangible assets and other long-term assets (income marked with "-")	1,072,083.70	-55,742.76	-25,410.39	-2,593.58
Loss on discarding of fixed assets (income marked with "-")	0.00	0.00	0.00	0.00
Gain or loss on changes in fair value (income marked with "-")	0.00	0.00	0.00	0.00
Finance costs (income marked with "-")	707,192.77	1,186,883.34	1,081,280.55	1,288,400.00
Loss on investment (income marked with "-")	-8,605,929.77	-18,010,724.42	-14,482,031.33	-11,648,552.81
Decrease in deferred income tax assets (increase marked with "-")	-313,110.72	-74,175.66	54,583.94	-1,869,607.58
Increase in deferred income tax liabilities (decrease marked with "-")	0.00	0.00	0.00	0.00
Decrease in inventories (increase marked with "-")	-17,766,577.66	-18,192,933.69	-6,148,398.19	-7,553,716.55
Decrease in operating accounts receivables (increase marked with "-")	-4,581,696.42	-6,255,930.98	3,814,562.22	-8,868,984.84
Increase in operating accounts payables (decrease marked with "-")	25,817,906.21	12,233,206.94	2,656,521.17	-1,158,580.29
Others	0.00	0.00	0.00	0.00
Net cash flow from operating activities	<u>-6,118,957.73</u>	<u>-14,333,893.98</u>	<u>-1,399,061.70</u>	<u>-9,302,126.67</u>
2. Significant non-cash investing and financing transactions:				
Conversion of debt into capital	0.00	0.00	0.00	0.00
Convertible corporate bonds expiring within one year	0.00	0.00	0.00	0.00
Acquisition of fixed assets under finance leases	0.00	0.00	0.00	0.00
3. Changes in cash and cash equivalents:				
Balance of cash at the end of the period	48,583,821.41	17,316,611.27	26,615,708.13	19,216,710.76
Less: Balance of cash at the beginning of the period	17,316,611.27	26,615,708.13	19,216,710.76	20,766,317.10
Add: Balance of cash equivalents at the end of the period	0.00	0.00	0.00	0.00
Less: Balance of cash equivalents at the beginning of the year	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	<u>31,267,210.14</u>	<u>-9,299,096.86</u>	<u>7,398,997.37</u>	<u>-1,549,606.34</u>

XIV. SUPPLEMENTARY INFORMATION

Non-recurring profit or loss statement

In accordance with the requirements of “Interpretation on Information Disclosures by Listed Companies No. 1 [2008] – Non-recurring profit or loss” issued by the CSRC, the non-recurring profit or loss items of the Company are as follows:

Item	Jan-Jul 2012	2011	2010	2009
Gain or loss on disposal of non-current assets	-1,072,083.70	55,742.76	25,410.39	2,593.58
Government grants credited to the current profit or loss	414,400.00	276,000.00	357,300.00	45,000.00
Profit and loss of changes in fair value arising from holding of trading financial assets and trading financial liabilities except for valid straddle business relevant to normal business of the company, as well as investment gain realized from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	178,079.45	0.00	0.00	0.00
Other non-operating income and expense	-235,407.07	-1,065,009.60	-73,838.24	794,029.91
Sub-total	-715,011.32	-733,266.84	308,872.15	841,623.49
Effect on income tax	0.00	0.00	-59,116.12	-138,987.99
Effect on minority interest (after tax)	0.00	0.00	0.00	0.00
Total	-715,011.32	-733,266.84	249,756.03	702,635.50

XV. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for issuance by the Board of Directors on 25 October 2012.

Beijing Jingcheng Environmental Protection Development Co., Ltd.
25 October 2012

The following is the text of a report received from the reporting accountants, ShineWing Certified Public Accountants, Certified Public Accountants, Beijing, the PRC in respect of the audited financial information of the Target Companies solely for the purpose of incorporation into this circular.

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

To all the shareholders of Beiren Printing Machinery Holdings Limited

We set out below our report on the financial information(the “Financial Information”) of **Jingcheng Holding (Hong Kong) Company Limited** (“Jingcheng HK”) for each of the three years ended 31 December 2009, 2010 and 2011, and the seven months ended 31 July 2012 (the “Relevant Periods”), prepared on the basis set out in Note 2 below, for inclusion in the circular of Beiren Printing Machinery Holdings Limited (the “Circular”).

Jingcheng HK was incorporated in December 2005 with limited liability.

Jingcheng HK have adopted 31 December as their financial year end date.

The statutory financial statements of **Jingcheng HK** were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) and were audited by **Shinewing Certified Public Accountants (special general partnership)**, a certified public accountants registered in the PRC, in accordance with the PRC auditing standards.

For the purpose of this report, the management of **Jingcheng HK** have prepared the financial statements of Jingcheng HK for the Relevant Period that gives a true and fair view in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2, for which the management of Jingcheng HK are solely responsible for. We have carried out the independent audit in accordance with China Auditing Standards for Certified Public Accountants.

The Financial Information annexed to this report has been prepared based on the relevant financial statements to which no adjustments were made. For the purpose of this report, we conducted our audit on relevant financial statements and carried out such additional procedures as we considered necessary in accordance with China Auditing Standards for Certified Public Accountants and Statement 3.340 Auditing Guideline “Prospectuses and the Reporting Accountant” issued by Hong Kong Institute of Certified Public Accountants.

The management of Jingcheng HK are responsible for the preparation of the relevant financial statements. It is our responsibility to compile the Financial Information included in this report according to the relevant financial statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information, together with the relevant notes, gives a true and fair view of the financial state of Jingcheng HK as at 31 December 2009, 2010 and 2011 and 31 July 2012, and of the operating results and cash flows of Jingcheng HK for the Relevant Periods.

REVIEW ON THE COMPARATIVE FINANCIAL INFORMATION AT THE END OF THE REPORTING PERIOD

We have reviewed the comparative financial information contained in this report, including the income statement, statement of changes in equity, cash flow statement and notes to the financial statements of Jingcheng HK for the seven months ended 31 July 2011 (“comparative financial information”).

The management of Jingcheng HK has prepared the comparative financial information in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006, disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other relevant regulations on the basis set out in Note 2 of this report.

Our responsibility is to express a conclusion on the comparative financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance. A review on the comparative financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the comparative financial information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the basis set out in Note 2(1) of this report.

ShineWing Certified Public Accountants (Special General Partnership)

Beijing, PRC
26 October 2012

Balance Sheet

(Prepared by Jingcheng Holding (Hong Kong) Company Limited)

Unit: RMB

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current assets:					
Cash	V.1	311,320.88	439,850.52	504,689.61	562,882.74
Tradable financial assets					
Notes receivable					
Accounts receivable					
Prepayments					
Interest receivable					
Dividends receivable	V.2	1,306,416.54	1,300,000.00		
Other receivables					
Inventories					
Non-current assets maturing within one year					
Other current assets					
Total current assets		<u>1,617,737.42</u>	<u>1,739,850.52</u>	<u>504,689.61</u>	<u>562,882.74</u>
Non-current assets:					
Financial assets available for sale					
Held-to-maturity investments					
Long-term receivables					
Long-term equity investments	V.3	141,785,207.49	132,357,621.29	131,384,390.77	127,305,231.20
Investment properties					
Fixed assets					
Construction in progress					
Project materials					
Disposal of fixed assets					
Productive biological assets					
Oil and gas assets					
Intangible assets					
Research and development expenses					
Goodwill					
Long-term prepaid expenses					
Deferred income tax assets					
Other non-current assets					
Total non-current assets		<u>141,785,207.49</u>	<u>132,357,621.29</u>	<u>131,384,390.77</u>	<u>127,305,231.20</u>
Total assets		<u>143,402,944.91</u>	<u>134,097,471.81</u>	<u>131,889,080.38</u>	<u>127,868,113.94</u>

Balance Sheet (continued)

Item	Notes	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Current liabilities:					
Short-term borrowings					
Tradable financial liabilities					
Notes payable					
Accounts payable	V.4	1,244,914.45	1,238,799.98	1,302,068.05	1,342,470.76
Receipts in advance					
Employee benefit payables					
Tax payables					
Interest payable					
Dividend payable					
Other payables	V.5	8,103.88	53,625.89	56,364.67	23,972.65
Non-current Liabilities maturing within one year					
Other current liabilities					
Total current liabilities		<u>1,253,018.33</u>	<u>1,292,425.87</u>	<u>1,358,432.72</u>	<u>1,366,443.41</u>
Non-Current Liabilities:					
Long-term borrowings					
Bonds payable					
Long-term accounts payable					
Special payable					
Estimated liabilities					
Deferred income tax liabilities					
Other non-current liabilities					
Total Non-current liabilities					
Total liabilities		<u>1,253,018.33</u>	<u>1,292,425.87</u>	<u>1,358,432.72</u>	<u>1,366,443.41</u>
Shareholder's Equity:					
Share capital	V.6	1,045.00	1,045.00	1,045.00	1,045.00
Capital reserves	V.7	102,361,289.93	102,361,289.93	105,018,929.30	102,196,162.09
Less: treasury stock					
Special reserve					
Surplus reserves					
Undistributed profit	V.8	61,667,220.80	52,999,178.89	41,810,000.51	36,342,786.64
Converted Difference in Foreign Currency Statements		<u>-21,879,629.15</u>	<u>-22,556,467.88</u>	<u>-16,299,327.15</u>	<u>-12,038,323.20</u>
Total shareholders' equity		<u>142,149,926.58</u>	<u>132,805,045.94</u>	<u>130,530,647.66</u>	<u>126,501,670.53</u>
Total liabilities and shareholders' equity		<u>143,402,944.91</u>	<u>134,097,471.81</u>	<u>131,889,080.38</u>	<u>127,868,113.94</u>

Legal Person:
Ren Yaguang

Accounting Director:
Wang Bin

Accounting Manager:
Wang Bin

Income Statement

(Prepared by Jingcheng Holding (Hong Kong) Company Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Operating Income						
Less: Operating cost						
Tax and additional expense						
Sales expense						
Administration expense	V.9	82,158.07		41,110.42	74,966.98	72,173.60
Financial expense	V.10	2,547.36	10.52	235.08	553.03	-941.51
Losses from assets impairment						
Add: Gain on changes of fair value (loss marked "-")						
Income on investment (loss marked "-")	V.11	8,752,747.34	7,524,246.39	12,431,092.07	5,542,733.88	9,086,801.67
in which: income from investments in associates and joint Venture		8,752,747.34	7,524,246.39	12,431,092.07	5,542,733.88	9,086,801.67
2. Operating Profit (loss marked "-")		8,668,041.91	7,524,235.87	12,389,746.57	5,467,213.87	9,015,569.58
Add: non-operating income						
Less: non-operating expense						
of which: loss from disposal of non-current assets						
3. Total Profit (loss marked "-")		8,668,041.91	7,524,235.87	12,389,746.57	5,467,213.87	9,015,569.58
Less: income tax expense						
4. Net Profit (net loss marked "-")		8,668,041.91	7,524,235.87	12,389,746.57	5,467,213.87	9,015,569.58
5. Earnings per Share:						
(1) Basic earnings per share						
(2) Diluted earnings per share						
6. Other Comprehensive Income		676,838.73	-3,620,944.97	-6,257,140.73	-4,261,003.95	-404,741.07
7. Total Comprehensive Income		<u>9,344,880.64</u>	<u>3,903,290.90</u>	<u>6,132,605.84</u>	<u>1,206,209.92</u>	<u>8,610,828.51</u>

Legal Person:
Ren YaguangAccounting Director:
Wang BinAccounting Manager:
Wang Bin

Cash Flow Statement

(Prepared by Jingcheng Holding (Hong Kong) Company Limited)

Unit: RMB

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Cash flows from operating activities:						
Cash received from the sales of goods and the rendering of services						
Receipts of taxes and levy refunds						
Other cash receipts relating to operating activities	V.12	<u>1.77</u>	<u>2.42</u>	<u>4.65</u>	<u>5.11</u>	<u>28.42</u>
Sub-total of cash inflows from operating activities		<u>1.77</u>	<u>2.42</u>	<u>4.65</u>	<u>5.11</u>	<u>28.42</u>
Cash paid for goods purchased and services received						
Cash payments to and on behalf of employees						
Payments of taxes and levy						
Other cash payments relating to operating activities	V.12	<u>129,134.32</u>	<u> </u>	<u>41,235.39</u>	<u>41,859.47</u>	<u>78,677.23</u>
Sub-total of cash outflows from operating activities		<u>129,134.32</u>	<u> </u>	<u>41,235.39</u>	<u>41,859.47</u>	<u>78,677.23</u>
Net cash flows from operating activities		<u>-129,132.55</u>	<u>2.42</u>	<u>-41,230.74</u>	<u>-41,854.36</u>	<u>-78,648.81</u>
2. Cash flows from investing activities:						
Cash receipts from return of investments						
Cash receipts from investment income						
Net cash received from disposal of fixed assets, intangible assets and other long-term assets						
Net cash received from disposal of subsidiaries and other operating units						
Other cash receipts relating to investing activities						
Sub-total of cash inflows from investing activities						
Cash paid to acquire fixed assets, intangible assets and other long-term assets						
Cash paid on investment						
Net cash paid for acquisition of subsidiaries and other business units						

Cash Flow Statement (continued)

Items	Notes	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Other cash payments relating to investing activities						
Sub-total of cash outflows from investing activities						
Net cash flows from investing activities						
3. Cash flows from financing activities:						
Cash received from capital contributions						
Cash receipts from borrowings						
Cash received from bond issue						
Other cash receipts relating to financing activities						
Sub-total of cash inflows from financing activities						
Cash repayments of amount borrowed						
Cash payments for distribution of dividends, profits or repayment of interest expenses						
Other cash payments relating to financing activities						
Sub-total of cash outflows from financing activities						
Net cash flows from financing activities						
4. Effect of exchange rate changes on cash and cash equivalents		602.91	-13,615.57	-23,608.35	-16,338.77	1,012.18
5. Net increase in cash and cash equivalents		-128,529.64	-13,613.15	-64,839.09	-58,193.13	-77,636.63
Add: Balance of cash and cash equivalents at the beginning of the period		439,850.52	504,689.61	504,689.61	562,882.74	640,519.37
6. Balance of cash and cash equivalents at the end of the period		<u>311,320.88</u>	<u>491,076.46</u>	<u>439,850.52</u>	<u>504,689.61</u>	<u>562,882.74</u>

Legal Person:
Ren Yaguang

Accounting Director:
Wang Bin

Accounting Manager:
Wang Bin

Statement of Movement on Equity

Prepared by Jingcheng Holding (Hong Kong) Company Limited

Unit: RMB

Items	Jan-Jul 2012					Converted Difference in Foreign Currency Statements	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed profit	
1. The ending balance for last year							
Add: Changes in accounting policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	1,045.00	102,361,289.93				52,999,178.89	132,805,045.94
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit							
(2) Other comprehensive income							
Subtotal of (1) and (2)	1,045.00	102,361,289.93				52,999,178.89	132,805,045.94
(3) Shareholders investing and reducing capital						8,668,041.91	9,344,880.64
I. Shareholders investing capital						8,668,041.91	8,668,041.91
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of surplus reserves							
II. Provision for general risk reserves							
III. Distribution to shareholders							
IV. Others							
(5) Shareholder's equity internal transfer							
I. Capital reserve transfer to capital (or share capital)							
II. Surplus reserve transfer to capital (or share capital)							
III. Surplus reserve offset losses							
IV. Others							
(6) Special reserves							
I. Amount provided for the current year							
II. Amount used for the current year							
(7) Others							
4. The ending balance for this year	1,045.00	102,361,289.93				61,667,220.80	142,149,926.58

Statement of Movement on Equity

Prepared by Jingcheng Holding (Hong Kong) Company Limited

Unit: RMB

Items	Jan-Jul 2011				Converted Difference in Foreign Currency Statements	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed profit
1. The ending balance for last year						
Add: Changes in accounting policies						
Corrections for previous errors						
Others						
2. The beginning balance of this year	1,045.00	105,018,929.30				41,810,000.51
3. Increase and decrease for this year (decrease represents as "-")						
(1) Net profit						
(2) Other comprehensive income						
Subtotal of (1) and (2)						
(3) Shareholders investing and reducing capital						
I. Shareholders investing capital						
II. Shares payment in shareholder's equity						
III. Others						
(4) Profit distribution						
I. Provision of surplus reserves						
II. Provision for general risk reserves						
III. Distribution to shareholders						
IV. Others						
(5) Shareholder's equity internal transfer						
I. Capital reserve transfer to capital (or share capital)						
II. Surplus reserve transfer to capital (or share capital)						
III. Surplus reserve offset losses						
IV. Others						
(6) Special reserves						
I. Amount provided for the current year						
II. Amount used for the current year						
(7) Others						
4. The ending balance for this year	1,045.00	105,018,929.30				49,334,236.38
						-19,920,272.12
						134,433,938.56

Statement of Movement on Equity

Prepared by Jingcheng Holding (Hong Kong) Company Limited

Items	2011					Converted Difference in Foreign Currency Statements	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed profit	
1. The ending balance for last year	1,045.00	105,018,929.30				41,810,000.51	130,530,647.66
Add: Changes in accounting policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	1,045.00	105,018,929.30				41,810,000.51	130,530,647.66
3. Increase and decrease for this year (decrease represents as "-")							
(1) Net profit							
(2) Other comprehensive income							
Subtotal of (1) and (2)							
(3) Shareholders investing and reducing capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution							
I. Provision of surplus reserves							
II. Provision for general risk reserves							
III. Distribution to shareholders							
IV. Others							
(5) Shareholder's equity internal transfer							
I. Capital reserve transfer to capital (or share capital)							
II. Surplus reserve transfer to capital (or share capital)							
III. Surplus reserve offset losses							
IV. Others							
(6) Special reserves							
I. Amount provided for the current year							
II. Amount used for the current year							
Others							
4. The ending balance for this year	1,045.00	102,361,289.93			-	52,999,178.89	132,805,045.94

Unit: RMB

Statement of Movement on Equity

Prepared by Jingcheng Holding (Hong Kong) Company Limited

Unit: RMB

Items	2010					Converted Difference in Foreign Currency Statements	Total Shareholder's Equity
	Share capital	Capital reserves	Less: Treasury Stock	Special Reserve	Surplus Reserves	Undistributed profit	
1. The ending balance for last year	1,045.00	102,196,162.09				36,342,786.64	126,501,670.53
Add: Changes in accounting policies							
Corrections for previous errors							
Others							
2. The beginning balance of this year	1,045.00	102,196,162.09				36,342,786.64	126,501,670.53
3. Increase and decrease for this year (decrease represents as "-")		2,822,767.21				5,467,213.87	4,028,977.13
(1) Net profit						5,467,213.87	5,467,213.87
(2) Other comprehensive income							
Subtotal of (1) and (2)							
(3) Shareholders investing and reducing capital							
I. Shareholders investing capital							
II. Shares payment in shareholder's equity							
III. Others							
(4) Profit distribution		2,822,767.21				5,467,213.87	-4,261,003.95
I. Provision of surplus reserves							
II. Provision for general risk reserves							
III. Distribution to shareholders							
IV. Others							
(5) Shareholder's equity internal transfer							
I. Capital reserve transfer to capital (or share capital)							
II. Surplus reserve transfer to capital (or share capital)							
III. Surplus reserve offset losses							
IV. Others							
(6) Special reserves							
I. Amount provided for the current year							
II. Amount used for the current year							
(7) Others							
4. The ending balance for this year	1,045.00	105,018,929.30				41,810,000.51	130,530,647.66

Statement of Movement on Equity

Prepared by Jingcheng Holding (Hong Kong) Company Limited

Unit: RMB

	2009					Converted Difference in Foreign Currency Statements	Undistributed profit	Surplus Reserves	Special Reserve	Less: Treasury Stock	Capital reserves	Share capital
Items						Total Shareholder's Equity						
1. The ending balance for last year						117,890,842.02	27,327,217.06	-11,633,582.13			102,196,162.09	1,045.00
Add: Changes in accounting policies												
Corrections for previous errors												
Others												
2. The beginning balance of this year						117,890,842.02	27,327,217.06	-11,633,582.13			102,196,162.09	1,045.00
3. Increase and decrease for this year (decrease represents as “-”)						8,610,828.51	9,015,569.58	-404,741.07				
(1) Net profit						9,015,569.58	9,015,569.58					
(2) Other comprehensive income						-404,741.07						
Subtotal of (1) and (2)						8,610,828.51	9,015,569.58	404,741.07				
(3) Shareholders investing and reducing capital												
I. Shareholders investing capital												
II. Shares payment in shareholder's equity												
III. Others												
(4) Profit distribution												
I. Provision of surplus reserves												
II. Provision for general risk reserves												
III. Distribution to shareholders												
IV. Others												
(5) Shareholder's equity internal transfer												
I. Capital reserve transfer to capital (or share capital)												
II. Surplus reserve transfer to capital (or share capital)												
III. Surplus reserve offset losses												
IV. Others												
(6) Special reserves												
I. Amount provided for the current year												
II. Amount used for the current year												
Others												
4. The ending balance for this year						126,501,670.53	36,342,786.64	-12,038,323.20			102,196,162.09	1,045.00

Legal Person:
Ren YaguangAccounting Director:
Wang BinAccounting Manager:
Wang Bin

Notes to the Financial Statement

For the period from 1 January 2009 to 31 July 2012

(Unless otherwise stated, all amounts herein are in RMB)

I. GENERAL

Jingcheng Holding (Hong Kong) Company Limited (the “Company”) was approved by Jing Guo Zi Gui Hua Zi [2005] No.43 of State-owned Assets Supervision and Administration Commission of Beijing Municipal Government and Jing Shang Jing Zi [2005] No.263 of Beijing Municipal Bureau of Commerce for establishment with capital contributed by Jingcheng Holding. It was incorporated in Hong Kong on 15 December 2005 with certificate of incorporation No. 1013872 and its address at 16-19/F, Prince’s Building, 10 Chater Road, Central, Hong Kong, and registered capital of HK\$1,000.

The business scope of the Company covers: import and export trade, investment holding and consultancy service, etc.

Jingcheng Machinery Electric Holding Co., Ltd. is the controlling shareholder and the ultimate controller of the Company.

II. BASIS FOR PREPARATION OF FINANCIAL STATEMENT

The Company’s financial statements have been prepared on a going concern basis and based on the actual transactions and matters incurred, in accordance with Enterprise Accounting Standards and relevant requirements, and the accounting policies and estimates as stated in Note IV “Significant Accounting Policies, Accounting Estimates and Compilation Method of Financial Statements”.

III. DECLARATION OF COMPLIANCE WITH ENTERPRISE ACCOUNTING STANDARDS

These financial statements are in compliance with requirements of the Enterprise Accounting Standards and give a true view on the entire financial position, operating results and cash flow of the Company.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF FINANCIAL STATEMENTS**1. Accounting period**

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

2. Reporting currency

The reporting currency of the Company is USD, while monetary units in this report are in RMB.

3. Principles of accounting and measurement

The Company uses the accrual method as its basis of accounting. All assets are measured at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement of the Company represents cash on hand and deposits held at call with banks. Cash equivalents in the cash flow statement represent short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

5. Foreign currency business and conversion of foreign currency statements**(1) Foreign currency transactions**

Foreign currency transactions of the Company are translated into RMB at the spot exchange rate of the date of transaction. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly recorded in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences is directly included in the profit and loss for the current period as a change of fair value. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction, while the translated amount in RMB should not be changed.

(2) *Foreign currency translation*

Foreign currency items of assets and liabilities to be presented in balance sheets are translated at the spot rate as at the balance sheet date. All items of owners' equity, except for undistributed profit, are translated at the spot rate upon occurrence. Items of income and expenses to be presented in income statements are translated at the spot price of the transaction date. Such translation differences are presented separately under owners' equity. Cash flow is translated at the spot rate of the date of occurrence. Impact of changes in exchange rate on cash is presented separately in cash flow statements.

6. Financial assets and financial liabilities

(1) *Financial assets*

1) *Classification of financial assets*

Financial assets of the Company are classified as financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables, and available-for-sale financial assets according to the purposes of investments and the economic substance of the assets.

Financial assets at fair value through profit or loss for the current period are those financial assets that have been acquired principally for the purpose of selling in 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 recoverable amounts that the management intends and is able to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable recoverable amounts that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are designated in this category and financial assets not classified into any other class upon initial recognition.

2) *Recognition and measurement of financial assets*

Financial asset are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss for the current period and available-for-sale financial assets are subsequently measured at fair value. Loans 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 for the current period are recorded as gain or loss on changes in fair value. Interest or cash dividends received during the period in which such financial assets are held are recognised as investment income. On disposal, the difference between fair value and initial recognised amount is recognised as gain or loss on investment and adjust the gain or loss into changes in fair value accordingly.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

3) *Impairment of financial assets*

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset 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 losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If the fair value of available-for-sale financial asset experienced a significant or non-temporary decline, the cumulative losses arising from the decline in fair value that had been recognised directly in equity shall be reversed and included in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

4) *Transfer of financial assets*

A financial asset is derecognised when any of the below condition is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Company transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Company has not retained control of the financial asset, although the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition condition, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

(2) *Financial liabilities*

Financial liabilities of the Company are classified as financial liabilities at fair value through profit or loss for the current period and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss for the current period include financial liabilities held for trading and those designated at fair value through profit or loss for the current period on initial recognition. They are subsequently measured at fair value. The gain or loss on changes in fair value, and dividends and interest expense in relation to such financial liabilities are charged to profit or loss for the current period as incurred.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the current period.

(3) *Method for Determination of fair values of financial assets and financial liabilities*

- a) If there is an active market for financial instrument, the quoted market price in an active market is used to determine the fair value of the financial instrument. In the active market, financial assets held or financial liabilities intending to bear by the Company take the current quoted price as the fair value of the relevant assets and liabilities. Financial assets intending to buy or financial liabilities borne by the Company take the current offer price as the fair

value of the relevant assets and liabilities. If there are no quoted price and offer price for financial assets and liabilities, and the economic conditions do not change significantly after the latest transaction, the latest quotation is used to determine the fair value of such financial assets or liabilities. If the economic conditions changed significantly after the latest transaction, the fair value of such financial assets or financial liabilities shall be determined by adjusting the quoted price of the latest transaction through preferring to the current price or interest of the similar financial assets or financial liabilities. If the Company has sufficient evidence to prove that the quoted price of the latest transaction did not based on fair value, the fair value of such financial assets or financial liabilities shall be determined through appropriate adjustment on the quoted price of the latest transaction.

- b) If there is no active market for financial instrument, the fair values are determined by evaluation method, including consulting the latest prices in the marketing transaction by the parties who are familiar with the market and make the transaction voluntarily, the current fair values of the other identified financial assets, discounted method of cash flow and option pricing modes.

7. Provisions for bad debts on receivables

The Company recognises losses from bad debts on receivables when any of the following circumstances occur: the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended their businesses due to natural disaster and unable to settle the debts in the foreseeable period; or the receivables are defaulted for more than three years; or when there is objective evidence indicating that the debts cannot be recovered or are not likely to be recovered.

Potential loss on bad debts is provided for using allowance account method. At the end of the period, receivables are tested for impairment on individual or group basis and the provisions for bad debts are recognised in the profit or loss for the current period. When there is objective evidence indicating that the receivables cannot be collected, such receivables are written off against the provisions for bad debts as losses on bad debts after granting of approval by the Group according to the required procedures.

(1) Receivables that are individually significant and are provided for bad debts on individual basis

Basis of determination or threshold of individually significant receivables	Receivables of more than RMB5 million are regarded as individually significant receivables
Method of provision for bad debts on receivables that are individually significant and are provided on individual basis	Provisions for bad debts are made for the excess of the carrying amount over the present value of the future cash flows

(2) Receivables provided for bad debts on group basis

Basis for determination of groups	
Aged group	Determine the credit risk characteristics by age of the receivables
Method of provision for bad debts on group basis	
Aged group	Provision of bad debts is made by aging analysis

- 1) Proportion of provisions for bad debts on receivables by aging analysis basis:

Aging	Proportion to accounts receivable (%)	Proportion to other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

8. Long-term equity investments

Long-term equity investments mainly include the equity investments in the invested company over which the Company has control, joint control or significant influence and entity over which the Company does not have control, joint control nor significant influence and do not have quoted prices in active market and its fair value cannot be reliably measured.

Joint control represents a contractual agreed common control over an economic activity. Joint control exists when any party does not have unilateral power to control the operating activities, and the decisions making relating to the operating activities of the jointly controlled entity require unanimous consent of the parties.

Significant influence exists when a party has the power to influence the decision making of the invested company's financial and operating policies, but is not able to have control or have joint control with other parties over the formulation of these policies. Significant influence exists when the Company directly or indirectly (through its subsidiary) owns 20% (inclusive) or more but less than 50% of shares with voting rights in the invested company. Significant influence cannot be established where there is explicit evidence indicating that the Group is unable to participate in the decision-making of the operating policy in the invested company.

The investment cost for long-term equity investment acquired through a business combination under common control is the carrying value of the share of equity in the absorbing company at the date of combination. The combination cost for long-term equity investment acquired through business combination not under common control is the fair value as at date of combination (acquisition) of the assets given, liabilities incurred or assumed and equity securities issued for the control of the party being absorbed (acquired) at the date of combination (acquisition).

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment, the investment cost is based on the actual amount of cash paid for the acquisition. For long-term equity investment acquired by issuing equity securities, the investment cost is the fair value of the equity securities issued. For long-term equity investment invested by the investor, the investment cost is the agreed consideration as specified in the contract or agreement. For long-term equity investment acquired through transactions such as debts restructuring and exchange of non-monetary assets, the investment cost is determined according to the relevant accounting standards.

Investments in subsidiaries are accounted for by the Company using cost method and adjusted for using equity method during the preparation of consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using equity method. Long-term equity investments are accounted for using cost method where the Company does not have control, joint control or significant influence over the invested company and there are no quoted prices in active market and the fair value of the invested company cannot be reliably measured. Long-term equity investments are accounted for as available-for-sale financial assets where the Company does not have control, joint control or significant influence over the invested company but there are quoted prices in active market and the fair value of the invested company can be reliably measured.

Under the cost method, long-term equity investments are measured at its investment cost, and its cost is adjusted by the amount of additional investment or the amount recovered. Under the equity method, investment gain or loss for the current period represents the Group's share of the net profits or losses made by the invested company for the current period. The share of the net profits or losses of the invested company is recognised based on the fair value of each of the identifiable assets of the invested company at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company and the gain or loss on transactions entered into between the Company and its associates and jointly controlled entities is eliminated for those attributable to the Company based on its share in the invested company. If long-term equity investments in associates and jointly controlled entities is held prior to the date on which investment is made at the first time, the debit balances in the investment-related equity investment shall be recognised as investment gain or loss after deducting the debit balance amortised over the original remaining period of the equity investment on straight-line basis.

The long-term equity investment will be accounted for by using cost method where the Company reduces the investment in the invested company so that the Company no longer has common control or significant influence over the invested company and there are no quoted prices in active market and fair value of the invested company cannot be reliably measured; or where the Company has control over the invested company due to the reasons such as making additional investment in the invested company; the long-term investment will be accounted for by using equity method where the Company has common control or significant influence over the invested company due to such reasons as making additional investment in the invested company or where the Company no longer has control but remain to have joint control or significant influence over the invested company due to reasons such as disposal of the investment.

On disposal of long-term equity investments, the difference between the carrying value of a long-term equity investments and the actual consideration received is recognised as investment income for the current period. For long-term equity investments accounted for using equity method, the movements of owner's equity, other than the net profit or loss, of the invested company, previously recorded in the owner's equity will be transferred and expensed as investment income for the current period on disposal.

9. Impairment of long-term non-financial assets

As at each balance sheet date, the Company assesses whether there is any indication indicating that the long-term equity investments and etc. may be impaired. If there is any indication indicating that an asset may be impaired, the asset will be tested for impairment. Goodwill and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication indicating that the asset may be impaired. When it is impossible to make the impairment test on the recoverable amount of an individual asset, the impairment test should be made on the basis of the corresponding assets group or the portfolio to which such assets belongs.

After the test of impairment, if the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss. Once an impairment loss on the assets is recognised, it will not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher of the net of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators of impairment are as follows:

- (1) The current market price of an asset declines substantially, exceeding obviously the expected decline caused by time changes or normal application;
- (2) There are significant changes in the economic, technical or legal environment in which the enterprise operates and in the market where the asset is located in the current period or near future, resulting in adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other market investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of the asset estimated future cash flow which results in a substantial decline in the recoverable amount of the assets;
- (4) There is evidence to demonstrate that the asset has already gone obsolete or its entity has already been damaged;
- (5) The asset has already been or will be left idle, ceased to be used, or planned to be disposed in advance;
- (6) There is evidence from the internal reports demonstrating that the economic returns of asset, such as the net cash flows generated by asset or operating profit (or loss) realised by asset, are much lowered (higher) than that as expected;
- (7) Any other indicator indicates that the value of an asset may have already been impaired

10. Deferred income tax assets and deferred income tax liabilities

The deferred income tax assets and deferred income tax liabilities of the Company are recognised based on the differences between the tax bases of assets and liabilities and their respective book values (temporary differences). For deductible tax losses or tax credit that can be brought forward in accordance with tax law for deduction of taxable income in subsequent years, it is considered as temporary differences and related deferred income tax assets are recognised. On the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rates that are expected to apply to the period in which the assets are realised or liability is settled.

The deferred income tax assets arising from the deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to the Company to offset such deductible temporary difference. If it is anticipated that no future taxable profits will be available to offset the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount so reduced will be reversed.

Income tax is accounted by using the balance sheet liability method. Income tax expenses represent the sum of current income tax and deferred income tax. Current income tax and deferred income tax in connection with the transactions and matters that are directly recorded in shareholders' equity are dealt with in shareholders' equity. Deferred income tax arising from business combination is adjusted to the carrying value of goodwill. Expenses or income of all other current income tax and deferred income tax are recognised in the profit or loss for the period.

The current income tax payable is the amount of tax payable to taxation authority by the enterprises 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 income tax assets and deferred income tax liabilities that should be recognised using the balance sheet liabilities method at the end of the period and their balances originally recognised.

1. Monetary fund

	31 July 2012			31 December 2011		
Item	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Bank deposits	–	–	311,320.88	–	–	439,850.52
USD	48,320.91	6.3320	305,968.00	59,599.63	6.3009	375,531.31
HKD	6,555.99	0.8165	5,352.88	79,337.85	0.8107	64,319.21
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	–	–	311,320.88	–	–	439,850.52

(continued)

Item	31 July 2010			31 December 2009		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash on hand	—	—	0.00	—	—	3,984.12
USD	0.00	6.6227	0.00	583.48	6.8282	3,984.12
Bank deposits	—	—	504,689.61	—	—	558,898.62
USD	74,618.25	6.6227	494,174.28	80,219.39	6.8282	547,754.04
HKD	12,357.43	0.8509	10,515.33	12,657.36	0.8805	11,144.58
Total	—	—	504,689.61	—	—	562,882.74

2. Dividends receivable

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Tianjin Tianhai High Pressure Containers Co., Ltd.	0.00	1,300,000.00	0.00	1,300,000.00
Total	0.00	1,300,000.00	0.00	1,300,000.00

Of which: dividends receivable over 1 year	0.00	—	—	0.00

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Tianjin Tianhai High Pressure Containers Co., Ltd.	1,300,000.00	6,416.54	0.00	1,306,416.54
Total	<u>1,300,000.00</u>	<u>6,416.54</u>	<u>0.00</u>	<u>1,306,416.54</u>
Of which: dividends receivable over 1 year	0.00	—	—	0.00

3. Long-term equity investments

(1) Categories of long-term equity investments

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Long-term equity investments accounted for using cost method	19,249,563.09	19,155,017.70	0.00	0.00
Long-term equity investments accounted for using equity method	<u>122,535,644.40</u>	<u>113,202,603.59</u>	<u>131,384,390.77</u>	<u>127,305,231.20</u>
Total long-term equity investments	<u>141,785,207.49</u>	<u>132,357,621.29</u>	<u>131,384,390.77</u>	<u>127,305,231.20</u>
Less: provision for impairment loss	0.00	0.00	0.00	0.00
Net value of long-term equity investments	141,785,207.49	132,357,621.29	131,384,390.77	127,305,231.20

(2) Long-term equity investments accounted for using cost method and equity method

Name of the invested company	Shareholding (%)	Voting right (%)	Investment cost	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009	Cash dividend for the current period
Accounted for using equity method								
Tianjin Tianhai High Pressure Containers Co., Ltd.	25.00	25.00	20,180,527.01	20,317,641.49	332,056.40	0.00	20,649,697.89	0.00
Beijing Tianhai Industry Co. Ltd.	28.44	28.44	<u>80,350,600.00</u>	<u>98,280,601.49</u>	<u>8,374,931.82</u>	0.00	<u>106,655,533.31</u>	0.00
Total	—	—	<u>100,531,127.01</u>	<u>118,598,242.98</u>	<u>8,706,988.22</u>	0.00	<u>127,305,231.20</u>	0.00

(continued)

Name of the invested company	Shareholding (%)	Voting right (%)	Investment cost	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010	Cash dividend for the current period
Accounted for using equity method								
Tianjin Tianhai High Pressure Containers Co., Ltd.	25.00	25.00	20,180,527.01	20,649,697.89	692,313.86	0.00	21,342,011.75	0.00
Beijing Tianhai Industry Co. Ltd.	28.44	28.44	80,350,600.00	106,655,533.31	3,386,845.71	0.00	110,042,379.02	0.00
Total	-	-	100,531,127.01	127,305,231.20	4,079,159.57	0.00	131,384,390.77	0.00

(continued)

Name of the invested company	Shareholding (%)	Voting right (%)	Investment cost	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011	Cash dividend for the current period
Accounted for using cost method								
Tianjin Tianhai High Pressure Containers Co., Ltd.	9.48	9.48	20,180,527.01	21,342,011.75	-2,186,994.05	0.00	19,155,017.70	0.00
Accounted for using equity method								
Beijing Tianhai Industry Co. Ltd.	28.44	28.44	80,350,600.00	110,042,379.02	3,160,224.57	0.00	113,202,603.59	0.00
Total	-	-	100,531,127.01	131,384,390.77	973,230.52	0.00	132,357,621.29	0.00

(continued)

Name of the invested company	Shareholding (%)	Voting right (%)	Investment cost	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012	Cash dividend for the current period
Accounted for using cost method								
Tianjin Tianhai High Pressure Containers Co., Ltd.	9.48	9.48	20,180,527.01	19,155,017.70	94,545.39	0.00	19,249,563.09	0.00
Accounted for using equity method								
Beijing Tianhai Industry Co. Ltd.	28.44	28.44	80,350,600.00	113,202,603.59	9,333,040.81	0.00	122,535,644.40	0.00
Total	-	-	100,531,127.01	132,357,621.29	9,427,586.20	0.00	141,785,207.49	0.00

Beijing Tianhai Industry Co. Ltd. has made capital contribution to Tianjin Tianhai High Pressure Containers Co., Ltd. in August 2011. After such capital contribution, the shareholding of the Company in Tianjin Tianhai High Pressure Containers Co., Ltd. was 9.48%. Therefore, cost method has been used to account for Tianjin Tianhai High Pressure Containers Co., Ltd. since September 2011.

(3) *Investment in associated companies*

Name of the invested company	Place of registration	Business Type	Shareholding (%)	Voting right (%)	Total net assets at 31 December 2009	Total operating income for 2009	Net profit for 2009
Associated company							
Tianjin Tianhai High Pressure Containers Co., Ltd.	Tianjin Port Free Trade Zone	Production	25.00	25.00	102,564,452.05	474,195,835.71	1,404,986.37
Beijing Tianhai Industry Co. Ltd.	Chaoyang District, Beijing	Production	28.44	28.44	320,303,201.24	1,801,945,538.28	34,061,261.11
Total	-	-	-	-	422,867,653.29	2,276,141,373.99	35,466,247.48

(continued)

Name of the invested company	Place of registration	Business Type	Shareholding (%)	Voting right (%)	Total net assets at 31 December 2010	Total operating income for 2010	Net profit for 2010
Associated company							
Tianjin Tianhai High Pressure Containers Co., Ltd.	Tianjin Port Free Trade Zone	Production	25.00	25.00	107,901,114.89	546,735,928.61	5,336,662.84
Beijing Tianhai Industry Co. Ltd.	Chaoyang District, Beijing	Production	28.44	28.44	341,736,540.46	2,105,950,052.49	12,810,074.34
Total	-	-	-	-	449,637,655.35	2,652,685,981.10	18,146,737.18

(continued)

Name of the invested company	Place of registration	Business Type	Shareholding %	Voting right %	Total net assets at 31 December 2011	Total operating income for 2011	Net profit for 2011
Associated company							
Beijing Tianhai Industry Co. Ltd.	Chaoyang District, Beijing	Production	28.44	28.44	368,580,450.77	2,593,383,116.51	40,778,317.02
Total	-	-	-	-	368,580,450.77	2,593,383,116.51	40,778,317.02

(continued)

Name of the invested company	Place of registration	Business type	Shareholding (%)	Voting right (%)	Total net assets at 31 July 2012	Total operating income for Jan-Jul 2012	Net profit for Jan-Jul 2012
Associated company							
Beijing Tianhai Industry Co. Ltd.	Chaoyang District, Beijing	Production	28.44	28.44	390,574,408.02	1,549,834,617.37	21,993,957.25
Total	-	-	-	-	390,574,408.02	1,549,834,617.37	21,993,957.25

4. Accounts payable

(1) Accounts payable

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Total	<u>1,244,914.45</u>	<u>1,238,799.98</u>	<u>1,302,068.05</u>	<u>1,342,470.76</u>
Of which: over 1 year	1,244,914.45	1,238,799.98	1,302,068.05	1,342,470.76

- (2) There were no accounts payable due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at the end of the period.

5. Other payables

(1) Other payables

Item	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Total	<u>8,103.88</u>	<u>53,625.89</u>	<u>56,364.67</u>	<u>23,972.65</u>
Of which: over 1 year	8,103.88	53,625.89	23,251.17	7,926.38

- (2) Amounts due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights

Name of company	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	<u>7,350.38</u>	<u>7,314.27</u>	<u>7,687.83</u>	<u>7,926.38</u>
Total	<u>7,350.38</u>	<u>7,314.27</u>	<u>7,687.83</u>	<u>7,926.38</u>

6. Share capital

Name of shareholders	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	<u>1,045.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,045.00</u>
Total	<u>1,045.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,045.00</u>

(continued)

Name of shareholders	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	<u>1,045.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,045.00</u>
Total	<u>1,045.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,045.00</u>

(continued)

Name of shareholders	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	1,045.00	0.00	0.00	1,045.00
Total	1,045.00	0.00	0.00	1,045.00

(continued)

Name of shareholders	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	1,045.00	0.00	0.00	1,045.00
Total	1,045.00	0.00	0.00	1,045.00

7. Capital reserve

Item	31 December 2008	Increase during the current period	Decrease during the current period	31 December 2009
Share capital premium	98,740,470.00	0.00	0.00	98,740,470.00
Other capital reserve	3,720,192.26	-264,500.17	0.00	3,455,692.09
Total	102,460,662.26	-264,500.17	0.00	102,196,162.09

(continued)

Item	31 December 2009	Increase during the current period	Decrease during the current period	31 December 2010
Share capital premium	98,740,470.00	0.00	0.00	98,740,470.00
Other capital reserve	3,455,692.09	2,822,767.21	0.00	6,278,459.30
Total	102,196,162.09	2,822,767.21	0.00	105,018,929.30

(continued)

Item	31 December 2010	Increase during the current period	Decrease during the current period	31 December 2011
Share capital premium	98,740,470.00	0.00	0.00	98,740,470.00
Other capital reserve	6,278,459.30	-2,657,639.37	0.00	3,620,819.93
Total	105,018,929.30	-2,657,639.37	0.00	102,361,289.93

(continued)

Item	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Share capital premium	98,740,470.00	0.00	0.00	98,740,470.00
Other capital reserve	3,620,819.93	0.00	0.00	3,620,819.93
Total	<u>102,361,289.93</u>	<u>0.00</u>	<u>0.00</u>	<u>102,361,289.93</u>

The amounts of increase in capital reserve represented the portion which was attributable to the Company in proportion to the shareholding in movement of the owner's equity (excluding net profit or loss) of Beijing Tianhai Industry Co. Ltd. accounted for by using the equity method.

8. Undistributed profits

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Undistributed profits at the beginning of the period	52,999,178.89	41,810,000.51	41,810,000.51	36,342,786.64	27,327,217.06
Add: net profit of the period	8,668,041.91	7,524,235.87	12,389,746.57	5,467,213.87	9,015,569.58
Adjustment for other factor	0.00	0.00	-1,200,568.19	0.00	0.00
Undistributed profits at the end of the period	<u>61,667,220.80</u>	<u>49,334,236.38</u>	<u>52,999,178.89</u>	<u>41,810,000.51</u>	<u>36,342,786.64</u>

The adjustment for other factor represents the insufficiency of the capital reserve to cover the difference between the initial investment cost and the payment of consideration for Beijing Tianhai Industry Co. Ltd., an associate, for the merger of enterprises under common control in 2011, which was offset against the undistributed profit and accordingly, the Company adjusted the undistributed profit according to its shareholding.

9. Administrative expenses

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Agency fee	82,158.07	0.00	41,110.42	71,042.81	67,733.88
Travelling expenses	0.00	0.00	0.00	3,924.17	4,439.72
Total	<u>82,158.07</u>	<u>0.00</u>	<u>41,110.42</u>	<u>74,966.98</u>	<u>72,173.60</u>

10. Finance costs

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest expenses	0.00	0.00	0.00	0.00	0.00
Less: interest income	1.77	2.42	4.65	5.11	28.42
Exchange gain or loss	1,247.12	12.94	114.76	38.40	-1,575.87
Handling charge	1,302.01	0.00	124.97	519.74	662.78
Total	<u>2,547.36</u>	<u>10.52</u>	<u>235.08</u>	<u>553.03</u>	<u>-941.51</u>

11. Investment income

(1) Source of investment income

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Long-term equity investment income accounted for using equity method	8,752,747.34	7,524,246.39	12,431,092.07	5,542,733.88	9,086,801.67
Total	<u>8,752,747.34</u>	<u>7,524,246.39</u>	<u>12,431,092.07</u>	<u>5,542,733.88</u>	<u>9,086,801.67</u>

(2) Income from long-term equity investments accounted for using equity method

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Total	<u>8,752,747.34</u>	<u>7,524,246.39</u>	<u>12,431,092.07</u>	<u>5,542,733.88</u>	<u>9,086,801.67</u>
Of which: Tianjin Tianhai High Pressure Containers Co., Ltd.	0.00	494,198.46	153,855.01	1,334,165.72	351,246.61
Beijing Tianhai Industry Co. Ltd.	8,752,747.34	7,030,047.93	12,277,237.06	4,208,568.16	8,735,555.06

Beijing Tianhai Industry Co. Ltd. has made capital contribution to Tianjin Tianhai High Pressure Containers Co., Ltd. in August 2011. After such capital contribution, the shareholding of the Company in Tianjin Tianhai High Pressure Containers Co., Ltd. was 9.48%. Therefore, cost method has been used to account for Tianjin Tianhai High Pressure Containers Co., Ltd. since September 2011.

12. Cash flow statement

(1) Other cash relating to operating activities received/paid

1) Other cash receipts relating to operating activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Interest income	1.77	2.42	4.65	5.11	28.42
Total	<u>1.77</u>	<u>2.42</u>	<u>4.65</u>	<u>5.11</u>	<u>28.42</u>

2) Other cash payments relating to operating activities

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Various expenses	129,134.32	0.00	41,235.39	41,859.47	78,677.23
Total	<u>129,134.32</u>	<u>0.00</u>	<u>41,235.39</u>	<u>41,859.47</u>	<u>78,677.23</u>

(2) *Supplementary information of cash flow statement*

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
1. Reconciliation of net profits to cash flows from operating activities					
Net profits	8,668,041.91	7,524,235.87	12,389,746.57	5,467,213.87	9,015,569.58
Add: Provision for assets impairment	0.00	0.00	0.00	0.00	0.00
Depreciation of fixed assets, oil and gas assets and productive biological assets	0.00	0.00	0.00	0.00	0.00
Amortisation of intangible assets	0.00	0.00	0.00	0.00	0.00
Amortisation of long-term prepayments	0.00	0.00	0.00	0.00	0.00
Loss on disposal of fixed assets, intangible assets and other long-term assets (income marked with “-”)	0.00	0.00	0.00	0.00	0.00
Loss on discarding of fixed assets (income marked with “-”)	0.00	0.00	0.00	0.00	0.00
Gain or loss on changes in fair value (income marked with “-”)	0.00	0.00	0.00	0.00	0.00
Finance costs (income marked with “-”)	1,247.12	12.94	114.76	38.40	-1,575.87
Loss on investment (income marked with “-”)	-8,752,747.34	-7,524,246.39	-12,431,092.07	-5,542,733.88	-9,086,801.67
Decrease in deferred income tax assets (increase marked with “-”)	0.00	0.00	0.00	0.00	0.00
Increase in deferred income tax liabilities (decrease marked with “-”)	0.00	0.00	0.00	0.00	0.00
Decrease in inventories (increase marked with “-”)	0.00	0.00	0.00	0.00	0.00
Decrease in operating accounts receivables (increase marked with “-”)	0.00	0.00	0.00	0.00	0.00
Increase in operating accounts payables (decrease marked with “-”)	-45,674.24			33,627.25	-5,840.85
Others	0.00	0.00	0.00	0.00	0.00
Net cash flow from operating activities	-129,132.55	2.42	-41,230.74	-41,854.36	-78,648.81

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
2. Significant non-cash investing and financing transactions:					
Conversion of debt into capital	0.00	0.00	0.00	0.00	0.00
Convertible corporate bonds expiring within one year	0.00	0.00	0.00	0.00	0.00
Acquisition of fixed assets under finance leases	0.00	0.00	0.00	0.00	0.00
3. Changes in cash and cash equivalents:					
Balance of cash at the end of the period	311,320.88	491,076.46	439,850.52	504,689.61	562,882.74
Less: Balance of cash at the beginning of the period	439,850.52	504,689.61	504,689.61	562,882.74	640,519.37
Add: Balance of cash equivalents at the end of the period	0.00	0.00	0.00	0.00	0.00
Less: Balance of cash equivalents at the beginning of the period	0.00	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	-128,529.64	-13,613.15	-64,839.09	-58,193.13	-77,636.63
(3) Cash and cash equivalents					

Item	Jan-Jul 2012	Jan-Jul 2011 (unaudited)	2011	2010	2009
Cash	311,320.88	491,076.46	439,850.52	504,689.61	562,882.74
Including: Cash on hand	0.00	0.00	0.00	0.00	3,984.12
Bank deposit available to make payments	311,320.88	491,076.46	439,850.52	504,689.61	558,898.62
Other monetary fund available to make payments	0.00	0.00	0.00	0.00	0.00
Cash equivalents	0.00	0.00	0.00	0.00	0.00
Including: debt investment maturing within 3 months	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents at the end of the period	311,320.88	491,076.46	439,850.52	504,689.61	562,882.74
Including: Restricted cash and cash equivalent for parent Company or subsidiary inside the Group	0.00	0.00	0.00	0.00	0.00

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

(1) Relationships of related parties

1. Controlling shareholder and ultimate controlling party

(1) Controlling shareholder and ultimate controlling party

Name of ultimate controlling party	Type	Place of registration	Nature of business	Legal Representative	Code of the organization
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	Limited Company (wholly state-owned)	Beijing	Operation and management of state-owned assets	Ren Yaguang	63368621-7

(2) Registered capital of the controlling shareholder and its movement (Unit: RMB'0000)

Controlling shareholder	31 December 2011	Increase during the current period	Decrease during the current period	31 July 2012
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	163,454.55	0.00	0.00	163,454.55

(3) Shares or equity interests held by the controlling shareholder and their movements (Unit: HKD)

Controlling shareholder	Amount of Shareholdings		Percentage (%)	
	31 July 2012	31 December 2011	31 July 2012	31 December 2011
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	1,000.00	1,000.00	100	100

2. Associated companies

(1) Associated companies

Name of the invested company	Type	Place of registration	Nature of business	Legal Representative	Registered capital (RMB'000)	Shareholding (%)	Code of the organization
Associated company Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign joint venture	Tianjin	Production	Guo Zhenkun	8,550.00	25.00	74665239-8
Beijing Tianhai Industry Co. Ltd.	Limited company (sino-foreign joint venture)	Beijing	Production	Wang Pingsheng	2,492.40	28.44	60000369-4

The capital of Tianjin Tianhai High Pressure Containers Co., Ltd. was increased in July 2011, after which the shareholding of the Company was 9.48%.

(2) Financial information

Name of the invested company	31 July 2012 (RMB'0000)			Jan-July 2012 (RMB'0000)	
	Assets	Liabilities	Shareholders' equity	Operating income	Net profit
Associated company Beijing Tianhai Industry Co. Ltd.	128,127.80	89,070.36	39,057.44	154,983.46	2,199.40
Name of the invested company	31 December 2011 (RMB'0000)			2011 (RMB'0000)	
	Assets	Liabilities	Shareholders' equity	Operating income	Net profit
Associated company Beijing Tianhai Industry Co. Ltd.	117,655.95	80,797.90	36,858.05	259,338.31	4,077.83
Name of the invested company	31 December 2010 (RMB'0000)			2010 (RMB'0000)	
	Assets	Liabilities	Shareholders' equity	Operating income	Net profit
Associated company Tianjin Tianhai High Pressure Containers Co., Ltd.	31,134.09	20,343.98	10,790.11	54,673.59	533.67
Beijing Tianhai Industry Co. Ltd.	78,829.86	44,656.21	34,173.65	210,595.01	1,281.01
Name of the invested company	31 December 2009 (RMB'0000)			2009 (RMB'0000)	
	Assets	Liabilities	Shareholders' equity	Operating income	Net profit
Associated company Tianjin Tianhai High Pressure Containers Co., Ltd.	28,424.98	18,168.53	10,256.45	47,419.58	140.50
Beijing Tianhai Industry Co. Ltd.	69,242.93	37,212.61	32,030.32	180,194.55	3,406.13

(2) Current Accounts Balances with Related Parties

1. Account payables of related parties

Related party (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Associated company In which: Beijing Tianhai Industry Co. Ltd.	1,244,914.45	1,238,799.98	1,302,068.05	1,342,470.76
Total	<u>1,244,914.45</u>	<u>1,238,799.98</u>	<u>1,302,068.05</u>	<u>1,342,470.76</u>

2. Other payables of related parties

Related party (item)	31 July 2012	31 December 2011	31 December 2010	31 December 2009
Controlling shareholder and ultimate controlling party In which: Beijing Jingcheng Machinery Electric Holding Co., Ltd.	7,350.38	7,314.27	7,687.83	7,926.38
Total	<u>7,350.38</u>	<u>7,314.27</u>	<u>7,687.83</u>	<u>7,926.38</u>

VII. CONTINGENT EVENTS

As at 31 July 2012, the Company has no significant contingent events to be disclosed.

VIII. POST BALANCE SHEET EVENTS

As at the date of approval for issuance of this financial report, the Company has no significant post-balance sheet events to be disclosed.

IX. OTHER SIGNIFICANT EVENTS

As at 31 July 2012, the Company has no other significant events to be disclosed.

X. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for issuance by the Board of Directors on 25 October 2012.

Jingcheng Holding (Hong Kong) Company Limited
25 October 2012

A. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION**1. BRIEF INTRODUCTION OF THE MATERIAL ASSET REORGANISATION
TRANSACTION**

The “Resolution relating to the Material Asset Reorganisation of the Company” was passed at the sixth meeting of the seventh session of the Board of Beiren Printing Machinery Holdings Limited (hereinafter referred to as the “Company”) on 5 July 2012, which approved the exchange of assets between the Company and Jingcheng Holding Machinery Electric Holding Co., Ltd. (hereinafter referred to as “Jingcheng Holding”), pursuant to which, the Company proposed to exchange all its assets and liabilities (hereinafter referred to as “Outgoing Assets”) with all assets relating to gas storage and transportation equipment business held by Jingcheng Holding (hereinafter referred to as “Incoming Assets”), with the difference to be paid by party who caused the shortfall in cash. The Outgoing Assets are all assets and liabilities of the Company, and the Incoming Assets are 71.56% equity interests in Beijing Tianhai Industry Co., Ltd. (hereinafter referred to as “Tianhai Industrial”), 100% equity interests in Jingcheng Holding (Hong Kong) Company Limited (hereinafter referred to as “Jingcheng HK”) and 100% equity interests in Jingcheng Environmental Protection Development Co., Ltd. (hereinafter referred to as “Jingcheng Environment”) (excluding its environmental protection business) held by Jingcheng Holding.

The exchange consolidates the control of 71.56% equity interests in Tianhai Industrial, 100% equity interests in Jingcheng HK and 100% equity interests in Jingcheng Environment, constituting a business combination involving enterprises under common control. Pursuant to the requirements of Accounting Standards for Business Enterprises 20 – Business Combination (hereinafter referred to as “Standard for Business Combination”), a business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. Since the ultimate shareholder of the Company, Tianhai Industrial, Jingcheng HK and Jingcheng Environment will be Jingcheng Holding, the transaction is a business combination involving enterprises under common control.

According to the requirements of the Standard for Business Combination:

As for the assets and liabilities acquired from the acquiree in the merger, the acquirer shall maintain their previous book value in the acquiree unchanged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the business combination should be adjusted to the relevant items in shareholders’ equity and not to be charged as profit or loss on business combination in the current period. That is, the adjustment shall be made firstly to the capital reserve (capital premium or share capital premium). If the capital reserve (capital premium or share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained profits.

For the business combination under common control, it should be treated as the reporting entity formed after the merger as if it is existed and integrated since the exercise of control of the ultimate controlling entity, and be reflected in its (being the reporting entity comprising the parent company and subsidiaries) consolidated financial statement, with the assets and operating results accounted for continuously.

2. BASIS OF PREPARATION FOR PRO FORMA FINANCIAL STATEMENTS

These pro forma financial statements are prepared for the purpose of carrying out the Material Asset Reorganisation transaction of the Company and Jingcheng Holding.

In the preparation of these pro forma financial statements, it is assumed that the transaction has been completed before 1 January 2011, the Company has been holding the Incoming Assets from its establishment, and the Company has not held the Outgoing Assets since its establishment, the resulting business structure and accounting entities thereof have been in existence from its establishment, and there are no other material changes during the period from 1 January 2011 to 31 December 2012 (hereinafter referred to as “relevant period”).

These pro forma financial statements have been prepared based on the audited financial statements of the relevant period of the Company and the audited financial statements of the relevant period of the Incoming Assets and the Outgoing Assets, in accordance with the relevant requirements for accounting of China Accounting Standards for Business Enterprises No. 20 – Business Combination and China Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements. All material internal transactions and balances within the scope of consolidation have been eliminated.

The scope of consolidation of these pro forma financial statements is determined on the basis of control according to the specific scope of the Material Asset Reorganisation. Control refers to the right of making decisions on financial and operational policies of the entity, and receiving benefits from the business activities conducted by the entity.

These pro forma financial statements have been prepared on a going concern basis and based on actual transaction and event occurred in accordance with China Accounting Standards for Business Enterprises and relevant requirements and the accounting policies and estimates described in “Significant Accounting Policies, Accounting Estimates and Compilation Method of Consolidated Financial Statements” of the Company.

3. AUDITED FINANCIAL STATEMENTS OF THE COMPANY AS OF 31 JULY 2012

The audited balance sheet of the Company as at 31 July 2012 is extracted from the audited financial statements of the Company as of 31 July 2012 without any adjustment.

The audited consolidated income statement and audited consolidated cash flow statement of the Company for 2011 are extracted from the audited financial statements of the Company for 2011 without any adjustment.

**4. PROPOSED OUTGOING ASSETS AND LIABILITIES OF THE GROUP IN THE
REORGANISATION TRANSACTION**

As mentioned above, in this reorganisation transaction, the Company proposed to exchange all its assets and liabilities with all assets relating to gas storage and transportation equipment business owned by Jingcheng Holding. After disposing all its assets and liabilities in the outgoing transaction, the Company will hold 71.56% equity interests in Tianhai Industrial, 100% equity interests in Jingcheng HK and 100% equity interests in Jingcheng Environment (excluding its environmental protection business).

5. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF TIANHAI INDUSTRIAL AS OF 31 JULY 2012

The audited consolidated balance sheet of Tianhai Industrial as at 31 July 2012 is extracted from the audited financial statements of Tianhai Industrial as of 31 July 2012 without any adjustment.

The audited consolidated income statement and audited consolidated cash flow statement of Tianhai Industrial for 2011 are extracted from the audited financial statements of Tianhai Industrial for 2011 without any adjustment.

6. AUDITED FINANCIAL STATEMENTS OF JINGCHENG HK AS OF 31 JULY 2012

The audited balance sheet of Jingcheng HK as at 31 July 2012 is extracted from the audited financial statements of Jingcheng HK as of 31 July 2012 without any adjustment.

The audited income statement and audited cash flow statement of Jingcheng HK for 2011 are extracted from the audited financial statements of Jingcheng HK for 2011 without any adjustment.

7. PARTS OF TIANHAI INDUSTRIAL AND TIANJIN TIANHAI IN THE AUDITED BALANCE SHEET OF JINGCHENG HK AS AT 31 JULY 2012

- (1) As at 31 July 2012, through its direct shareholding of 71.56% in Tianhai Industrial and the indirect holding of 28.44% shares in Tianhai Industrial through Jingcheng HK, Jingcheng Holding holds 100% shares in Tianhai Industrial in aggregate. Based on the above shareholding, the long-term equity investment of Jingcheng HK in Tianhai Industrial is an equity investment with significant influence, which was accounted for under the equity method pursuant to China Accounting Standards for Business Enterprises No.2 – Long-term Equity Investment (hereinafter referred to as “Standard for Long-term Equity Investment”).
- (2) Tianjin Tianhai was established with capital jointly contributed by Tianhai Industrial and Tianjin Pipe Co., Ltd. in January 2003. Upon its establishment, the registered capital of Tianjin Tianhai was RMB20 million, of which the percentage of contribution of Tianhai Industrial and Tianjin Pipe Co., Ltd. were 55% and 45% respectively. After various transfers of shares and increases of capital, the registered capital of Tianjin Tianhai as at 31 December 2010 was RMB85.50 million, of which Tianhai Industrial has contributed RMB25.65 million, accounting for 30%; TPCO Investment Co., Ltd. has contributed RMB38.4750 million, accounting for 45%; and Jingcheng HK has contributed RMB21.3750 million, accounting for 25%. In July 2011, the board of directors of Tianjin Tianhai resolved to increase the registered capital by RMB140.0784 million through a cash contribution of RMB77.0431 million by Tianhai Industrial and a real estate contribution of RMB63.0353 million by TPCO Investment Co., Ltd.. After such change, the registered capital was RMB225.5784 million, of which Tianhai Industrial has contributed RMB102.6931 million, accounting for 45.52% of its registered capital; TPCO Investment Co., Ltd. has contributed RMB101.5103 million (a contribution of RMB38.4750 million as at 31 July 2012 and the real estate transfer procedure funded by it was completed in September), accounting for 45% of its registered capital; and Jingcheng HK has contributed RMB21.3750 million, accounting for 9.48% of its registered capital. The board of directors of Tianjin Tianhai has 9 members, of which 4 members are from Tianhai Industrial; 4 members are from TPCO Investment Co., Ltd.; and 1 member is from

Jingcheng HK. As the director appointed by Jingcheng HK was assigned by Tianhai Industrial and was the senior management personnel of Tianhai Industrial, the actual percentage of voting right of the Company was 55%, which enable Tianhai Industrial to have a control over Tianjin Tianhai. Therefore, Tianhai Industrial has included Tianjin Tianhai in its consolidated statements.

The shareholding of Jingcheng HK in Tianjin Tianhai was 25% prior to 31 August 2011, which constituted equity investment with significant influence and accounted for under equity method according to the Standard for Long-term Equity Investment. After 31 August 2011, the shareholding of Jingcheng HK in Tianjin Tianhai decreased to 9.48% and was accounted for under cost method according to the Standard for Long-term Equity Investment.

- (3) From the above, the net profit of Jingcheng HK, which mainly comes from its investment business, mainly came from the net profit attributed to the parent's shareholders of Tianhai Industrial and net profit of Tianjin Tianhai. According to the Brief Introduction of the Material Asset Reorganisation transaction and the Basis of Preparation for Pro forma financial statements, since the dividend receivable, long-term equity investment, dividend payable, Shareholders' equity and net profit arising from the investment will be accounted for in duplication, they should be eliminated in the preparation of the pro forma statements.
- 1) Adjustment by deducting RMB1,306,416.54 from dividend receivable as of 31 July 2012;
 - 2) Adjustment by deducting RMB141,785,207.49 from long-term equity investment as of 31 July 2012;
 - 3) Adjustment by deducting RMB143,091,624.03 from Shareholders' equity attributable to the parent as of 31 July 2012;
 - 4) Adjustment by deducting RMB12,431,092.07 from investment income in the net profit attributed to the parent's shareholders for 2011.

8. AUDITED BALANCE SHEET OF JINGCHENG ENVIRONMENT AS AT 31 JULY 2012

Pursuant to the board resolution of Jingcheng Holding, the assets and liabilities relating to the environmental protection business of Jingcheng Environment was transferred to Beijing Xihai Industrial & Trading Co., Ltd. with nil consideration with the benchmark date of transfer as 31 March 2012. The assets transferred with nil consideration include: (1) assets, liabilities and business structures directly related to environmental protection business; and (2) 80% shareholdings held by Jingcheng Environment.

In view of that Jingcheng Environment will no longer hold any equity in Jingcheng Tianyi after the transfer of equity in Jingcheng Tianyi, the balance sheet, income statement and cash flow statement of Jingcheng Environment as at 31 July 2012 are all statements of the parent company.

The audited balance sheet of Jingcheng Environment as at 31 July 2012 is extracted from the audited financial statements of Jingcheng Environment as of 31 July 2012 without any adjustment.

The audited income statement of Jingcheng Environment for 2011 is extracted from the audited financial statements of Jingcheng Environment for 2011 without any adjustment.

9. PRO FORMA ASSETS AND LIABILITIES OF JINGCHENG ENVIRONMENT FOR THE REORGANISATION TRANSACTION (EXCLUDING ITS ENVIRONMENTAL BUSINESSES)

The pro forma balance sheet, pro forma income statement and pro forma cash flow statement as at 31 July 2012 were prepared based on the followings: the actual financial statement and relevant books of Jingcheng Environment during the reporting period, the assumption that the relevant assets, liabilities and business structure related to environmental businesses which Jingcheng Environment proposed to dispose have been existed independently and operated continuously at 1 January 2011, the actual transactions and events occurred and in accordance with the China Accounting Standards for Business Enterprises and relevant requirements. They were prepared based on the important accounting policies, accounting estimation and the way of preparing the financial statement of Jingcheng Environment.

As at 31 July 2012, the total assets of environmental business amounted to RMB12,394,612.32, the total liabilities amounted to RMB21,272,416.71 and the shareholders' equity amounted to RMB-8,877,804.39.

10. PRO FORMA ASSETS AND LIABILITIES OF JINGCHENG ENVIRONMENT FOR THE REORGANISATION TRANSACTION (EXCLUDING EQUITY INTEREST IN JINGCHENG TIANYI)

For the purpose of investing in Jingcheng Tianyi, Jingcheng Environment received the loans from Jingcheng Holding successively which amounted to RMB40,000,000.00, thus the equity interest and loans of Jingcheng Environment will be processed together in the disposal.

As at 31 July 2012, the statement items which are related to the disposal of equity interest in Jingcheng Tianyi include: (1) long term equity investment of RMB40,000,000.00; and (2) payables of RMB40,000,000.00 to Jingcheng Holding, the amount was borrowed for the purpose of investing in Jingcheng Tianyi.

11. ADJUSTMENT FOR DISPOSAL

Other cash received of RMB3,920,675.34 related to financing activities which was adjusted in 2011 was the net increase in cash incurred from the environmental businesses which received by Jingcheng Environment in 2011. Other cash received of RMB3,920,675.34 related to financing activities which was adjusted and paid in 2011 was the reversal of net increase in cash in the pro forma cash flow statement of the environmental business.

12. ELIMINATION ADJUSTMENTS FOR PRO FORMA CONSOLIDATION

In the preparation of the pro forma statements in accordance with the Brief Introduction of the Material Asset Reorganisation transaction and the Basis of Preparation for Pro forma financial statements above, in the profit and loss attributed to minority interest of Tianhai Industrial, the profit and loss of Tianjin Tianhai attributable to Jingcheng HK should be adjusted from profit and loss of minority interest to net profit attributed to the parent's shareholders, with the corresponding minority interest adjusted to shareholder's equity attributed to the parent. Also, the accounts receivable of Tianhai Industrial and the accounts payable of Jingcheng HK should be eliminated, and the dividend payable of Tianjin Tianhai and the dividend receivable of Jingcheng HK should be eliminated. Therefore, the elimination adjustments for pro forma consolidation include:

- 1) Adjustment by deducting accounts receivable by RMB1,244,914.45 as at 31 July 2012;
- 2) Adjustment by deducting accounts payable by RMB1,244,914.45 as at 31 July 2012;
- 3) Adjustment by deducting employee benefit payable by RMB81,250.00 as at 31 July 2012;
- 4) Adjustment by deducting dividend payable by RMB1,300,000.00 as at 31 July 2012;
- 5) Adjustment by deducting shareholder's equity attributed to the parent by RMB27,113,500.37 as at 31 July 2012;
- 6) Adjustment by deducting minority interest by RMB25,732,250.37 as at 31 July 2012;
- 7) Adjustment by deducting net profit attributed to the parent's shareholders by RMB57,741.84 for 2011;
- 8) Adjustment by increasing profit and loss attributed to minority interest by RMB57,741.84 for 2011.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REORGANISED GROUP

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP AS AT 31 JULY 2012

Unit: RMB

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APPENDIX V

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REORGANISED GROUP

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP AS AT 31 JULY 2012 (continued)

Unit: RMB

Item	Pro forma adjustments										
	Incoming Assets										
	Tianhai Industrial		Jingcheng HK		Jingcheng Environment						
	Audited balance sheet of the Company as at 31 July 2012 after excluding proposed outgoing assets and liabilities of the Company at 31 July 2012 reorganization transaction	Proposed outgoing assets and liabilities of the Company in this reorganization transaction	Audited balance sheet of Tianhai Industrial as at 31 July 2012	Audited balance sheet of Jingcheng HK as at 31 July 2012	Balance sheet of Tianhai Industrial included in the audited balance sheet of Jingcheng HK as at 31 July 2012	Audited balance sheet of Jingcheng HK after excluding Industrial included in the assets and liabilities	Pro forma assets and liabilities of Jingcheng Environment (excluding its environmental protection businesses) in this reorganisation transaction	Pro forma assets and liabilities of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganisation transaction	Adjustment for disposal	Audited pro forma balance sheet of Jingcheng Environment as at 31 July 2012 after excluding its environmental protection businesses	Elimination adjustments for pro forma consolidation
Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	Note 10	Note 11	Note 12		
(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)=(5)-(6)	(8)	(9)=1	(10)=(8)-(9),3	(11)	(12)=(3)+(4)+(7)+(8)-(9)
Total Non-current Assets	660,852,216.50	660,852,216.50	-	854,277,812.29	141,785,207.49	-	152,254,988.63	72,151.66	40,000,000.00	-	966,460,649.26
Total Assets	1,301,283,926.21	1,301,283,926.21	-	1,743,100,044.22	143,402,944.91	311,320.88	359,828,567.70	12,394,612.32	40,000,000.00	-	2,049,600,406.03
Current Liabilities:											
Short-term Loan	210,000,000.00	210,000,000.00	-	305,000,000.00	-	-	300,000.00	-	-	300,000.00	- 305,300,000.00
Notes Payable	-	-	-	74,000,000.00	-	-	764,000.00	-	-	764,000.00	- 74,764,000.00
Accounts Payable	184,723,198.87	184,723,198.87	-	371,733,350.72	1,244,914.45	-	23,538,108.13	2,230,616.71	-	21,307,491.42	1,244,914.45 393,040,842.14
Advances from Customers	26,915,291.17	26,915,291.17	-	30,714,683.81	-	-	86,964,301.45	17,041,800.00	-	69,922,501.45	- 100,637,185.26
Employee Benefit Payable	13,313,268.18	13,313,268.18	-	20,554,692.96	-	-	-	-	-	-	81,250.00 20,473,442.96
Taxes Payable	1,770,932.08	1,770,932.08	-	(2,656,173.93)	-	-	(7,076,503.31)	-	-	(7,076,503.31)	- (9,732,677.24)
Interests Payable	1,392,442.00	1,392,442.00	-	3,510,127.66	-	-	603,557.68	-	-	603,557.68	- 4,113,685.34
Dividends Payable	-	-	-	1,300,000.00	-	-	1,551,900.00	-	-	1,551,900.00	1,300,000.00 1,551,900.00
Other Payables	54,850,041.64	54,850,041.64	-	413,971,407.45	8,103.88	-	114,449,451.91	2,000,000.00	40,000,000.00	72,449,451.91	- 486,428,963.24
Other Current Liabilities	3,803,797.12	3,803,797.12	-	-	-	-	-	-	-	-	-
Total Current Liabilities	496,768,971.06	496,768,971.06	-	1,218,128,088.67	1,253,018.33	-	221,094,815.86	21,272,416.71	40,000,000.00	159,822,399.15	2,626,164.45 1,376,577,341.70
Non-Current Liabilities:											
Special Payable	26,381,536.64	26,381,536.64	-	-	-	-	-	-	-	-	-
Estimated liabilities	543,434.72	543,434.72	-	-	-	-	505,634.85	-	-	505,634.85	- 505,634.85
Other Non-current Liabilities	-	-	-	2,619,000.00	-	-	1,780,000.00	-	-	1,780,000.00	- 4,399,000.00

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REORGANISED GROUP

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UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE GROUP AS OF 31 JULY 2012

Unit: RMB

APPENDIX V
UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REORGANISED GROUP

Item	Pro forma adjustments											Unaudited pro forma consolidated income statement of the Group for 2011
	Incoming Assets											
	Tianhai Industrial			Jingcheng HK			Jingcheng Environment					
	Audited consolidated income statement of the Group for 2011 after excluding proposed income of this Group in reorganization transaction	Audited income statement of Tianhai Industrial for 2011	Audited income excluding Tianhai Industrial included in the audited net profit of Jingcheng HK for 2011	Income statement of Tianhai Industrial included in the audited net profit of Jingcheng HK for 2011	Audited income statement of Jingcheng HK for 2011 after excluding Tianhai Industrial included in the net profit	Audited income statement of Jingcheng Environment for 2011	Pro forma income statement of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganisation transaction	Pro forma income statement of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganisation transaction	Adjustment for disposal	Audited pro forma income statement of Jingcheng Environment for 2011 after excluding its environmental protection businesses	Elimination adjustments for pro forma consolidation	
	Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	Note 10	Note 11	Note 12		
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)=(5)-(6)	(8)	(9)=1	(10)=2	(11)	(12)=(3)+(4)+(7)+(10)-(11)
1. Total Operating Income	803,873,926.57	803,873,926.57	-	2,331,544,267.05	-	-	-	142,096,085.97	17,298,700.88	-	-	- 2,456,341,652.14
Of which: Operating Income	803,873,926.57	803,873,926.57	-	2,331,544,267.05	-	-	-	142,096,085.97	17,298,700.88	-	-	- 2,456,341,652.14
2. Total Operating Cost	833,516,231.66	833,516,231.66	-	2,275,127,239.53	41,345.50	-	41,345.50	146,133,886.31	18,911,930.15	-	-	- 2,402,390,541.19
Of which: Operating Cost	640,174,781.71	640,174,781.71	-	2,001,170,579.49	-	-	-	108,003,395.41	15,766,150.76	-	-	- 2,093,407,824.14
Tax and Additional Expense	6,017,580.63	6,017,580.63	-	2,310,299.87	-	-	-	466,357.61	-	-	-	- 2,776,657.48
Sales Expense	59,983,930.02	59,983,930.02	-	76,985,141.76	-	-	-	10,124,531.81	-	-	-	- 87,109,673.57
Administration Expense	109,017,465.08	109,017,465.08	-	166,745,298.11	41,110.42	-	41,110.42	28,103,262.89	2,999,204.58	-	-	- 191,890,466.84
Financial Expense	7,937,550.30	7,937,550.30	-	25,661,210.43	235.08	-	235.08	1,024,390.37	-	-	-	- 26,685,835.88
Assets Impairment Losses	10,384,923.92	10,384,923.92	-	2,254,709.87	-	-	-	(1,588,051.78)	146,574.81	-	-	- 520,083.28
Investment Income (loss marked "a")	206,880.50	206,880.50	-	(468,020.89)	12,431,092.07	12,431,092.07	-	18,010,724.42	-	-	-	- 17,542,703.53
Thereinto: Investment Income to Subsidiaries and Joint Venture	206,880.50	206,880.50	-	(468,020.89)	12,431,092.07	12,431,092.07	-	18,010,724.42	-	-	-	- 17,542,703.53

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REORGANISED GROUP

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE GROUP AS OF 31 JULY 2012 (continued)

Unit: RMB

Item	Pro forma adjustments										
	Incoming Assets			Jingcheng Environment							
	Tianhai Industrial	Jingcheng HK	Jingcheng Environment	Pro forma income statement of Jingcheng Environment (excluding its equity interest in Tianyi) in this reorganisation transaction							
	Audited consolidated income statement of the Group for 2011 after excluding proposed income of the Group in this reorganization transaction	Audited income statement of Tianhai Industrial for 2011	Audited income statement of Jingcheng HK for 2011	Audited income statement of Tianhai Industrial for 2011	Audited income statement of Jingcheng Environment for 2011	Audited income statement of Jingcheng Environment for 2011	Adjusted for disposal	Note 11	Note 10	Note 9	Note 12
	Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	Note 10	Note 11	Note 12	
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)=(5)-(6)	(8)	(9)=1	(9)=2	(11)
									(9)=3	(10)=(8)-(9)=1	(12)=(3)+(4)+7+(10)-(11)
3. Operating Profit (loss marked “.”)	(29,435,424.59)	(29,435,424.59)	12,389,746.57	12,431,092.07	(41,345.50)	13,972,924.08	(1,613,229.27)	-	-	15,586,153.35	-
Add: Non-operating Income	44,402,275.63	44,402,275.63	-	-	-	365,508.85	-	-	-	365,508.85	-
Less: Non-operating Expense	1,307,002.50	1,307,002.50	-	-	-	1,098,775.69	-	-	-	1,098,775.69	-
Of which: Disposal Loss of Non-current Assets	1,183,716.93	1,183,716.93	-	-	-	33,650.64	-	-	-	33,650.64	-
4. Total Profit (total loss marked “.”)	13,659,848.54	13,659,848.54	12,389,746.57	12,431,092.07	(41,345.50)	13,239,657.24	(1,613,229.27)	-	-	14,852,886.51	-
Less: Income Tax Expense	30,000.22	30,000.22	-	-	-	(74,175.66)	-	-	-	(74,175.66)	-
5. Net Profit (net loss marked “.”)	13,629,848.32	13,629,848.32	12,389,746.57	12,431,092.07	(41,345.50)	13,313,832.90	(1,613,229.27)	-	-	14,927,062.17	-
Net profit attributable to the Parent's Shareholders	11,382,900.84	11,382,900.84	44,744,661.01	12,389,746.57	12,431,092.07	(41,345.50)	13,313,832.90	(1,613,229.27)	-	14,927,062.17	57,741.84
Net profit before date of combination for business combination under common control	-	-	1,575,754.24	-	-	-	-	-	-	-	1,575,754.24
Minority Shareholder's Equity	2,246,947.48	2,246,947.48	-	-	-	-	-	-	-	-	(57,741.84)
6. Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
7. Total Comprehensive Income	13,629,848.32	13,629,848.32	45,937,298.21	6,132,605.84	6,131,438.08	1,167.76	13,318,049.24	(1,613,229.27)	-	14,931,278.51	-
Total comprehensive income attributable to the Parent's Shareholders	11,382,900.84	11,382,900.84	44,163,751.85	6,132,605.84	6,131,438.08	1,167.76	13,318,049.24	(1,613,229.27)	-	14,931,278.51	57,741.84
Total comprehensive income attributable to the Minority Shareholders	2,246,947.48	2,246,947.48	-	-	-	-	-	-	-	-	(57,741.84)
											1,831,288.20

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REORGANISED GROUP

UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP AS OF 31 JULY 2012

Unit: RMB

Item	Pro forma adjustments									
	Incoming Assets									
	Tianhai Industrial	Jingcheng HK		Jingcheng Environment						
	Audited consolidated cash flow statement of the Group for 2011 after excluding proposed cash flow statement of this Group for reorganization transaction	Proposed cash flow statement of the Group in 2011 transaction	Audited cash flow statement of the Group for 2011 after excluding proposed cash flow statement of this Group for reorganization transaction	Cash flow statement of Tianhai Industrial included in the audited cash flow of Jingcheng HK for 2011	Audited cash flow statement of Jingcheng HK for 2011 excluding Tianhai Industrial included in the cash flow	Audited cash flow statement of Jingcheng Environment for 2011	Pro forma cash flow statement of Jingcheng Environment (excluding its environmental protection businesses) in this reorganization transaction	Pro forma cash flow statement of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganization transaction	Adjustment for disposal	Elimination adjustments for pro forma consolidation
	Note 3 (1)	Note 4 (2)	Note 5 (3)=(1)-(2)	Note 6 (4)	Note 7 (5)	Note 8 (6)	Note 9 (7)=(5)-(6)	Note 10 (8)	Note 11 (9),1	Note 12 (9),2
1. Cash Flow from Operating Activities:										
Cash receipts from the sale of goods and the rendering of services	698,249,848.82	698,249,848.82	-	-	-	-	-	-	-	-
Receipts of taxes and levy refunds	830,970.19	830,970.19	-	-	-	-	-	-	-	-
Other Cash receipts in operating activities	58,168,213.98	58,168,213.98	-	-	4.65	4.65	4.65	534,546.41	-	534,546.41
Subtotal Cash Flow-in from Operating Activities										
Activities	757,249,032.99	757,249,032.99	-	-	4.65	4.65	4.65	173,398,103.70	20,503,700.88	152,894,402.82
Cash payments for goods and services acquired	468,248,461.97	468,248,461.97	-	-	-	-	-	125,549,979.64	15,564,350.87	109,985,628.77
Cash payments to and on behalf of employees	199,598,997.58	199,598,997.58	-	-	-	-	-	23,544,917.37	1,704,951.87	21,839,965.50
Payments of taxes and levy	55,884,465.57	55,884,465.57	-	-	-	-	-	11,327,662.91	-	11,327,662.91
Other cash payments from Operating Activities	54,415,236.93	54,415,236.93	-	-	41,235.39	41,235.39	27,309,437.76	1,294,252.71	-	26,015,185.05
Subtotal Cash Flow-out from Operating Activities										
Activities	778,147,162.05	778,147,162.05	-	-	41,235.39	41,235.39	187,731,997.68	18,563,555.45	-	169,168,442.23
Net Cash Flow from Operating Activities	(20,898,129.06)	(20,898,129.06)	-	-	(41,230.74)	(41,230.74)	(14,333,893.98)	1,940,145.43	-	(16,274,039.41)
2. Cash Flow from Investing Activities:										
Cash receipts from return of investments	-	-	-	-	-	-	-	-	-	-
Cash receipts from investment income	-	-	-	-	-	-	-	-	-	-
Net cash receipts from the sale of fixed assets, intangible assets and other long-term assets	28,146,285.00	28,146,285.00	-	-	-	-	-	115,000.00	-	115,000.00
Net cash receipts from disposal of subsidiaries and other business units	-	-	-	-	-	-	-	-	-	-
Other cash receipts in investing activities	-	-	-	-	-	-	-	-	-	-
Subtotal Cash Flow-in from Investing Activities	28,146,285.00	28,146,285.00	-	-	-	-	-	8,284,366.46	-	8,284,366.46
Cash payments to acquired fixed assets, intangible assets and other long-term assets	7,460,473.06	7,460,473.06	-	-	-	-	-	3,102,602.67	19,470.09	3,083,132.58
Cash payments to acquired investments	-	-	-	-	-	-	-	20,000,000.00	-	-
Net cash payment to acquired subsidiaries and other business units	-	-	-	-	-	-	-	-	-	-
Other cash payments in investing activities	-	-	-	-	-	-	-	-	-	-
Subtotal Cash Flow-out from Investing Activities	7,460,473.06	7,460,473.06	-	-	-	-	-	20,000,000.00	-	-
Net Cash Flow from Investing Activities	(20,685,811.94)	(20,685,811.94)	-	-	-	-	-	-	-	-
Subtotal Cash Flow-out from Investing Activities										
Net Cash Flow from Investing Activities										
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Subtotal Cash Flow-out from Investing Activities				</						

UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP AS OF 31 JULY 2012 (continued)

Unit: RMB

Item	Pro forma adjustments											Unaudited pro forma consolidated cash flow statement of the Group for 2011
	Incoming Assets											
	Tianhai Industrial	Jingcheng HK			Jingcheng Environment							
	Audited consolidated cash flow statement of the Group for 2011 after proposed cash flow statement of this reorganization transaction	Audited consolidated cash flow statement of Tianhai Industrial for 2011	Audited cash flow statement of Jingcheng HK for 2011	Cash flow statement of Tianhai Industrial included in the audited cash flow of Jingcheng HK for 2011	Audited cash flow statement of Jingcheng Environment for 2011	Audited cash flow statement of Jingcheng Environment (excluding its environmental businesses) in this reorganization transaction	Pro forma cash flow statement of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganization transaction	Pro forma cash flow statement of Jingcheng Environment (excluding equity interest in Tianyi) in this reorganization transaction	Adjustment for disposal	Elimination adjustments for pro forma consolidation		
	Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	Note 10	Note 11	Note 12		
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)=(5)-(6)	(8)	(9)	(10)=(8)-(9)+ - (9)2--(9)3	(11) (12)=(3)+(4) +(7)+(10)-(11)	
3. Cash Flow from Financing Activities:	-	-	-	-	-	-	-	-	-	-	-	
Cash proceeds from absorbing investment	-	-	-	-	-	-	-	-	-	-	-	
Of which: cash receipts from absorbing minority shareholders' investment by subsidiary	-	-	-	-	-	-	-	-	-	-	-	
Cash receipts from borrowings	227,000,000.00	227,000,000.00	-	-	-	-	-	-	-	-	200,000,000.00	
Cash receipts from bonds issuing	-	-	-	-	-	-	-	-	-	-	-	
Other cash receipts in financing activities	-	-	-	-	-	-	-	-	-	-	-	
Subtotal Cash Flow-in from Financing Activities	227,000,000.00	227,000,000.00	-	-	-	-	-	-	-	-	-	
Cash repayments of amount borrowed	164,750,000.00	164,750,000.00	-	-	-	-	-	-	-	-	-	
Cash payments for distribution of dividends, profits or interest expenses	10,464,595.41	10,464,595.41	-	-	-	-	-	-	-	-	-	
Of which: dividends and profits paid by subsidiaries to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	
Other cash payments in financing activities	5,412,402.69	5,412,402.69	-	-	-	-	-	-	-	-	-	
Subtotal Cash Flow-out from Financing Activities	180,626,998.10	180,626,998.10	-	-	-	-	-	-	-	-	-	
Net Cash Flow from Financing Activities	46,373,001.90	46,373,001.90	-	-	-	-	-	-	-	-	-	
Effect of exchange rate change on cash and cash equivalent	(74,321.76)	(74,321.76)	-	-	-	-	-	-	-	-	-	
Net Increase of Cash and Cash Equivalent	46,086,363.02	46,086,363.02	-	-	-	-	-	-	-	-	-	
Add: Beginning Balance of Cash and Cash Equivalent	110,505,385.35	110,505,385.35	-	-	-	-	-	-	-	-	-	
Ending Balance of Cash and Cash Equivalent	156,591,748.37	156,591,748.37	-	-	-	-	-	-	-	-	-	

**B. ACCOUNTANT'S REPORTS ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the full text of the report of ShineWing Certified Public Accountants solely for the purpose of inclusion in this circular.

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

**To Directors of
Beiren Printing Machinery Holdings Limited,**

We report on the unaudited pro forma financial information set out under the section headed “Unaudited pro forma information of the Reorganised Group” in Appendix V to the circular in connection with the Material Asset Reorganisation transaction between Beiren Printing Machinery Holdings Limited (hereinafter referred to as the “Company”) and Jingcheng Holding Machinery Electric Holding Co., Ltd. The unaudited pro forma financial information has been prepared by the Company, for illustrative purposes only, to provide information about how the Material Asset Reorganisation transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter referred to as the “Group”). The basis of preparation of the unaudited pro forma financial information is set out in Note 2 of the unaudited pro forma financial information.

**I. RESPONSIBILITIES OF DIRECTORS FOR THE PRO FORMA FINANCIAL
STATEMENTS**

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

II. RESPONSIBILITIES OF THE REPORTING ACCOUNTANT

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any other responsibilities for any reports previously given by us on the financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

III. BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountant’s Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted balance sheet of the Group as at 31 July 2012, unadjusted consolidated income statement and consolidated cash flow statement of the Group for 2011 as set out in the section headed “Unaudited pro forma financial information of the Reorganised Group” of the Circular with the audited financial statement of the Company as at 31 July 2012 as set out in Appendix III of the Circular and the audited consolidated financial statements of the Group as of 31 December 2011 as set out in the 2011 Annual Report of the Company respectively, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Group, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

the financial position of the Reorganised Group as at 31 July 2012 or any future dates, or

the results and cash flows of the Reorganised Group for the year ended 31 December 2011 or any future periods.

IV. OPINION

In our opinion:

the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

such basis is consistent with the accounting policies of the Group; and

the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

ShineWing Certified Public Accountants (Special General Partnership)

Beijing, 2 November 2012

(A) Profit Forecast of the Reorganised Group

The following is the text of the profit forecast report of the Reorganised Group. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

	信永中和會計師事務所 (特殊普通合夥)	北京市東城區朝陽門北大街 8號富華大廈A座9層	聯繫電話： +86(010)6554 2288 telephone: +86(010)6554 2288
	ShineWing certified public accountants (Special General Partnership)	9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	傳真： +86(010)6554 7190 facsimile: +86(010)6554 7190

AUDIT REPORT OF PRO FORMA CONSOLIDATED PROFIT FORECAST

XYZH/2012TJA1016-9

To the members of
Beiren Printing Machinery Holdings Limited,

We have audited the accompanying pro forma consolidated profit forecast report for 2012 and 2013 prepared by Beiren Printing Machinery Holdings Limited (the “Company”). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of the Company is responsible for the pro forma consolidated profit forecast report and the assumptions upon which it was based. Such assumptions have been disclosed in the pro forma consolidated profit forecast report.

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the pro forma consolidated profit forecast. Also, we believe this pro forma consolidated profit forecast report has been properly compiled based on such assumptions, which has been presented in accordance with the basis for the preparation of profit forecast as stated in the pro forma consolidated profit forecast report.

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information of the profit forecast.

This report is solely for the information of the Company and Jingcheng Holding Machinery Electric Holding Co., Ltd., in connection with the submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the material asset reorganisation transaction, and should not be used for any other purposes.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: HUA Qiang

Chinese Certified Public Accountant: PANG Rongzhi

Beijing, China, 2 November 2012

BEIREN PRINTING MACHINERY HOLDINGS LIMITED
PRO FORMA CONSOLIDATED PROFIT FORECAST REPORT FOR 2012 AND 2013

Important

This pro forma consolidated profit forecast report was prepared by the management of Beiren Printing Machinery Holdings Limited basing on best estimates and assumptions, but since the assumptions upon which it was based are uncertain, investors should exercise caution and not place undue reliance on such information when making their investment decisions.

I. BASIS OF PREPARATION FOR THE PRO FORMA CONSOLIDATED PROFIT FORECAST**1. OVERVIEW OF MATERIAL ASSET REORGANISATION*****(1) Parties of the Material Asset Reorganisation Transaction*****1) Beiren Printing Machinery Holdings Limited**

Beiren Printing Machinery Holdings Company Limited (the “Company”, together with its subsidiaries, the “Group”) was established solely by Beiren Group Corporation on 13 July 1993 as a joint stock limited company. 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 Company became a listed company with the right of issuing public shares in both mainland of China and Hong Kong. In accordance with the approval of the China Securities Regulatory Commission (“CSRC”) of the State Council, the H Shares and A Shares of the Company were listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC in 1993 and 1994 respectively.

Upon the approval of General Shareholders’ Meeting on 16 May 2001 and 11 Jun 2002 as well as the approval of document Zheng Jian Fa Xing Zi [2002] No. 133 issued by CSRC, during the period from 26 Dec 2002 to 7 Jan 2003, the Company issued 22,000,000 additional ordinary shares (A Shares) listed on the Shanghai Stock Exchange, with par value of RMB1 Yuan. After the additional issues, the total outstanding shares of the Company are added up to 422,000,000 shares, among which 250,000,000 shares are state-owned institutional shares, 72,000,000 shares are inland public shares and 100,000,000 shares are offshore public shares. All shares are with par value RMB1 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), issued by the Committee of State-owned Assets Supervision and Administration of Beijing Government, Beiren Group Corporation as the sole non-floating shares holder should transfer the original 27,360,000 state-owned shares to the A share holders through the bonus issue on 10 for 3.8, and the registration date related to the share segregation reform above was 29 March 2006.

Beiren Group Corporation has sold 21,000,000 unconditioned tradable shares through Shanghai Stock Exchange Bulk Exchange Platform on 6 Jan 2010 and 7 Jan 2010 respectively. On 2 Dec 2010, Beiren Group Corporation has sold 20,000 unconditioned tradable shares to the public, which accounted for 4.98% of total share rights of the Company. Up to 31 December 2011, Beiren Group Corporation has hold 201,620,000 state-owned institutional shares, as 47.78% of total share rights, which are all unconditioned floating shares; 120,380,000 unconditioned inland public shares, as 28.52% of the total share rights; and 100,000,000 unconditioned offshore public shares, as 23.70% of the total share rights.

The Group is principally engaged in developing, designing, manufacturing and selling a variety of printing press, metal forming machineries, packing machines and related spare parts, as well as the technique consultation and services related to the operating business.

Beiren Group Corporation is the controlling shareholder of the Company and the ultimate parent company of the Group is Jingcheng Holding Machinery Electric Holding Co., Ltd. (“Jingcheng Holding”). The Shareholders’ Meeting, as the authority of the Group, in accordance with laws, executes the resolution rights on significant events concerning with operation, financing, investment, profit distribution and etc. The Board of Directors is responsible for the Shareholders’ Meeting, legally executing the decision-making rights on operation; and the Management is responsible for implementation of events resolved by the Shareholders’ Meeting and the Board of Directors, and presides over the operational management of the Group as well.

2) Beijing Tianhai Industry Co. Ltd.

Beijing Tianhai Industry Co. Ltd. (“Tianhai Industrial”) previously known as Beijing High Pressure Container Co., Ltd. 北京天海高壓容器有限公司) was established on 18 July 1992 with an original registered capital of US\$16 million, US\$8 million each from Beijing High Pressure Gas Cylinders Factory (北京市高壓氣瓶廠) and Korea High Pressure Containers Company Limited (韓國高壓容器株式會社).

Tianhai Industrial changed its name to Beijing Tianhai Industry Co. Ltd. on 13 September 1993.

After a number of equity interest transfers and capital increases, the registered capital of Tianhai Industrial was US\$24,924,000 as of 31 December 2010, with the contributions from shareholders as follows:

Name of shareholder	Contribution (US\$)	Proportion of contribution (%)
Jingcheng Holding	17,836,700.00	71.56
Jingcheng Holding (Hong Kong) Company Limited	7,087,300.00	28.44
Total	<u>24,924,000.00</u>	<u>100.00</u>

The address of the company is 9 Tianying North Road, Chaoyang District, Beijing. Its term of operation expires on 7 July 2032 and its legal representative is Wang Pingsheng.

Tianhai Industrial engages in the gas storage and transportation equipment industry and its business scope mainly covers: production of gas cylinders, accumulator shells, pressure vessels and auxiliary equipment, add-on components, fire extinguishers, fire extinguishing products and components, gas cylinders for medical use, gas cylinders for life rescues, gas cylinders and components for food machineries, gas and wrapped cylinders and components for gas vehicles, gas storage special containers, bundled device, cryogenic gas cylinders and components, LNG cylinders and components, aluminum cores, cylinders and components, new enhanced complex materials (carbon fibre, organic fibre and high strength glass fibre) and products, complex gas cylinders (auto natural gas storage cylinders, gas storage cylinders for respirators, containers for water treatment), testing equipment for complex gas cylinders. General operation: installation, adjustment, maintenance, technical consultancy and services of self-production product; sales of self-production product; wholesale of cryogenic containers; after-sales service and maintenance. The products of the Group include seamless steel gas cylinders, gas cylinders with seams, hoop-wrapped gas cylinders, accumulator shells, cryogenic gas cylinders, aluminum liner fully wrapped composite gas cylinder and cryogenic storage and transportation equipment etc.

3) Jingcheng Environmental Protection Development Co., Ltd.

Jingcheng Environmental Protection Development Co., Ltd. (“Jingcheng Environment”) was established on 6 August 2002 with registered capital of RMB61 million, jointly contributed by Beijing State-owned Assets Management Co. Ltd. (“BSAM”), Beiren Group Corporation (“Beiren Group”) and Jingcheng Holding Machinery Electric Holding Co., Ltd. (“Jingcheng Holding”).

After a number of equity interest transfers and capital increases, the registered capital of Jingcheng Environment was RMB109,281,500 as of 31 December 2010, with the contributions from shareholders as follows:

Name of shareholder	Contribution (RMB)	Proportion of contribution (%)
Jingcheng Holding	83,281,500.00	76.21%
Beijing Industrial Developing Investment Management Co., Ltd.	26,000,000.00	23.79%
Total	<u>109,281,500.00</u>	<u>100.00%</u>

Pursuant to the resolution at the extraordinary general meeting of Jingcheng Environment dated 18 June 2012 and the equity transfer agreement entered into by Jingcheng Holding and Beijing Gongtou, Beijing Gongtou transferred its entire 23.79% equity in Jingcheng Environment to Jingcheng Holding and after which Jingcheng Environment became the wholly-owned subsidiary of Jingcheng Holding. The aforesaid equity transfer has been

authenticated by China Beijing Equity Exchange, who has also issued a Certificate of Equity Exchanges. Jingcheng Environment completed the procedure for changing industrial and commercial registration and obtained the business license after change on 30 August 2012. The changes in equity are as follows:

Investors	Before change	Amount of Changes	After change	Percentage(%)
Jingcheng Holding	83,281,460.92	26,000,000.00	109,281,460.92	100.00
Beijing Gongtong	26,000,000.00	-26,000,000.00		
Total	109,281,460.92		109,281,460.92	100.00

The gas storage and transportation equipment business of Jingcheng Environment is mainly engaged in the research and development, production and sales of gas compressors and its major products comprises of piston compressor and membrane compressor, which are mainly applied in gas filling, polysilicon, coal chemical industry, nuclear power and military industries, etc.

The business scope covers: ordinary freight (subject to operation by branches), import & export of commodities, technologies and acting as import and export agent; specialist contractor; excluding those prohibited by the law, administrative rules and regulations and the State Council's decision, which are not allowed to operate; those prescribed of a license by law, administrative rules and regulations and the State Council's decision shall only be permitted of operation after being approved by competent authorities and registered in the commercial and industrial administration; and those not prescribed of a license by law, administrative rules and regulations and the State Council's decision shall be at the applicant's own discretion for its business items and activities.

4) Jingcheng Holding (Hong Kong) Company Limited

Jingcheng Holding (Hong Kong) Company Limited ("Jingcheng HK") was approved by Jing Guo Zi Gui Hua Zi [2005] No.43 of State-owned Assets Supervision and Administration Commission of Beijing Municipal Government and Jing Shang Jing Zi [2005] No. 263 of Beijing Municipal Bureau of Commerce for establishment with capital contributed by Jingcheng Holding. It was incorporated in Hong Kong on 15 December 2005 with certificate of incorporation No. 1013872 and its address at 16-19/F, Prince's Building, 10 Chater Road, Central, Hong Kong, and registered capital of HK\$1,000.

The business scope of Jingcheng HK covers: import and export trade, investment holding and consultancy service, etc.

2. *Brief introduction of material asset reorganisation transaction*

Pursuant to the conditional Reorganisation Framework Agreement dated 5 July 2012 between the Company and Jingcheng Holding, the Company proposed to exchange all its assets and liabilities with all assets relating to gas storage and transportation equipment business owned by Jingcheng Holding, with the difference to be paid by Jingcheng Holding in cash. The Outgoing Assets are all assets and

liabilities of the Company, and the Incoming Assets are 71.56% equity interests in Tianhai Industrial, 100% interests in Jingcheng HK and 100% equity interests in Jingcheng Environment (excluding its environmental protection business) held by Jingcheng Holding.

After the conditions precedent of the Reorganisation Framework Agreement are effective, the term of the agreement will be one year. Before its expiry, the term of the agreement may be suitably extended, as may be agreed between the Company and Jingcheng Holding according to the actual implementation of the Agreement, until the final completion of all relevant matters involved in the transaction.

In summary, details of the Incoming Assets and Outgoing Assets involved in the transaction are as follows:

Company	Brief name	Before completion of the transaction		After completion of the transaction		Remark
		Controlling shareholder	Shareholding (%)	Controlling shareholder	Shareholding (%)	
Incoming Assets						
Beijing Tianhai Industry Co. Ltd.	Tianhai Industrial	Jingcheng Holding	100.00	The Company	100.00	Including 28.44% of shares in Tianhai Industrial held by Jingcheng HK
Langfang Tianhai High Pressure Cylinder Co., Ltd.	Langfang Tianhai	Tianhai Industrial	70.00	Tianhai Industrial	70.00	
Tianjin Tianhai High Pressure Containers Co., Ltd.	Tianjin Tianhai	Tianhai Industrial	55.00	Tianhai Industrial	55.00	Including 9.48% of shares in Tianhai Industrial held by Jingcheng HK
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	Shanghai Tianhai	Tianhai Industrial	87.84	Tianhai Industrial	87.84	
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Tianhai Cryogenic	Tianhai Industrial	75.00	Tianhai Industrial	75.00	
Beijing Panni Gaokong Equipment Co., Ltd.	Panni Gaokong	Tianhai Industrial	100.00	Tianhai Industrial	100.00	
America Fortune Company	America Fortune	Tianhai Industrial	51.00	Tianhai Industrial	51.00	
Beijing Tianhai Xigang Environmental Technique Co., Ltd.	Tianhai Xigang		50.00		50.00	50% owned by Tianhai Industrial
Jingcheng Holding (Hong Kong) Co. Ltd.	Jingcheng HK	Jingcheng Holdong	100.00	The Company	100.00	
Jingcheng Environmental Protection Development Co., Ltd.	Jingcheng Environment	Jingcheng Holdong	100.00	The Company	100.00	Assuming Jingcheng Holdong is holding 100% equity in Jingcheng Environment before completion of the transaction
Beijing Fuxing Machinery Co., Ltd.	Fuxing Machinery		30.00		30.00	
Outgoing Assets						
Beiren Printing Machinery Holdings Ltd.	The Company (北人股份)	Beiren Group	47.78	Jingcheng Holdong	47.78	

Company	Brief name	Before completion of the transaction		After completion of the transaction		Remark
		Controlling shareholder	Shareholding (%)	Controlling shareholder	Shareholding (%)	
Shaanxi Beiren Printing Machinery Co., Ltd.	Shaanxi Beiren	The Company	86.24	Beiren Group	86.24	
Beijing Beiren Fuji Printing Machinery Co., Ltd.	Beiren Fuji	The Company	70.00	Beiren Group	70.00	
Beijing Beiren Jingyan Printing Machinery Co., Ltd.	Beiren Jingyan	The Company	99.76	Beiren Group	99.76	
Beijing Monigraf Automations Co., Ltd.	Monigraf Automations		49.00		49.00	49% owned by the Company
Beijing Beiying Casting Co., Ltd.	Beiying Casting		20.00		20.00	20% owned by the Company
Beijing Mitsubishi Heavy Industries Beiren Printing Machinery Co., Ltd.	Mitsubishi Beiren		49.00		49.00	49% owned by the Company

2. BASIS OF PREPARATION FOR THE PRO FORMA CONSOLIDATED PROFIT FORECAST

- (1) This pro forma consolidated profit forecast is prepared for the purpose of the Material Asset Reorganisation transaction of the Company and Jingcheng Holding.
- (2) This pro forma consolidated profit forecast has been prepared basing on the operation results of Tianhai Industrial, Jingcheng Environment and Jingcheng HK for 2011 and January to July 2012, in light of the 2012 and 2013 production and operation plans, sales plans, investment plans and financing plans of Tianhai Industrial, Jingcheng Environment and Jingcheng HK, and in accordance with the basis of preparation and assumptions as stated in this report and the principle of significance.
- (3) In order to provide users with more relevant information, it has been assumed in the preparation of this pro forma consolidated profit forecast that the transaction stated in note “I. 1. OVERVIEW OF MATERIAL ASSET REORGANISATION” has been completed before 1 January 2011, the Company has been holding the Incoming Assets from its establishment, the Company has not held the Outgoing Assets since its establishment, the resulting business structure and accounting entities thereof have been in existence from its establishment, and there are no other material changes during the period 1 January 2011 to 31 December 2013 (“relevant period”).
- (4) This pro forma consolidated profit forecast has been prepared basing on the audited income statement for 2011 and January to July 2012 and unaudited operation results for August to September 2012 of the Incoming Assets and their audited profit forecast for 2012 and 2013, and according to the method of consolidation as stated in IV.26 of this report. The scope of consolidation for this consolidated profit forecast includes the Company and the subsidiaries detailed in VI herein.

- (5) This pro forma consolidated profit forecast was prepared in accordance with the accounting policies and accounting estimates as stated in IV of this report, and such policies and estimates are consistent in all material aspects with those adopted by the Group in the preparation of its financial statements for 2011 and January to July 2012.

II. BASIC ASSUMPTIONS OF THE PRO FORMA CONSOLIDATED PROFIT FORECAST

1. During the forecast period, there is no material change in the state laws, regulations, departmental rules and industrial policies complied by the Group as well as the social, political, economic and environmental situation of the region where the Group is located.
2. During the forecast period, there is no material change in the relevant accounting policy and accounting estimation of the Group.
3. During the forecast period, there is no material change in the taxation policy and the relevant preferential taxation policy complied by the Group.
4. During the forecast period, there is no material change in the industry that the Group engages in.
5. During the forecast period, there is no material change in interest rate of bank loan and foreign exchange rate.
6. During the forecast period, there is no material change in the market of the products of the Group, especially the international and domestic market demand of industrial gas cylinders and the relevant significant factors affecting the market demand of industrial gas cylinders.
7. During the forecast period, there is no material change in the laws, regulations and industrial rules which significantly affect the production and operation of the Group.
8. During the forecast period, the operation plan, marketing plan, investment plan and financing plan of the Group would not be unable to realize on schedule or experience a material change due to changes in external environment.
9. The Group having maintained the relevant certificates held by them for the production of product and timely obtained such new certificates being applied for (such as the UN certificate, etc, for Tianhai Industrial's exports to the United States of America); and there would not be any material effect on the international sales market as a result of non-compliance of requirements under the relevant certificates.
10. During the forecast period, the operating activities of the Group would not experience a material adverse impact due to shortage of manpower or resources, lagging behind in technology or material change in cost.
11. During the forecast period, there is no material change in the corporate structures of the Group.
12. During the forecast period, there is no other material asset transaction.

13. During the forecast period, there is no other force majeure and unexpected factors of the Group that would materially affect the Group.
14. There is no material change in the market share of the principal businesses of the Group.
15. The Group has established strategic cooperative relationships with companies in the oil industry and is able to enter into contracts with these companies according to the negotiated intentions and is able to successfully develop and sell products in accordance with the signed contracts and operation plans.
16. The selling prices of the existing products of the Group would not be subject to the restrictions of the relevant authorities, there is no material change in sale price, there is no material change in materials supply market and there is no material change in the prices of raw materials.

III. PRO FORMA CONSOLIDATED PROFIT FORECAST STATEMENT (UNIT:
RMB'0000)

Items	Note	2012				2013	
		2011 Audited amount	Jan-Jul Audited amount	Aug-Sep Unaudited amount	Oct-Dec Forecasted amount	Total	Forecasted amount
1. Total Operating Income		245,634.16	142,897.05	29,787.63	71,016.71	243,701.39	278,949.81
Of which: Operating Income	VII.1	245,634.16	142,897.05	29,787.63	71,016.71	243,701.39	278,949.81
2. Total Operating Cost		240,239.05	139,702.11	29,731.99	69,445.53	238,879.63	273,349.57
Of which: Operating Cost	VII.2	209,340.78	121,486.38	24,795.94	60,352.79	206,635.11	235,924.15
Operating Tax and Additional Expense	VII.3	277.67	216.74	93.85	124.50	435.09	589.50
Sales Expense	VII.4	8,710.96	5,093.22	1,282.53	2,365.21	8,740.96	10,099.86
Administration Expense	VII.5	19,189.05	10,971.72	3,191.19	5,344.07	19,506.98	22,600.03
Financial Expense	VII.6	2,668.58	1,644.62	368.48	974.64	2,987.74	3,476.03
Assets Impairment Losses	VII.7	52.01	289.43		284.32	573.75	660.00
Add: Income of Fair Value Change (loss marked “-”)							
Investment Income (loss marked “-”)	VII.8	1,754.27	849.34	303.24	517.67	1,670.25	1,700.00
3. Operating Profit (loss marked “-”)		7,149.38	4,044.28	358.88	2,088.85	6,492.01	7,300.24
Add: Non-operating Income	VII.9	208.99	127.27	39.13		166.40	
Less: Non-operating Expense	VII.10	180.69	153.53	31.09		184.62	
4. Total Profit (loss marked “-”)		7,177.68	4,018.02	366.92	2,088.85	6,473.79	7,300.24
Less: Income Tax Expense	VII.11	981.48	825.52	169.35	260.92	1,255.79	1,340.13
5. Net Profit (net loss marked “-”)		6,196.20	3,192.50	197.57	1,827.93	5,218.00	5,960.11
Net Profit Attributed to the Parent's Shareholders		5,957.27	2,714.65	282.56	1,726.15	4,723.36	5,406.56
Minority Shareholder's Equity		238.93	477.85	-84.99	101.78	494.64	553.55

Legal Person:
Zhang PeiwuAccounting Director:
Jiang ChiAccounting Manager:
Qin Yu

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**1. Accounting period**

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

2. Reporting currency

The reporting currency is Renminbi.

3. Principles of accounting and measurement

The Group uses the accrual method as its basis of accounting. All assets are recorded at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement indicates the cash on hand and the deposit in bank available for a payment at any time. Cash equivalents in the cash flow statement are matured within 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

5. Foreign exchange translation***(1) Transactions in foreign currencies***

Transactions by foreign currency are translated into RMB at the spot exchange rate of the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized eventually, the exchange difference is accounted into current profit and loss. For non-monetary items measured at fair value and by foreign currency, 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. 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 kept unchanging.

(2) Foreign currency translation

Foreign currency items of assets and liabilities to be presented in balance sheets are translated at the spot rate as at the balance sheet date. All items of owners' equity, except for undistributed profit, are translated at the spot rate upon occurrence. Items of income and expenses to be presented in income statements are translated at the spot price of the transaction date. Such translation differences are presented separately under owners' equity. Cash flow is translated at the spot rate of the date of occurrence. Impact of changes in exchange rate on cash is presented separately in cash flow statements.

6. Financial assets and financial liabilities**(1) Financial assets****1) Classification**

According to the investment purpose and economic substance, the Group classifies its financial assets as Financial assets at fair value through profit and loss, Held-to-maturity investments, Loans and receivables and Available-for-sale financial assets.

Financial assets measured at fair value and for which movement on fair value is accounted into current profit and loss; refer to those financial assets held for sale in short-term. They are presented as financial assets held for trading in balance sheet.

Financial investments held-to-maturity refers to those non-derivative financial assets with fixed maturity date, fixed or known return and the management has the obvious intention, capability to hold it until maturity date.

Loans and receivables are non-derivative financial assets with fixed or known return but no quotation in the active market.

Financial assets available-for-sale include non-derivative financial assets designated as financial assets available-for-sale initially and other financial assets not classified.

2) Recognition and measurement

Financial assets are recognized at fair value in the balance sheet when the Group becomes a party of the contract of relevant instrument. Transaction costs of financial assets measured at fair value and for which movement on fair value is accounted into current profit or loss are recognized into current profit and loss, while that for other financial assets are included in initial their recognized amount.

Financial assets financial assets at fair value and for which movement on fair value is accounted into current profit or loss and those available for sale are measured at fair value subsequently. Loans and receivables and held-to-maturity investments are carried at the amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value and for which movement on fair value is accounted into current profit or loss are included in profit or loss from changes in fair value. Interest or cash dividend received on assets held shall be recognized as investment income. On disposing of it, the difference between fair value and initial accounting value shall be recognized as investment gain or loss, and profit or loss from changes in fair value is also adjusted accordingly.

Other than impairment loss and exchange gains and losses arising from foreign currency monetary financial assets, the changes in fair value of available-for-sale financial assets are recorded in the shareholder's equity. When the financial assets are derecognized, the calculated amount of changes in fair value of available-for-sale financial assets should be recorded into current profit or loss. The interest of available-for-sale liability instruments accrued at

effective interest rate during the holding period and the cash dividends declared and issued by the investee on available-for-sale equity instruments should be included in current profit or loss as investment income.

3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, the Group shall assess the book value of financial assets on the balance sheet date. Provision for impairment loss is made if there is objective evidence showing that a financial asset is impaired.

If financial assets measured by amortized cost decline, provision for impairment will be made according to the difference between the lower present value and the book value of the estimated cash flow (excluding future credit losses that have not yet occurred). If there is objective evidence that the value of financial assets has been restored, and objectively relates to the matters following the recognition of such loss, the previously recognized impairment loss will be recognized as profit or loss for the period.

If available for sale financial assets at fair value has a significant or prolonged decline, the cumulative loss due to the decline at fair value and originally recorded in the shareholders equity will be included in impairment loss. If impairment of available for sale financial assets has been recognized, and thereafter the fair value increases where such increase objectively relates to matters following the recognition of the originally impairment loss, the previously recognized impairment loss will be accounted as profit or loss for the period. For the recognized impairment loss of available for sale financial assets, the fair value increase thereafter is directly accounted into shareholders' equity.

4) Transfer of financial assets

The Group shall derecognize a financial asset satisfied one of the followings: (1) contractual rights to the cash flows from the financial asset have expired; (2) such financial assets has been transferred to purchaser together with substantially all related risks and rewards of ownership of the financial assets; and (3) such financial assets has been transferred over which the Group has surrendered control, although substantially all risks and rewards of ownership of the financial assets are neither transferred nor retained.

If the enterprise neither transferred substantially all the risks and rewards of ownership of the assets nor surrender the control over the financial assets, the related financial assets should be recognized based on the degree of involvement into the transferred financial assets, the related liabilities should be recognized as well. The degree of involvement into the transferred financial assets means the risk level faced by the enterprise, which was caused by the value change of such financial assets.

If the holistic transfer of financial assets meets the conditions of derecognition, the difference between the carrying value of transferred financial assets and the sum of consideration from the transfer and the accumulated amount of fair value change originally included in other comprehensive income should be included into the current loss and profit.

If the partial transfer of financial assets meets the conditions of derecognition, the entire carrying value of transferred financial assets should be apportioned between the portion to be derecognized and the portion continues to be recognized according to the respective fair value. The difference between the sum of consideration from the transfer and the accumulated amount of fair value change of the derecognized portion which has been originally included in other comprehensive income and the carrying value of the derecognized portion before apportionment should be included into the current loss and profit.

(2) *Financial liabilities*

The financial liabilities of the Company are classified into two categories when they are initially recognized: financial liabilities which are measured at fair value of which movement on fair value is accounted into current profit and loss, and other financial liabilities.

The financial liabilities which are measured at fair value and of which movement on fair value is accounted into current profit and loss are including financial liabilities for trading and those designated as into this category initially. For these financial liabilities, the subsequent measurement is at their fair value and the gain or loss from the movement of fair value as well as the relative dividends and interests are accounted into current profit and loss.

The other financial liabilities are subject to effective interest method and are presented as the cost after amortization.

Upon release of all present obligations thereof in whole or in part, financial liabilities or such parts are derecognized, where the difference between carry value of the derecognized portion and consideration paid are carried into current profit and loss.

(3) *Measurement of fair value of financial assets and financial liabilities*

- a) For the financial instruments with active market-quoted prices, the Group adopts market-quoted price for a financial instrument. The fair value of an asset held or liability to be assumed is the current bid price and that of an asset to be acquired or liability held is the asking price. When current bid and asking prices are unavailable, the fair value thereof are measured at the most recent quoted trading price as long as there has not been a significant change in economic circumstances since the last trading date, or at the most recent quoted trading price as adjusted with reference to fair value of similar financial assets or financial liabilities in case of such significant change. With sufficient evidence showing the most recent quoted trading price being unfair, the fair value is measured at such price with appropriate adjustment.
- b) For the financial instruments without an active market, valuation is applied, including reference to the most recent trading price in the market under voluntary transaction between well-informed parties, reference to current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

7. Provision for bad debts of receivables

The Group assesses the book value of receivables on balance sheet date, and the bad debt expense is made into the current profit and loss when any of the following circumstances occur: (1) There is the existence of the withdrawal, bankrupt, insolvency,

stoppage due to a natural disaster or weak solvency within foreseeable period from debt enterprises. (2) Debt enterprises have not satisfied debts past the due date for more than 3 years. (3) There are other substantial evidences showing that receivables are difficult to be collected.

The provision is adopted for the possible bad debts. The impairment test is made separately or grouped at the ending period and recorded into the current profit and loss. For the receivables which cannot be collected with solid evidence, the loss of bad debts will be recognized after the approval through the Group's process, and written-off against the provision of the bad debts.

(1) Individual Receivables above Significant Level

The basis or standard for judging the significant level of individual receivable	Consider individual receivables above RMB5,000,000.00 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.

(2) Receivables for which provision of bad debts made by groups

The basis of defining combinations

Combination based on age of accounts	Consider aging of receivables as credit risk characteristics

Method on making provision of bad debts based on combinations

Combination based on age accounts	Provision of bad debts is made by aging analysis

The rate of bad debts provision according to aging analysis is as follows:

Aging	Ratio of accounts receivable (%)	Ratio of other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Above 3 years	100	100

8. Inventory

The inventory of the Group covers raw material, work in process, finished goods and others.

Inventory is on a perpetual basis and is measured at actual cost when acquired. Actual cost of inventory withdrawn or discharged is measured at weighted average.

At the end of period, inventory is measured as lower of historical cost and net realizable value. For inventories of which value is impaired due to the physical damage or technology obsolete or selling price lower than cost, the portion estimated to be unrecoverable will be provided for. The provision of impairment for finished goods and raw materials in a large amount is made on the basis of the difference of the cost of the individual inventory item over its net realizable value. The provision of impairment for the auxiliary materials with a large quantity and low cost is withdrawn in terms of classification.

The net realizable value of these inventories, such as finished goods, work in process and materials for selling, is the estimated price after estimated sales expenses and relevant taxes. The net realizable value of materials which are for production is estimated price of relevant finished goods after estimated cost for finished goods, estimated sales expenses and relevant taxes.

9. Long-term equity investment

Long-term equity investments includes equity investments in investees under control, common control or significance influence of the Company, or those under no control, common control or influence of the Company and their fair value are unavailable in the market and cannot be measured reliably.

Common control indicates the sharing control according to the contract. Any parties involved cannot control the production and operation activities of the joint venture. All decisions related to principal operation activities need the agreement from all parties.

Significant influence indicates the rights to be involved into the decision-making on financial and operational policies in investees but no control or common control on these policies-making. The evidence of significant influence is the direct ownership or indirect ownership through subsidiaries of from 20% up to 50% voting rights from investees, unless there are solid evidences showing the Company cannot be involved in investees' decision making.

For the merger of enterprises under the same control, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. For a business combination realised by a transaction of exchange, 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.

Other than long-term equity investment acquired through mergers as mentioned above, the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid, which includes fees, tax and other required expenses directly attributable to such investments. The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued. The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement. The initial cost of a long-term equity investment obtained by recombination of liabilities or the exchange of nonmonetary assets shall be ascertained in accordance with Accounting Standards for Enterprises.

The Group recognizes the investment on subsidiaries by cost method and adjusts into equity method in compilation of consolidated statements. The Group applies the equity method on accounting the investment of joint ventures and associated companies, and the cost method on accounting the long-term equity investment without control, common control and significant influence as well as no pricing and no reliable fair value in the market. The Group accounts the long-term equity investment, which is without the control, the common control or significant influence but with pricing and reliable fair value in the market, as financial assets available-for-sale.

Under the cost method, the long-term equity investment is measured at initial investment cost. Such cost is adjusted when there is addition or recovery of investment. For equity method: The current period's profit and loss is the entitled portion of investee's profit or loss for the period. When determining entitled amount of net profit or loss from investee: the fair value of investee's assets at the acquisition date should be applied as calculation basis; in accordance with Group's accounting policy and period, set off internal transactions between joint-ventures and associated enterprises; adjust investee's net profit. Investment gain or loss of long-term equity investment in associates and joint ventures held before the first exercise date should also the difference with the investment amortized on a straight-line basis over the original remaining period if such difference exists.

The long-term equity investment for which that Company doesn't have common control or significant influence over the investee any more 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 cannot be reliably measured, the cost method shall be adopted for valuation; Equity method will be adopted under the following circumstances: investee that Group has common control or significant influence but not control due to increased additional investment; due to reasons such as disposal of long-term investment Group no longer has control but only common control and significant influence over investee.

The difference between the book value and the disposal gain on the long-term equity investment is accounted into the current profit and loss. For the long-term equity investment measured under equity method, those were recorded into the equity on the changes in the equity which is excluding the net profit by the invested company, the amount was recorded into the equity will be transferred into the investment profit for the period.

10. Fixed assets

Fixed assets are defined by the Group as the tangible assets which are held for the purpose of producing goods, rendering services, leasing for operation & management. The useful life of fixed assets is more than one year and their value exceed RMB2,000.

Fixed assets include buildings, machinery, transportation equipments, administrative equipments and others, and are initially measured at their acquisition cost. The cost of purchased fixed assets includes the purchasing price, value-added tax, import duty and other relevant taxes and expenses, as well as other expenditures attributable to assets for their availability of use. The cost of self-made fixed assets covers all expenditures for their availability to 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 lower of the fair value and the minimum payment of leasing on leasing date.

The subsequent measurement of fixed assets comprises maintenance expenses and renewal and renovation expenses etc. Expenses which meet the criteria of fixed assets are accounted into the cost of fixed assets otherwise are accounted into current profit and loss. The replacement part is derecognized from the account. Those do not meet recognition criteria of fixed assets are accounted for into current profit and loss upon occurrence.

Apart from those fixed assets fully depreciated but still in use, as well as land separately recognized, the Group provide for depreciation of fixed assets by straight-line method and the depreciations are accounted into current profit and loss in accordance with the purposes of fixed assets. The estimated residual value ratio, useful life by category and depreciation rate applied by the Group are as follows:

No.	Classification	Useful life (year)	The rate of salvage value (%)	Depreciation rate (%)
1	Building	20-40	5-10	2.25-4.75
2	Machinery	10	5-10	9-9.5
3	Electrical equipment	5-10	5-10	9-19
4	Transportation Equipment	5	5-10	9-19
5	Administrative equipments 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 period yearly. If any changes occur, they will be regarded as changes on accounting estimates.

The Group derecognizes fixed assets from the account which 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.

11. Construction in progress

Construction in progress is recognized at actual cost. Self-construction project is recognized at the cost of direct material, labor cost and construction expenses. Contracted construction is recognized at actual project price paid. Installed construction is recognized at the value of equipments, expenses of installation and assembly and expenditures of pilot run. Besides above, the cost of construction in progress comprises the borrowing cost which can be capitalized and foreign exchange gains and losses.

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 will be withdrawn since the month after carrying down 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.

12. 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 cost which directly attributes to purchasing or constructing assets is to be capitalized when expenditures for assets and borrowing cost occur and the activities of purchasing or constructing made the assets available for use or sale commences. When assets reach the status available for use or sale, the capitalization of borrowing cost ceases. The rest of borrowing cost will be accounted into current profit and loss.

The current actual interest expenses from specific borrowings are capitalized, after deducting interest income as deposit in bank or short-term investment gains. The capitalized amount for the general borrowing is calculated as weighted average of the general borrowing (excluding any specific borrowings for qualified asset) times the weighted average of the interest rate of the general borrowing.

The qualified assets refer to the assets of investment in real estate and inventories which only can arrive at status of available for use or sale after purchasing and constructing in more than one year generally.

If a suspending takes place during the purchasing and constructing on the qualified assets for more than three months, the capitalization of borrowing cost is suspend until the purchasing and constructing of assets restart.

13. Intangible assets

The intangible assets of the Group include the land use right, software and others, and 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 at the contract or agreement, except for those with unfair value in the contract or agreement. For the contract or agreement that failed to present fair value of intangible assets, intangible assets will be measured at the fair value.

The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. The 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 accounted into current profit and 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 adjustment if needed. The Group assesses the estimated useful life of intangible assets with uncertain useful life during each accounting period. If there are evidences 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 lifetime.

14. R&D expense

For the R&D 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. Research expenses are accounted to the current period profit and loss when occurred. Development expenses are treated as intangible assets when satisfy following requirements:

- 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 market is available for products from the intangible asset or the intangible asset itself.
- 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 into the profit and loss of the period. The expenditures expensed in previous accounting period cannot be recognized as the asset in later accounting period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

15. Impairment of long-term non-financial assets

The Group makes the assessment on the long-term equity investment, fixed assets, construction in progress and intangible assets with useful life at each balance sheet date. In the event of the following signs which show there may be impairment, an impairment test is conducted. Goodwill and intangible assets with indefinite useful life are subject to impairment test every end of year regardless of whether there is such sign. Those whose recoverable amount is difficult test are tested based on their group.

If such test shows a carry value lower than the recoverable amount, the difference therebetween is recognized as impairment loss of the relevant asset. Once recognized, such impairment loss is not subject to reversal in future. Recoverable amount of an asset refers to the higher of the asset's fair value net of disposing expenses and present value of estimated future cash flow thereof.

Indicators of impairment are as follows:

- (1) During the period, the market value of an asset has declined significantly and the decrease is far more than the decrease caused by timing or practice or by normal use.
- (2) Significant changes, in terms of economic, technical or legal environment and the market, with a negative effect on the Group have taken place during the period, or will take place in the near future.

- (3) Market interest rates or other market rates of return on investments have increased during the period and the increase of rates are likely to affect the discount rate used in calculating the NPV of future cash flow of assets and lead to the decrease in the recoverable amount of assets in substance.
- (4) Evidences are available for the obsolescence or physical damage of an asset.
- (5) An asset has been idle or is becoming idle, discontinued, or planned to be disposed in advance.
- (6) Evidences from internal reporting indicate that the economic performance of an asset is or will be, worse than expectations. For instance, the net cash flow or net profit generated by an asset is far lower than the amount expected.
- (7) Other evidences indicate the impairment of assets.

16. Goodwill

Goodwill represents the difference between equity investment cost or cost of merger with entity not under the same control over the fair value of identifiable assets of the investee or entity merged the Company entitled to or acquired through merger as at the date of acquisition or purchase.

Goodwill in relation to subsidiaries is presented separately in consolidated financial statements, where that in relation to associates and joint ventures are included in carrying value of long-term equity investment.

17. Long-term prepayments

The long-term prepaid expense of the Group refers 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 method within beneficial periods. If the long-term prepaid expense cannot benefit the later accounting periods, the amortized price will be accounted into current profit and loss.

18. Employee compensation

During the accounting period of an employee' providing services to an enterprise, the enterprise shall recognize the compensation payable as liabilities and the compensation payable shall be included in the cost of related assets or profit or loss based on the beneficiary objects. The compensations for the termination of the labor relationship with the employee with employees are accounted into current profit and loss.

Employee compensation comprises salary, bonus, allowance, welfare, social insurance, housing fund, labor union expenditure, employee education expenditure and other relevant expenditures on service rendered by the employees.

When the Group terminates the employment with an employee before the expiry of the employment contract or provides compensation for acceptance of voluntary redundancy, if the Group has developed a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group is

not allowed to unilaterally withdraw the termination plan or the redundancy offer, the estimated liability for compensation arising from the termination of employment with employees should be charged to the profit or loss for the current period.

19. 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 liabilities. The requirements mentioned above are as follows: The assumed responsibilities are actual and real. The fulfilment of obligations will cause the outflow of economic benefit from the Group. The amount of liabilities can be measured reliably.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation by considering relative risks, uncertainties and timing factor etc. If the effect from time value of currency is material, the best estimate is determined by discounting the related future cash outflows. 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.

20. Revenue recognition principle

The operating revenue of the Group is mainly from selling goods. The principle of recognition are as follows:

The revenue from sale of goods shall be recognized, when main risks and rewards related to the ownership of goods have been transferred to buyers, and the Group doesn't hold continuing management rights or effective control rights of goods, and the relevant economic benefits may flow into the Group, and the amount of this relevant revenue can be measured reliably.

21. Lease

The Company categorizes the lease into the financial lease and the operating lease.

The financial lease is the lease in which all risks and returns related to the ownership of assets are transferred in substance. The Company as a lease holder, on the date of lease, the financial lease is recognized as the fixed asset at lower cost of fair value of the rental asset and the NPV of minimum payment of leasing. The minimum payment of leasing is recognized as long-term payable and the difference is accounted into unrecognized financing expense.

The operating lease is the lease apart from the financial lease. The Company, as a lease holder, accounts the rents into current period by straight line method during the term of the lease. The Company, as a leaser, accounts the rental income into current period by straight line method during the term of the lease.

22. Government subsidies

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 in the light of the received or

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 (RMB1).

The government subsidies pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life. The government subsidies pertinent to incomes are treated respectively in accordance with the indications as follows: 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.

23. Deferred tax assets and deferred tax liability

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. On the balance sheet date, deferred tax assets and deferred tax liability are measured at applicable tax rate.

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 which 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.

24. Income tax accounting

The Group recognizes income tax by balance sheet method. The income taxes of the current period and deferred income tax of the Group are treated as income tax expenses for the current period, and are accounted into current profit and loss, excluding the income taxes incurred in following circumstances: the deferred tax arising from consolidation and accounted as the adjustment on the book value of goodwill; the income taxes of the current period and deferred income tax related to the transactions or events directly recognized into owners' equity are accounted into owners' equity.

The income tax expenses for the current period are the amount payable to the Tax Office which are calculated and recognized according to the tax law and transactions and events of the current period, i.e. income taxes payable. The deferred income taxes refer to the differences recognized between the amount at the end of period and amount recognized originally of the deferred tax assets and deferred tax liability by the balance sheet liability method.

25. Business combination

Business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Company recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. The combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

Assets and liabilities that are obtained through a business combination for entities under common control are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserves. Any excess over capital reserves is adjusted against retained earnings.

For a business combination for entities not under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where the cost of combination exceeds the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

26. Preparation of consolidated financial statements***(1) Determination of the scope of consolidation***

The scope of consolidated financial statements of the Company covers all subsidiaries and special purpose entities in which the Group has actual control.

(2) Accounting method adopted in consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements and the relevant requirements. On consolidation, all the significant intra-group transactions and balances are eliminated. The shareholders' equity of the subsidiaries not attributable to the parent company is separately presented as minority interests under shareholders' equity in the consolidated financial statements.

When there is any inconsistency on the accounting policies or accounting period adopted between subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or accounting period adopted by the Company when preparing the consolidated financial statement.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries at the original carrying value from the beginning of the year presented as if the business combinations had occurred at the beginning of the year the combination took place.

V. TAXATION

Major taxes and relevant tax rates applicable to the Group are as follows:

1. Enterprise Income Tax

The tax rates applicable to the enterprise income tax for the Group is 25%.

Taxation Benefits and Approval:

- (1) Beijing Tianhai Industry Co. Ltd. was certified as High and New Enterprise on 24 Dec 2010, and the certificate with No. GR201011000725 was jointly issued by Beijing Municipal Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau. The certificate is with three-year validation. Tianhai Industrial applies 15% as the rate for enterprise income tax in the years 2011-2012. It is assumed in this pro forma profit forecast that Tianhai Industrial will continue to apply 15% as the rate for enterprise income tax in the years 2010-2013.
- (2) America Fortune Company, a subsidiary of Tianhai Industrial, adopted progressive tax rate as enterprise income tax rate.
- (3) On 28 October 2011, Beijing Jingcheng Environmental Protection Development Co., Ltd., obtained the Certificate of High and New Technology Enterprise with No. GF201111001877 jointly issued by the Beijing Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau, which has a validity period of 3 years. It is subject to EIT at a rate of 15% from 2011 to 2013.

2. Value added tax

The sales revenues is subject to value added tax at a VAT rate of 17% for domestic sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%. Of this tax, application can be made for refund of the duty paid for export of products.

The VAT payable for the period is the net amount of output VAT after deducting input VAT.

3. Business tax

The technology service revenue and lease income of the Group's entity within the PRC are subject to business tax at an applicable rate of 5%.

4. Urban maintenance & construction tax and educational surcharges

Urban maintenance & construction tax, educational surcharges, local educational surcharges of the Group's entity within the PRC are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 3% respectively. The local educational surcharges have been levied since 1 Jan 2012. The applicable tax is 2%.

VI. SCOPE OF CONSOLIDATION FOR THE PRO FORMA CONSOLIDATED PROFIT FORECAST STATEMENT

1. Subsidiaries

Company Name	Nature	Registration	Business Type	Registration Capital	Operating Scope
Subsidiaries acquired from business combination under common control					
Beijing Tianhai Industry Co. Ltd.	Limited company	Chaoyang District, Beijing	Manufacture	US\$22 million	Production of gas cylinders, accumulator shells, pressure vessels and auxiliary equipment, add-on components, fire extinguishers, fire extinguishing products and components, gas cylinders for medical use, gas cylinders for life rescues, gas cylinders and components for food machineries, gas and wrapped cylinders and components for gas vehicles, gas storage special containers, bundled device, cryogenic gas cylinders and components, LNG cylinders and components, aluminum cores, cylinders and components, new enhanced complex materials (carbon fibre, organic fibre and high strength glass fibre) and products, complex gas cylinders (auto natural gas storage cylinders, gas storage cylinders for respirators, containers for water treatment), testing equipment for complex gas cylinders. General operation: installation, adjustment, maintenance, technical consultancy and services of self-production product; sales of self-production product; wholesale of cryogenic containers; after-sales service and maintenance. The products of the Group include seamless steel gas cylinders, gas cylinders with seams, hoop-wrapped gas cylinders, accumulator shells, cryogenic gas cylinders, aluminum liner fully wrapped composite gas cylinder and cryogenic storage and transportation equipment etc.

Company Name	Nature	Registration	Business Type	Registration Capital	Operating Scope
Jingcheng Environmental Protection Development Co., Ltd.	Limited company	Yanqing County, Beijing	Manufacture	RMB109,281,500	- Specific operating items: production of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; ordinary freight (validity of Road Transport Licenses until 7 May 2016).
					- General operating items: design and sale of compressors and accessories; sale of machinery equipment and electrical equipment; equipment maintenance; technical advisory and technical services; import and export of commodities and acting as import and export agency; professional contractor.
					(specie and land use right contributed RMB3,741,670,000)
Jingcheng Holding (Hong Kong) Company Limited	Limited company	Chater Road, Central, Hong Kong,	Investment	HK\$1,000	Import and export trade, investment holding and consultancy service, etc.
Secondary subsidiaries acquired from business combination under common control (subsidiaries of Tianhai Industrial)					
Langfang Tianhai High Pressure Containers Co., Ltd. (廊坊天海高压容器有限公司)	sino-foreign equity joint venture	Langfang City, Hebei Province	Manufacture	RMB180 million	Design and manufacture of B1 seamless cylinders (only steel seamless cylinders) and B3 special gas cylinders (only compressed natural gas cylinder for vehicle use), sales of self-produced products (other than commodities and technologies whose dealing, import or export is restricted or prohibited to operate by the State)
Shanghai Tianhai Dekun Composite Cylinders Co., Ltd. (上海天海德坤复合气瓶有限公司)	Sino-foreign cooperative joint venture	Songjiang District	Manufacture	US\$3,017,400	Manufacture of new reinforced composite materials (carbon fiber, organic fiber and high-strength glass fiber composites) and its products, composite cylinders (wire wound cylinders), composite cylinders test equipment, sales of self-produced products of the company (involving administrative license and operation permit)

Company Name	Nature	Registration	Business Type	Registration Capital	Operating Scope
Beijing Panni Gaokong Equipment Co., Ltd. (北京攀尼高空作業設備有限公司)	Limited company	Tongzhou District, Beijing	Manufacture	RMB20 million	Specific operating items: manufacture of high-altitude operation equipment General operating items: design of high-altitude operation equipment; sale and repair self-produced products
Secondary subsidiaries acquired from business combination under non-common control (subsidiary of Tianhai Industrial)					
America Fortune Company	Offshore enterprise	Houston, United States	Sales	US\$3,367,550	Import and export of industrial gas cylinders and mechanical and electrical products and the sales service of products
Other acquired secondary subsidiaries (subsidiaries of Tianhai Industrial)					
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign equity joint venture	Tianjin Port Free Trade Zone	Manufacture	RMB225,578,400	Design, manufacture and sale of high-pressure containers and after-sales service; operation of the export business of the enterprise's self-produced products and technology and the import business of machine tools, parts and components, auxiliary materials and technologies required for the enterprise's production, but except from companies' operations limited by the State or commodities and technologies restricted by the State from import and export
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited company	Daxing District, Beijing	Manufacture	RMB40 million	Specific operating items: manufacture of cryogenic tanks, tanks for tankers and tank containers General operating items: sale, repair and maintenance of cryogenic tanks, tanks for tankers and tank containers; sale of machine tools, metal, computer hardware and software and auxiliary equipment, chemical products (excluding hazardous chemicals and Class 1 precursor chemicals), hardware and electric materials and instruments and meters; import and export of goods; general contracting of constructions; specialized contracting (of which the contribution of intellectual properties amounts to RMB10 million)

(continued)

Company Name	Shareholding (%)	Voting Right (%)	Consolidated (Yes/No)
Subsidiaries acquired from business combination under common control			
Tianhai Industrial	100.00	100.00	Yes
Jingcheng Environment	100.00	100.00	Yes
Jingcheng HK	100.00	100.00	Yes
Secondary subsidiaries acquired from business combination under common control (subsidiaries of Tianhai Industrial)			
Langfang Tianhai	70.00	70.00	Yes
Shanghai Tianhai	89.32	89.32	Yes
Panni Gaokong	100.00	100.00	Yes
Secondary subsidiaries acquired from business combination under non-common control (subsidiary of Tianhai Industrial)			
America Fortune Company	51.00	51.00	Yes
Other acquired secondary subsidiaries (subsidiaries of Tianhai Industrial)			
Tianjin Tianhai	45.52	55.00	Yes
Tianhai Cryogenic	75.00	75.00	Yes

Note: Through its direct shareholding of 71.56% in Tianhai Industrial and the indirect holding of 28.44% shares in Tianhai Industrial through Jingcheng HK, the Company holds 100% shares in Tianhai Industrial. See Note “I. 1. (1) 2) Beijing Tianhai Industry Co. Ltd.” herein for detail.

2. Reasons for inclusion of subsidiaries with shareholding of not more than 50% in consolidated statements:

Tianjin Tianhai was established with capital jointly contributed by Tianhai Industrial and Tianjin Pipe Co., Ltd. in January 2003. Upon its establishment, the registered capital of Tianjin Tianhai was RMB20 million, of which the percentage of contribution of Tianhai Industrial and Tianjin Pipe Co., Ltd. were 55% and 45% respectively. After various transfers of shares and increases of capital, the registered capital of Tianjin Tianhai as at 31 December 2010 was RMB85.50 million, of which Tianhai Industrial has contributed RMB25.65 million, accounting for 30%; TPCO Investment Co., Ltd. has contributed RMB38.4750 million, accounting for 45%; and Jingcheng HK has contributed RMB21.3750 million, accounting for 25%. In July 2011, the board of directors of Tianjin Tianhai resolved to increase the registered capital by RMB140.0784 million through a cash contribution of RMB77.0431 million by Tianhai Industrial and a real estate contribution of RMB63.0353 million by TPCO Investment Co., Ltd., fully paid within 24 months from the date of acquisition of business license. After such change, the registered capital was RMB225.5784 million, of which Tianhai Industrial has contributed RMB102.6931 million, accounting for 45.52% of its registered capital; TPCO Investment Co., Ltd. has contributed RMB101.5103 million (a contribution of RMB38.4750 million as at 31 July 2012), accounting for 45% of its registered capital; and Jingcheng HK has contributed RMB21.3750 million, accounting for 9.48% of its registered capital. The board of directors of Tianjin Tianhai has 9 members, of which 4 members are from Tianhai Industrial; 4

members are from TPCO Investment Co., Ltd.; and 1 member is from Jingcheng HK. As the director appointed by Jingcheng HK was assigned by Tianhai Industrial and was the senior management personnel of Tianhai Industrial, the actual percentage of voting right of Tianhai Industrial was 55%, which enable Tianhai Industrial to have a control over Tianjin Tianhai. Therefore, Tianhai Industrial has included Tianjin Tianhai in its consolidated statements.

VII. EXPLANATION ON MAJOR ITEMS OF PRO FORMA CONSOLIDATED PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

1. Total operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating income	238,437.66	138,233.06	28,632.97	70,266.09	237,132.12	272,868.72
Of which: Seamless steel gas cylinders	134,156.39	76,181.60	12,451.12	36,003.92	124,636.64	133,920.18
Hoop-wrapped cylinders	56,525.09	33,708.34	7,337.11	16,816.35	57,861.80	70,591.23
Cryogenic cylinders	12,992.48	10,578.68	2,135.66	8,480.98	21,195.32	27,900.51
Cryogenic storage and transportation equipment	7,965.93	6,352.62	1,543.88	2,636.01	10,532.51	12,022.39
Compressors	12,399.88	2,891.30	2,068.63	4,040.07	9,000.00	10,390.00
Others	14,397.89	8,520.52	3,096.57	2,288.76	13,905.85	18,044.41
Other operating income	7,196.50	4,663.99	1,154.66	750.62	6,569.27	6,081.09
Total	<u>245,634.16</u>	<u>142,897.05</u>	<u>29,787.63</u>	<u>71,016.71</u>	<u>243,701.39</u>	<u>278,949.81</u>

All main operating incomes derive from product sales income. The forecasts are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. The increase of 51.38% of cryogenic cylinders and cryogenic storage and transportation equipment in 2012 over 2011 is mainly due to the increase in natural gas fueling station which has provided broad development room for LNG cryogenic cylinders and cryogenic storage and transportation equipment products.

The compressor products contribute to the sales revenue of Jingcheng Environment. The forecasts of main operating incomes are based on sales contracts signed and the installation and commissioning period of compressor products.

The gross profit of other operating income was higher in 2011 due to higher income from sales of scrap, while the forecasts for 2012 and 2013 do not include income from scrap.

2. Total operating cost

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating costs	203,688.52	117,270.70	23,784.47	59,862.80	200,917.97	230,325.12
Of which: Seamless steel gas cylinders	120,647.33	70,056.64	11,050.00	32,472.63	113,579.27	119,408.94
Hoop-wrapped cylinders	42,548.28	23,580.69	5,375.72	13,351.48	42,307.89	53,740.22
Cryogenic cylinders	11,380.42	8,484.72	1,799.11	7,097.56	17,381.39	23,289.00
Cryogenic storage and transportation equipment	6,156.52	4,747.65	1,111.74	2,099.82	7,959.21	9,156.13
Compressors	9,163.72	2,139.48	1,598.24	2,889.71	6,627.43	7,810.74
Others	13,792.25	8,261.52	2,849.66	1,951.60	13,062.78	16,920.09
Other operating costs	5,652.26	4,215.68	1,011.47	489.99	5,717.14	5,599.03
Total	<u>209,340.78</u>	<u>121,486.38</u>	<u>24,795.94</u>	<u>60,352.79</u>	<u>206,635.11</u>	<u>235,924.15</u>

The forecasts of operating costs are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for material costs are based on sales volume of each product and the material consumption per unit product; the forecast for labour costs are based on the Group's human resources plan, salary level and contribution rate of social security provident fund; and the forecast for manufacturing costs are based on historical data and the trend of operating changes during the forecast period. Furthermore, as the fluctuation in gross margin of operating income of the Group in the past has been small, the forecast of operating cost has also taken into account that the gross margin will not change materially during the forecast period.

3. Business tax and additional expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Business tax	2.03	14.13	6.61	4.66	25.40	26.00
Urban maintenance and construction tax	169.97	111.30	47.14	64.65	223.09	306.00
Educational surcharge	105.67	91.31	40.10	55.19	186.60	257.50
Total	<u>277.67</u>	<u>216.74</u>	<u>93.85</u>	<u>124.50</u>	<u>435.09</u>	<u>589.50</u>

Business tax and additional expense mainly include business tax, urban maintenance and construction tax and educational surcharge. The forecasts are made mainly basing on taxable operating income and the corresponding applicable tax rate.

4. Sales expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Transportation fee	3,682.01	2,739.91	519.72	454.58	3,714.21	4,179.77
Salary	2,089.83	857.58	213.17	1,104.53	2,175.28	2,603.99
Operational fee	459.32	354.35	76.92	135.27	566.54	604.84
Maintenance cost	700.95	225.64	90.25	100.20	416.09	478.23
Travelling fee	486.00	389.44	178.41	151.35	719.20	802.92
Commodity inspection fee	121.02	66.22	13.47	26.56	106.25	130.00
Office and administrative fee	66.67	53.46	22.11	25.57	101.14	105.96
After sale cost	510.14	94.90	44.90	190.23	330.03	505.20
Gas fee	129.10	41.36	28.63	23.33	93.32	130.00
Exhibition fee	25.98	17.77	6.66	0.57	25.00	15.00
Others	439.94	252.59	88.29	153.02	493.90	543.95
Total	<u>8,710.96</u>	<u>5,093.22</u>	<u>1,282.53</u>	<u>2,365.21</u>	<u>8,740.96</u>	<u>10,099.86</u>

The forecasts of sales expenses are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Group's human resources plan, salary level and contribution rate of social security provident fund. The increase of 46.06% of operational fee in 2012 over 2011 is mainly due to the changes in sales ideas and the proactive expansion of new clients and markets which have led to an increase in corresponding expenses.

Sales expenses represent 3.55%, 3.59% and 3.62% of operating income for 2011, 2012 and 2013 respectively.

5. Administration expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Salary	9,280.68	5,013.04	1,612.50	2,794.25	9,419.79	10,803.37
Depreciation and amortization charges	932.38	556.01	84.75	278.61	919.37	1,210.76
Entertainment fee	1,075.94	560.47	161.90	251.98	974.35	1,135.66
Research and development fee	2,249.30	1,295.09	418.68	400.68	2,114.45	2,620.59
Energy cost	220.63	230.55	18.50	88.40	337.45	390.65
Office and administrative fee	573.03	308.97	101.73	161.31	572.01	640.00
Tax expense	579.96	307.88	209.40	147.64	664.92	668.76
Agency fee	655.86	314.24	8.66	330.76	653.66	655.01
Meeting fee	212.73	101.12	69.08	80.67	250.87	248.45
Business advertising fee	276.87	273.62	3.48	85.00	362.10	410.00
Travelling fee	311.75	164.68	62.11	83.52	310.31	428.05
Others	2,819.92	1,846.05	440.40	641.25	2,927.70	3,388.73
Total	<u>19,189.05</u>	<u>10,971.72</u>	<u>3,191.19</u>	<u>5,344.07</u>	<u>19,506.98</u>	<u>22,600.03</u>

The forecasts of administration expenses are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Group's human resources plan, salary level and contribution rate of social security provident fund; depreciation and amortization is mainly based on the balance of fixed assets, intangible assets and other long-term assets, and the expected addition of assets during the forecast period; and tax expense is mainly based on the taxable items and the corresponding applicable tax rate.

The administration expenses of the Group mainly include: salary which is forecasted basing on the planned growth of staffing and salary, benefit, social security and housing provident fund; and others including material costs, leasing expense, vehicle expense and maintenance expense, are based on historical data.

6. Financial expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Bank interest payment	2,225.86	1,757.73	364.72	961.61	3,084.06	3,425.34
Bank interest income	135.20	75.25	11.66	8.57	95.48	58.41
Exchange gain or loss	380.25	-95.91	-0.53	2.04	-89.45	1.92
Others	197.67	58.05	15.95	19.56	88.61	107.18
Total	<u>2,668.58</u>	<u>1,644.62</u>	<u>368.48</u>	<u>974.64</u>	<u>2,987.74</u>	<u>3,476.03</u>

Financial expenses mainly include interest payment and interest income, of which interest payment is forecasted basing on the Group's existing borrowings, operating capital requirement during the forecast period and corresponding interest rates. The forecasted bank interest payment of 2012 is higher than 2011 by RMB8,582,000 or 38.56%, which is mainly due to the increase in bank borrowings.

7. Impairment loss of assets

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Bad debt loss	52.01	289.43		284.32	573.75	660.00
Impairment loss on fixed assets						
Total	52.01	289.43		284.32	573.75	660.00

Impairment loss of assets mainly comprises bad debt loss, which is forecasted basing on the Group's business scale and forecasted aging of receivables. The Group does not expect any material asset impairment loss during the forecast period.

8. Investment income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Investment income	1,754.27	849.34	303.24	517.67	1,670.25	1,700.00
Total	1,754.27	849.34	303.24	517.67	1,670.25	1,700.00

9. Non-operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Gains from non-current assets disposal	22.33	63.54	0.07		63.61	
Among which: Gains from fixed assets disposal	22.33	63.54	0.07		63.61	
Government subsidy	185.85	49.54	38.06		87.60	
Others	0.81	14.19	1.00		15.19	
Total	208.99	127.27	39.13		166.40	

Save for the income recorded, no forecast on non-operating income is made for the forecast period due to its uncertainty.

10. Non-operating expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Loss from non-current assets disposal	74.02	128.56	31.09		159.65	
Among which: Loss from fixed assets disposal	74.02	128.56	31.09		159.65	
Others	106.67	24.97			24.97	
Total	180.69	153.53	31.09		184.62	

Save for the expenses recorded, no forecast on non-operating expenses is made for the forecast period due to its uncertainty.

11. Income tax expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Current income tax	1,040.58	826.06	169.35	260.92	1,256.33	1,340.13
Deferred income tax	-59.10	-0.54			-0.54	
Total	981.48	825.52	169.35	262.57	1,255.79	1,340.13

The Group forecasted the enterprise income tax expenses basing on the forecasted total profit and applicable enterprise income tax rates of the Group and its subsidiaries and related policy of preferential taxation.

12. Minority shareholder's equity

The Group forecasted the minority shareholder's equity basing on the profit after tax of its subsidiaries which are included in the consolidated profit forecast statement during the forecast period and the proportion of shareholdings of minority shareholders in such subsidiaries.

**VIII. MAIN FACTORS AFFECTING THE REALIZATION OF CONSOLIDATED PROFIT
FORECAST AND COUNTERMEASURES**

Factors that may have material impact on the result of consolidated profit forecast during the forecast period and countermeasures mainly include:

1. Policy risk and countermeasures

The Group is in the industry of gas storage and transportation equipment. Changes in the industry policy of the country may have significant impact on the result of consolidated profit forecast. The expansion of production capacity to satisfy growing market demand, and changes in external environment such as interest rate for external finance and appreciation of Renminbi will also affect the result of consolidated profit forecast.

The Group will strengthen the collection of information related to such domestic and foreign policies and the research on related government guidelines and policies. It will also timely adjust its operation policies according to such policy changes to reduce its impact on the result of consolidated profit forecast.

2. Market risk and countermeasures

The growth of investment in infrastructure and industrial capital goods has remained high in China. There were substantial investment in fixed assets and improvements to technology in fundamental industries including machinery, metallurgy, chemicals, construction, building materials and food, which effectively facilitated rapid growth of industrial gas industry and supported demand for gas storage and transport equipment. Cyclical fluctuation of macro-economies in the future may lead to changes in operational environment of such industries and result in the decline and adjustment of fixed assets investment or technology upgrade, which will, in turn, affect the development of the gas storage and transport equipment industry. Therefore, there is risk to profitability of the listed company under such influence.

The Group will strengthen the collection of market information and the understanding of economic situation. It will timely adjust its operation policies to reduce the impact on the business and results of the Company.

3. Industry risk and countermeasures

Competition in the domestic and foreign industrial gas cylinder manufacturing industry is intense. In competing with large and renowned foreign players, we have shortage in technology, while in competing with the fast growing private enterprises in our surroundings, we do not have advantage in prices.

Competition in the domestic compressor industry is intense. In competing with large and renowned foreign players on piston compressor, we have shortage in technology, while in competing with the fast growing private enterprises in our surroundings on membrane compressor, we do not have advantage in prices.

The Group will increase investment in research and development and establish good cooperation with research and development organisations to develop new products actively, adjust product mix and increase the proportion of high value-added products, so as to maintain its leading position in the industrial gas cylinder manufacturing sector.

4. Risk related to raw materials and labour costs and countermeasures

The main raw materials required for the production of industrial gas cylinders include pipes, boards, valves, diaphragm and others. In recent years, affected by respective production cost, market supply and demand and short-term speculation in the market, the price of raw material fluctuated in large extent, which will bring risk to the Group's future production business and profitability. It is a general trend for the increase in labour costs year by year and the total salaries of the Group is also increasing year by year.

The Group will establish good cooperating relationship with its main suppliers, strengthen comparison and analysis of information related to raw material prices, and control purchasing cost. It will also further improve its information system, enhance inventory management and production efficiency, and reduce consumption to mitigate the increase in material cost. The Group will reasonably control its headcount, increase employee productivity and raise the output per employee to mitigate the rise in labour costs.

5. Talent risk and countermeasures

The Group is centered on research and development and sales of hi-tech products, and hi-tech talents are critical for its development. At present, the Group has established a high quality R&D team. However, as the business of the Company develops rapidly, the demand for high quality talents is increasing, and new comers need training, practicing and integration before they can adapt to the requirement of our operation and research and development, therefore, there is a gap between the introduction of talents and the Company's goal which leads to the existence of talent risk.

The Group attaches great importance to the resource management of R&D personnel. It will constantly improve talents introduction, training and incentive mechanism, and build up its pool of talents. The Company will develop new channels of introducing talents and increase training; enhance internal talent exchanges and nurture high level R&D team and technology leaders through training and actual practicing; and improve the salary and benefit for R&D personnel to secure the stability of technology team and address the talent risk.

6. Risk of changes in preferential tax treatment and countermeasures

Tianhai Industrial and Jingcheng Environment are the high and new technology enterprises jointly certified by four departments including Beijing Municipal Science & Technology Commission. Pursuant to requirements of article 28 of Enterprise Income Tax Law of the People's Republic of China, the Company is subject to 15% enterprise income tax rate. There is the possibility that the Company may not be able to continue enjoying such preferential treatment in the future due to cancellation of such preferential policy, or the related entities being not recognized as high and new technology enterprises subsequent to expiration of their existing certificates.

Tianhai Industrial and Jingcheng Environment will expedite technology R&D, actively apply for patent and proprietary technology and reinforce its technology management to secure the recognition as a high and new technology enterprise.

7. Impact of imposition of the anti-dumping duties and countervailing duties by the US and countermeasures

Pursuant to the final ruling made in May 2012 of an anti-dumping and countervailing investigation conducted by United States International Trade Commission (USITC) against high pressure cylinders manufactured in China, seamless steel cylinder products (products produced according to DOT standards) of Tianhai Industrial exported to the US will be subject to 15.81% countervailing duties and 6.62% anti-dumping duties. Imposition of the two duties brings the risk of decline to sale results of Tianhai Industrial in the US market.

Due to the two duties, the sales results of products subject to the duties would decrease. Tianhai Industrial will increase the export of products that are not subject to the duties, and further develop other overseas market to compensate the loss brought to the Group by the two duties.

IX. LETTER OF UNDERTAKING FOR CONSOLIDATED PROFIT FORECAST

All directors of the Company solemnly undertake with the investors that, under normal production and operation conditions, the Group can achieve the consolidated profit forecasts for 2012 and 2013.

BEIREN PRINTING MACHINERY HOLDINGS LIMITED

2 November 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

COMFORT LETTER FOR PRO FORMA CONSOLIDATED PROFIT FORECAST

XYZH/2012TJA1016-13

To the members of Beiren Printing Machinery Holdings Limited,

We have been engaged to review the calculations and accounting policies adopted in the pro forma consolidated profit forecast report (hereinafter the “Profit Forecast”) of Beiren Printing Machinery Holdings Limited (hereinafter the “Company”) for the year 2012 and 2013. The Profit Forecast is set out in the announcement of the Company (hereinafter the “Announcement”), for which the management of the Company are solely responsible.

We conducted our work in accordance with the “Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information” issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the management of the Company based on the pro forma financial statement of the Enlarged Group as at 31 July 2012.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the management of the Company as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company in its financial statements for the period ended 31 July 2012.

ShineWing Certified Public
Accountants (Special General
Partnership)

Certified Public Accountant of China: Hua Qiang

Certified Public Accountant of China: Pang Rongzhi

Beijing, PRC, 2 November 2012

(b) Letter from the financial adviser



2 November 2012

PRIVATE & CONFIDENTIAL

The Board of Directors
Beiren Printing Machinery Holdings Limited
6 Rongchangdong Street
Economic and Technological
Development Zone
Beijing, PRC

Dear Sirs,

Beiren Printing Machinery Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”)

Very substantial acquisition, very substantial disposal and connected transactions – Profit forecast in relation to the Material Asset Reorganisation prepared under CASBE for the two years ending 31 December 2012 and 2013 as contained in the Company’s announcement dated 2 November 2012 (the “Announcement”)

We refer to the profit forecast of the Reorganised Group for the two years ending 31 December 2013 (the “**Reorganised Group Profit Forecast**”) prepared by the Company and reviewed by ShineWing Certified Public Accountants (“**ShineWing**”) in relation to the Material Asset Reorganisation as set out in the Announcement. Capitalised terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Reorganised Group Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Reorganised Group Profit Forecast has been made. We have also considered the letter addressed to the Directors from ShineWing dated 2 November 2012 regarding the accounting policies and calculations upon which the Reorganised Group Profit Forecast has been made.

On the basis that the Directors are satisfied that there are no further matters that should be brought to our attention, in our opinion, the Reorganised Group Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

It must be emphasised that the Reorganised Group Profit Forecast necessarily depends on subjective judgement and it is, according to the nature of the business and the period covered, subject to substantial inherent uncertainties. The Reorganised Group Profit Forecast and its underlying assumptions relate to the future and actual financial and trading positions are likely to be different from the forecast since other anticipated events frequently do not occur as expected and the variation may be material. Accordingly, the Reorganised Group Profit Forecast cannot be relied upon to the same extent as information derived from audited financial statements for

completed financial accounting periods. For this reason, we express no opinion on how closely the business targets eventually achieved will correspond with the Reorganised Group Profit Forecast.

We make no representation as to the legal interpretation of the above information as presented in the Announcement.

This letter is supplied on the understanding that it is for the sole use of the Company. It must not be made available to any other party or filed with or referred to (either in whole or in part) in the Announcement or any other document or otherwise quoted, circulated used for any other purpose without our prior written consent, except that we understand a copy of this letter may be distributed to The Stock Exchange of Hong Kong Limited. For the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties, including The Stock Exchange of Hong Kong Limited, are specifically disclaimed.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

(A) Profit Forecast of Tianhai Industrial

The following is the text of the profit forecast report of Tianhai Industrial. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.



信永中和會計師事務所
(特殊普通合夥)

ShineWing
certified public accountants
(Special General Partnership)

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AUDIT REPORT OF CONSOLIDATED PROFIT FORECAST

XYZH/2012TJA1016-6

To the members of
Beiren Printing Machinery Holdings Limited,

We have audited the accompanying consolidated profit forecast report for 2012 and 2013 prepared by Beijing Tianhai Industry Co. Ltd. (the "Company"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of the Company is responsible for the consolidated profit forecast report and the assumptions upon which it was based. Such assumptions have been disclosed in the consolidated profit forecast report.

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the consolidated profit forecast. Also, we believe this consolidated profit forecast report has been properly compiled based on such assumptions, which has been presented in accordance with the basis for the preparation of consolidated profit forecast as stated in the consolidated profit forecast report.

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information of the consolidated profit forecast.

This report is solely for the information of Beiren Printing Machinery Holdings Limited and Jingcheng Holding Machinery Electric Holding Co., Ltd., in connection with the submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the material asset reorganisation transaction, and should not be used for any other purposes.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: HUA Qiang

Chinese Certified Public Accountant: PANG Rongzhi

Beijing, China, 26 October 2012

APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL AND COMFORT LETTERS

BEIJING TIANHAI INDUSTRY CO. LTD. CONSOLIDATED PROFIT FORECAST REPORT FOR 2012 AND 2013

Important

This consolidated profit forecast report was prepared by the management of Beijing Tianhai Industry Co. Ltd. basing on best estimates and assumptions, but since the assumptions upon which it was based are uncertain, investors should exercise caution and not place undue reliance on such information when making their investment decisions.

I. BASIS OF PREPARATION FOR THE CONSOLIDATED PROFIT FORECAST

1. GENERAL

Beijing Tianhai Industry Co. Ltd. (the “Company”, together with its subsidiaries, collectively the “Group”) previously known as Beijing High Pressure Container Co., Ltd. (北京天海高壓容器有限公司) was established on 18 July 1992 with an original registered capital of US\$16 million, US\$8 million each from Beijing High Pressure Gas Cylinders Factory (北京市高壓氣瓶廠) and Korea High Pressure Containers Company Limited (韓國高壓容器株式會社).

Beijing High Pressure Container Co., Ltd. changed its name to Beijing Tianhai Industry Co. Ltd. on 13 September 1993.

After a number of equity interest transfers and capital increases, the registered capital of Tianhai Industrial was US\$24,924,000 as of 31 December 2010, with the contributions from shareholders as follows:

Name of shareholder	Contribution (US\$)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	17,836,700.00	71.56
Jingcheng Holding (Hong Kong) Company Limited	7,087,300.00	28.44
Total	24,924,000.00	100.00

The address of the company is 9 Tianying North Road, Chaoyang District, Beijing. Its term of operation expires on 17 July 2032 and its legal representative is Wang Pingsheng.

The Company engages in the gas storage and transportation equipment industry and its business scope mainly covers: production of gas cylinders, accumulator shells, pressure vessels and auxiliary equipment, add-on components, fire extinguishers, fire extinguishing products and components, gas cylinders for medical use, gas cylinders for life rescues, gas cylinders and components for food machineries, gas and wrapped cylinders and components for gas vehicles, gas storage special containers, bundled device, cryogenic gas cylinders and components, LNG cylinders and components, aluminum cores, cylinders and components, new enhanced complex materials (carbon fibre, organic fibre and high strength glass fibre) and products, complex gas cylinders (auto natural gas storage cylinders, gas storage

APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL AND COMFORT LETTERS

cylinders for respirators, containers for water treatment), testing equipment for complex gas cylinders. General operation: installation, adjustment, maintenance, technical consultancy and services of self-production product; sales of self-production product; wholesale of cryogenic containers; after-sales service and maintenance. The products of the Group include seamless steel gas cylinders, gas cylinders with seams, hoop-wrapped gas cylinders, accumulator shells, cryogenic gas cylinders, aluminum liner fully wrapped composite gas cylinder and cryogenic storage and transportation equipment etc.

The Company has a board of directors, and under which are functional and management departments including technology division, quality inspection division, technology reform division, sales department, marketing department, the office, human resources department, finance department, production department, general affair department and legal department.

Jingcheng Holding Machinery Electric Holding Co., Ltd. is the controller of the Company and the ultimate parent company of the Group is Jingcheng Holding Machinery Electric Holding Co., Ltd.

2. BASIS OF PREPARATION FOR THE CONSOLIDATED PROFIT FORECAST

- (1) This consolidated profit forecast is prepared for the purpose of the Material Asset Reorganisation transaction of Beiren Printing Machinery Holdings Limited and Jingcheng Holding Machinery Electric Holding Co., Ltd..
- (2) This consolidated profit forecast has been prepared basing on the operation results of the Group for 2011 and January to July 2012, in light of the 2012 and 2013 production and operation plans, sales plans, investment plans and financing plans of the Group, and in accordance with the basis of preparation and assumptions as stated in this report and the principle of significance.
- (3) This consolidated profit forecast was prepared in accordance with the accounting policies and accounting estimates as stated in IV of this report, and such policies and estimates are consistent in all material aspects with those adopted by the Company in the preparation of its financial statements for 2009, 2010, 2011 and January to July 2012.

II. BASIC ASSUMPTIONS OF THE CONSOLIDATED PROFIT FORECAST

1. During the forecast period, there is no material change in the state laws, regulations, departmental rules and industrial policies complied by the Group as well as the social, political and economic situation of the region where the Group are located.
2. During the forecast period, there is no material change in the relevant accounting policy and accounting estimation of the Group.
3. During the forecast period, there is no material change in the taxation policy and the relevant preferential taxation policy complied by the Group.
4. During the forecast period, there is no material change in the industry that the Group engages in.
5. During the forecast period, there is no material change in interest rate of bank loan and foreign exchange rate.

6. During the forecast period, there is no material change in the market of the products of the Group, especially the international and domestic market demand of industrial gas cylinders and the relevant significant factors affecting the market demand of industrial gas cylinders.
7. During the forecast period, there is no material change in the laws, regulations and industrial rules which affect the production and operation of the Group.
8. During the forecast period, the operation plan, marketing plan, investment plan and financing plan of the Group would not be unable to realize on schedule or experience a material change due to changes in external environment.
9. The Group having maintained the relevant certificates held by them for the production of product and timely obtained such new certificates being applied for (such as the UN certificate, etc, for exports to the United States of America); and there would not be any material effect on the international sales market as a result of non-compliance of requirements under the relevant certificates.
10. During the forecast period, the operating activities of the Group would not experience an adverse impact due to shortage of manpower or resources, lagging behind in technology or material change in cost.
11. During the forecast period, there is no material change in the corporate structures of the Group.
12. During the forecast period, there is no other material asset transaction.
13. During the forecast period, there is no other force majeure and unexpected factors of the Group that would materially affect the Group.
14. There is no material change in the market share of the principal businesses of the Group.
15. Having established strategic cooperative relationships with companies in the oil industry, the Group is able to enter into contracts with these companies according to the negotiated intentions and successfully develop and sell products in accordance with the signed contracts and operation plans.
16. The selling prices of the existing products of the Group would not be subject to the restrictions of the relevant authorities and there is no material change in sale price. There is no material change in materials supply market nor in the prices of materials.

APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL AND COMFORT LETTERS

III. CONSOLIDATED PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

Items	Notes	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
				Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
1. Total Operating Income		233,154.42	139,882.28	27,712.21	66,933.36	234,527.85	268,449.81
Operating Income	VII.1	233,154.42	139,882.28	27,712.21	66,933.36	234,527.85	268,449.81
2. Total Operating Cost		227,512.73	135,500.07	27,417.05	65,414.98	228,332.10	261,495.52
Operating Cost	VII.2	200,117.07	119,283.16	23,191.86	57,445.66	199,920.68	228,063.41
Tax and Additional Expense	VII.3	231.03	208.62	84.15	105.50	398.27	551.70
Sales Expense	VII.4	7,698.51	4,542.12	1,103.65	2,080.19	7,725.96	8,979.86
Administration Expense	VII.5	16,674.53	9,730.59	2,723.33	4,593.03	17,046.95	20,065.03
Financial Expense	VII.6	2,566.12	1,586.73	314.06	930.60	2,831.39	3,235.52
Assets Impairment Losses	VII.7	225.47	148.85		260.00	408.85	600.00
Add: Income of Fair Value Change (loss marked “-”)							
Investment Income (loss marked “-”)	VII.8	-46.80	-11.25			-11.25	
3. Operating Profit (loss marked “-”)		5,594.89	4,370.96	295.16	1,518.38	6,184.50	6,954.29
Add: Non-operating Income	VII.9	172.44	82.73	0.06		82.79	
Less: Non-operating Expense	VII.10	70.81	21.79	31.09		52.88	
4. Total Profit (loss marked “-”)		5,696.52	4,431.90	264.13	1,518.38	6,214.41	6,954.29
Less: Income Tax Expense	VII.11	988.90	856.83	169.35	260.92	1,287.10	1,340.13
5. Net Profit		4,707.62	3,575.07	94.78	1,257.46	4,927.31	5,614.16
Net Profit Attributed to the Parent's Shareholders		4,474.47	3,077.62	179.77	1,168.73	4,426.12	5,039.05
Minority Shareholder's Equity		233.15	497.45	-84.99	88.73	501.19	575.11

Legal Person:
Wang Pingsheng

Accounting Director:
Han Bingkui

Accounting Manager:
Wang Yandong

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

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

2. Reporting currency

The reporting currency is Renminbi.

3. Principles of accounting and measurement

The Group uses the accrual method as its basis of accounting. All assets are recorded at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement indicates the cash on hand and the deposit in bank available for a payment at any time. Cash equivalents in the cash flow statement are matured within 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

5. Foreign exchange translation

(1) Transactions in foreign currencies

Transactions by foreign currency are translated into RMB at the spot exchange rate of the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized eventually, the exchange difference is accounted into current profit and loss. For non-monetary items measured at fair value and by foreign currency, 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. 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 kept unchanging.

(2) Foreign currency translation

Foreign currency items of assets and liabilities to be presented in balance sheets are translated at the spot rate as at the balance sheet date. All items of owners' equity, except for undistributed profit, are translated at the spot rate upon occurrence. Items of income and expenses to be presented in income statements are translated at the spot price of the transaction date. Such translation differences are presented separately under owners' equity. Cash flow is translated at the spot rate of the date of occurrence. Impact of changes in exchange rate on cash is presented separately in cash flow statements.

6. Financial Instruments

(1) Financial assets

1) Classification

According to the investment purpose and economic substance, the Group classifies its financial assets as Financial assets at fair value through profit and loss, Held-to-maturity investments, Loans and receivables and Available-for-sale financial assets.

Financial assets at fair value through profit and loss represent those mainly held for sale in a short term and are presented in balance sheet as trading financial assets.

Held-to-maturity investments is defined as a non-derivative financial asset that has fixed or determinable payments for which an entity has a positive intent and ability to hold to maturity.

Loans and receivables is defined as a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets is defined as financial assets that are designated as available for sale are not classified as into other categories.

2) Recognition and measurement

Financial assets are recognized at fair value in the balance sheet when the Group becomes a part of the contract of relevant instrument. Transaction costs of financial assets financial assets at fair value through profit or loss are recognized into current profit and loss, while that for other financial assets are included in initial their recognized amount.

Financial assets financial assets at fair value through profit or loss and those available for sale are measured at fair value subsequently. Loans and receivables and held-to-maturity investments are carried at the amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are included in profit or loss from changes in fair value. Interest or cash dividend received on assets held shall be recognized as investment income. On disposing of it, the difference between fair value and initial accounting value shall be recognized as investment gain or loss, and profit or loss from changes in fair value is also adjusted accordingly.

Other than impairment loss and exchange gains and losses arising from foreign currency monetary financial assets, the changes in fair value of available-for-sale financial assets are recorded in the shareholder's equity. When the financial assets are derecognized, the calculated amount of changes in fair value of available-for-sale financial assets should be recorded into current profits or losses. The interest of available-for-sale liability instruments accrued at

effective interest rate during the holding period and the cash dividends declared and issued by the investee on available-for-sale equity instruments should be included in current profit or loss as investment income.

3) Impairment of financial assets

Except for the financial assets at fair value through profit or loss, the Group shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall determine the amount of any impairment loss.

For the financial assets carried at amortized cost, impairment loss provision is made at the difference between the present value of estimated future cash flows (excluding any future credit risk) below the carrying value. When there is objective evidence showing carrying value of such financial assets have been restored which is objectively related to a subsequent event, such impairment loss recognized are reversed to current profit and loss.

When fair value of available-for-sale financial assets varies significantly or decreases for a non-temporary period, such loss from decrease of fair value which would have been included in shareholders' equity are transferred to impairment loss. When there is subsequent increase in fair value of available-for-sale which is objectively related to a subsequent event, such impairment loss recognized are reversed to current profit and loss. Subsequent increase in fair value of impaired available-for-sale equity instrumental investments is recorded into shareholders' equity.

4) Transfer of financial assets

The Group shall derecognize a financial asset satisfied one of the followings: (1) contractual rights to the cash flows from the financial asset have expired; (2) such financial assets has been transferred to purchaser together with substantially all related risks and rewards of ownership of the financial assets; and (3) such financial assets has been transferred over which the Group has surrendered control, although substantially all risks and rewards of ownership of the financial assets are neither transferred nor retained.

If the enterprise neither transferred substantially all the risks and rewards of ownership of the assets nor surrender the control over the financial assets, the related financial assets should be recognized based on the degree of involvement into the transferred financial assets, the related liabilities should be recognized as well. The degree of involvement into the transferred financial assets means the risk level faced by the enterprise, which was caused by the value change of such financial assets.

If the holistic transfer of financial assets meets the conditions of derecognition, the difference between the carrying value of transferred financial assets and the sum of consideration from the transfer and the accumulated amount of fair value change originally included in other comprehensive income should be included into the current loss and profit.

If the partial transfer of financial assets meets the conditions of derecognition, the entire carrying value of transferred financial assets should be apportioned between the portion to be derecognized and the portion continues to be recognized according to the respective fair value. The difference between the sum of consideration from the transfer and the accumulated amount of fair value change of the derecognized portion which has been originally included in other comprehensive income and the carrying value of the derecognized portion before apportionment should be included into the current loss and profit.

(2) *Financial liabilities*

The Group classifies its financial liabilities as those at fair value through profit or loss and other financial liabilities.

According to subsequent measurement at fair value, financial liabilities at fair value through profit and loss, including those held for trading and those specified as such at initial recognition, gain or loss arising from changes in fair value thereof and dividend and interest expenses accrued thereon are carried into current profit and loss.

Other liabilities are subsequently measured at amortized cost based on effective interest rate.

Upon release of all present obligations thereof in whole or in part, financial liabilities or such parts are derecognized, where the difference between carry value of the derecognized portion and consideration paid are carried into current profit and loss.

(3) *Measurement of fair value of financial assets and financial liabilities*

- a) For the financial instruments with active market-quoted prices, the Group adopts market-quoted price for a financial instrument. The fair value of an asset held or liability to be assumed is the current bid price and that of an asset to be acquired or liability held is the asking price. When current bid and asking prices are unavailable, the fair value thereof are measured at the most recent quoted trading price as long as there has not been a significant change in economic circumstances since the last trading date, or at the most recent quoted trading price as adjusted with reference to fair value of similar financial assets or financial liabilities in case of such significant change. With sufficient evidence showing the most recent quoted trading price being unfair, the fair value is measured at such price with appropriate adjustment.
- b) For the financial instruments without an active market, valuation is applied, including reference to the most recent trading price in the market under voluntary transaction between well-informed parties, reference to current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

7. *Accounts receivable*

The Group assesses the book value of receivables on balance sheet date, and the bad debt expense is made into the current profit and loss when any of the following circumstances occur: (1) There is the existence of the withdrawal, bankrupt, insolvency,

stoppage due to a natural disaster or weak solvency within foreseeable period from debt enterprises. (2) Debt enterprises have not satisfied debts past the due date for more than 3 years. (3) There are other substantial evidences showing that receivables are difficult to be collected.

The provision is adopted for the possible bad debts. The impairment test is made separately or grouped at the ending period and recorded into the current profit and loss. For the receivables which cannot be collected with solid evidence, the loss of bad debts will be recognized after the approval through the Group's process, and written-off against the provision of the bad debts.

(1) Individual Receivables above Significant Level

The basis or standard for judging the significant level of individual receivable	Consider individual receivables above RMB5,000,000.00 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.

(2) Receivables for which provision of bad debts made by groups

The basis of defining combinations

Combination based on age of accounts	Consider aging of receivables as credit risk characteristics

Method on making provision of bad debts based on combinations

Combination based on age accounts	Provision of bad debts is made by aging analysis

The rate of bad debts provision according to aging analysis is as follows:

Aging	Ratio of accounts receivable (%)	Ratio of other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Above 3 years	100	100

8. Inventory

The inventory of the Group covers raw material, work in process, finished goods and others.

Inventory is on a perpetual basis and is measured at actual cost when acquired. Actual cost of inventory withdrawn or discharged is measured at weighted average.

At the end of period, inventory is measured as lower of historical cost and net realizable value. For inventories of which value is impaired due to the physical damage or technology obsolete or selling price lower than cost, the portion estimated to be unrecoverable will be provided for. The provision of impairment for finished goods and raw materials in a large amount is made on the basis of the difference of the cost of the individual inventory item over its net realizable value. The provision of impairment for the auxiliary materials with a large quantity and low cost is withdrawn in terms of classification.

The net realizable value of these inventories, such as finished goods, work in process and materials for selling, is the estimated price after estimated sales expenses and relevant taxes. The net realizable value of materials which are for production is estimated price of relevant finished goods after estimated cost for finished goods, estimated sales expenses and relevant taxes.

9. Long-term equity investment

Long-term equity investments includes equity investments in investees under control, common control or significance influence of the Company, or those under no control, common control or influence of the Company and their fair value are unavailable in the market and cannot be measured reliably.

Common control indicates the sharing control according to the contract. Any parties involved cannot control the production and operation activities of the joint venture. All decisions related to principal operation activities need the agreement from all parties.

Significant influence indicates the rights to be involved into the decision-making on financial and operational policies in investees but no control or common control on these policies-making. The evidence of significant influence is the direct ownership or indirect ownership through subsidiaries of from 20% up to 50% voting rights from investees, unless there are solid evidences showing the Company cannot be involved in investees' decision making.

For the merger of enterprises under the same control, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. For a business combination realised by a transaction of exchange, 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.

Other than long-term equity investment acquired through mergers as mentioned above, the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid, which includes fees, tax and other required expenses directly attributable to such investments. The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued. The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement. The initial cost of a long-term equity investment obtained by recombination of liabilities or the exchange of nonmonetary assets shall be ascertained in accordance with Accounting Standards for Enterprises.

The Group recognizes the investment on subsidiaries by cost method and adjusts into equity method in compilation of consolidated statements. The Group applies the equity method on accounting the investment of joint ventures and associated companies, and the cost method on accounting the long-term equity investment without control, common control and significant influence as well as no pricing and no reliable fair value in the market. The Group accounts the long-term equity investment, which is without the control, the common control or significant influence but with pricing and reliable fair value in the market, as financial assets available-for-sale.

Under the cost method, the long-term equity investment is measured at initial investment cost. Such cost is adjusted when there is addition or recovery of investment. For equity method: The current period's profit and loss is the entitled portion of investee's profit or loss for the period. When determining entitled amount of net profit or loss from investee: the fair value of investee's assets at the acquisition date should be applied as calculation basis; in accordance with Group's accounting policy and period, set off internal transactions between joint-ventures and associated enterprises; adjust investee's net profit. Investment gain or loss of long-term equity investment in associates and joint ventures held before the first exercise date should also the difference with the investment amortized on a straight-line basis over the original remaining period if such difference exists.

The long-term equity investment for which that Company doesn't have common control or significant influence over the investee any more 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 cannot be reliably measured, the cost method shall be adopted for valuation; Equity method will be adopted under the following circumstances: investee that Group has common control or significant influence but not control due to increased additional investment; due to reasons such as disposal of long-term investment Group no longer has control but only common control and significant influence over investee.

The difference between the book value and the disposal gain on the long-term equity investment is accounted into the current profit and loss. For the long-term equity investment measured under equity method, those were recorded into the equity on the changes in the equity which is excluding the net profit by the invested company, the amount was recorded into the equity will be transferred into the investment profit for the period.

10. Fixed assets

Fixed assets are defined by the Group as the tangible assets which are held for the purpose of producing goods, rendering services, leasing for operation & management. The useful life of fixed assets is more than one year and their value exceed RMB2,000.

Fixed assets include buildings, machinery, transportation equipments, administrative equipments and others, and are initially measured at their acquisition cost. The cost of purchased fixed assets includes the purchasing price, value-added tax, import duty and other relevant taxes and expenses, as well as other expenditures attributable to assets for their availability of use. The cost of self-made fixed assets covers all expenditures for their availability to 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 lower of the fair value and the minimum payment of leasing on leasing date.

The subsequent measurement of fixed assets comprises maintenance expenses and renewal and renovation expenses etc. Expenses which meet the criteria of fixed assets are accounted into the cost of fixed assets otherwise are accounted into current profit and loss. The replacement part is derecognized from the account. Those do not meet recognition criteria of fixed assets are accounted for into current profit and loss upon occurrence.

Apart from those fixed assets fully depreciated but still in use, as well as land separately recognized, the Group provide for depreciation of fixed assets by straight-line method and the depreciations are accounted into current profit and loss in accordance with the purposes of fixed assets. The estimated residual value ratio, useful life by category and depreciation rate applied by the Group are as follows:

No.	Classification	Useful life (year)	The rate of salvage value (%)	Depreciation rate (%)
1	Building	20-40	5-10	2.25-4.75
2	Machinery	10	5-10	9-9.5
3	Electrical equipment	5-10	5-10	9-19
4	Transportation Equipment	5	5-10	9-19
5	Administrative equipments 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 period yearly. If any changes occur, they will be regarded as changes on accounting estimates.

The Group derecognizes fixed assets from the account which 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.

11. Construction in progress

Construction in progress is recognized at actual cost. Self-construction project is recognized at the cost of direct material, labor cost and construction expenses. Contracted construction is recognized at actual project price paid. Installed construction is recognized at the value of equipments, expenses of installation and assembly and expenditures of pilot run. Besides above, the cost of construction in progress comprises the borrowing cost which can be capitalized and foreign exchange gains and losses.

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 will be withdrawn since the month after carrying down 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.

12. 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 cost which directly attributes to purchasing or constructing assets is to be capitalized when expenditures for assets and borrowing cost occur and the activities of purchasing or constructing made the assets available for use or sale commences. When assets reach the status available for use or sale, the capitalization of borrowing cost ceases. The rest of borrowing cost will be accounted into current profit and loss.

The current actual interest expenses from specific borrowings are capitalized, after deducting interest income as deposit in bank or short-term investment gains. The capitalized amount for the general borrowing is calculated as weighted average of the general borrowing (excluding any specific borrowings for qualified asset) times the weighted average of the interest rate of the general borrowing.

The qualified assets refer to the assets of investment in real estate and inventories which only can arrive at status of available for use or sale after purchasing and constructing in more than one year generally.

If a suspending takes place during the purchasing and constructing on the qualified assets for more than three months, the capitalization of borrowing cost is suspend until the purchasing and constructing of assets restart.

13. Intangible assets

The intangible assets of the Group include the land use right, software and others, and 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 at the contract or agreement, except for those with unfair value in the contract or agreement. For the contract or agreement that failed to present fair value of intangible assets, intangible assets will be measured at the fair value.

The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. The 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 accounted into current profit and 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 adjustment if needed. The Group assesses the estimated useful life of intangible assets with uncertain useful life during each accounting period. If there are evidences 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 lifetime.

14. R&D expense

For the R&D 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. Research expenses are accounted to the current period profit and loss when occurred. Development expenses are treated as intangible assets when satisfy following requirements:

- 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 market is available for products from the intangible asset or the intangible asset itself.
- 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 into the profit and loss of the period. The expenditures expensed in previous accounting period cannot be recognized as the asset in later accounting period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

15. Impairment of long-term non-financial assets

The Group makes the assessment on the long-term equity investment, fixed assets, construction in progress and intangible assets with useful life at each balance sheet date. In the event of the following signs which show there may be impairment, an impairment test is conducted. Goodwill and intangible assets with indefinite useful life are subject to impairment test every end of year regardless of whether there is such sign. Those whose recoverable amount is difficult test are tested based on their group.

If such test shows a carry value lower than the recoverable amount, the difference therebetween is recognized as impairment loss of the relevant asset. Once recognized, such impairment loss is not subject to reversal in future. Recoverable amount of an asset refers to the higher of the asset's fair value net of disposing expenses and present value of estimated future cash flow thereof.

Indicators of impairment are as follows:

- (1) During the period, the market value of an asset has declined significantly and the decrease is far more than the decrease caused by timing or practice or by normal use.
- (2) Significant changes, in terms of economic, technical or legal environment and the market, with a negative effect on the Group have taken place during the period, or will take place in the near future.

- (3) Market interest rates or other market rates of return on investments have increased during the period and the increase of rates are likely to affect the discount rate used in calculating the NPV of future cash flow of assets and lead to the decrease in the recoverable amount of assets in substance.
- (4) Evidences are available for the obsolescence or physical damage of an asset.
- (5) An asset has been idle or is becoming idle, discontinued, or planned to be disposed in advance.
- (6) Evidences from internal reporting indicate that the economic performance of an asset is or will be, worse than expectations. For instance, the net cash flow or net profit generated by an asset is far lower than the amount expected.
- (7) Other evidences indicate the impairment of assets.

16. Goodwill

Goodwill represents the difference between equity investment cost or cost of merger with entity not under the same control over the fair value of identifiable assets of the investee or entity merged the Company entitled to or acquired through merger as at the date of acquisition or purchase.

Goodwill in relation to subsidiaries is presented separately in consolidated financial statements, where that in relation to associates and joint ventures are included in carrying value of long-term equity investment.

17. Long-term prepayments

The long-term prepaid expense of the Group refers 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 method within beneficial periods. If the long-term prepaid expense cannot benefit the later accounting periods, the amortized price will be accounted into current profit and loss.

18. Employee compensation

During the accounting period of an employee' providing services to an enterprise, the enterprise shall recognize the compensation payable as liabilities and the compensation payable shall be included in the cost of related assets or profit or loss based on the beneficiary objects. The compensations for the termination of the labor relationship with the employee with employees are accounted into current profit and loss.

Employee compensation comprises salary, bonus, allowance, welfare, social insurance, housing fund, labor union expenditure, employee education expenditure and other relevant expenditures on service rendered by the employees.

When the Group terminates the employment with an employee before the expiry of the employment contract or provides compensation for acceptance of voluntary redundancy, if the Group has developed a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group is

not allowed to unilaterally withdraw the termination plan or the redundancy offer, the estimated liability for compensation arising from the termination of employment with employees should be charged to the profit or loss for the current period.

19. 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 liabilities. The requirements mentioned above are as follows: The assumed responsibilities are actual and real. The fulfilment of obligations will cause the outflow of economic benefit from the Group. The amount of liabilities can be measured reliably.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation by considering relative risks, uncertainties and timing factor etc. If the effect from time value of currency is material, the best estimate is determined by discounting the related future cash outflows. 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.

20. Revenue recognition principle

The operating revenue of the Group is mainly from selling goods. The principle of recognition are as follows:

The revenue from sale of goods shall be recognized, when main risks and rewards related to the ownership of goods have been transferred to buyers, and the Group doesn't hold continuing management rights or effective control rights of goods, and the relevant economic benefits may flow into the Group, and the amount of this relevant revenue can be measured reliably.

21. Lease

The Company categorizes the lease into the financial lease and the operating lease.

The financial lease is the lease in which all risks and returns related to the ownership of assets are transferred in substance. The Company as a lease holder, on the date of lease, the financial lease is recognized as the fixed asset at lower cost of fair value of the rental asset and the NPV of minimum payment of leasing. The minimum payment of leasing is recognized as long-term payable and the difference is accounted into unrecognized financing expense.

The operating lease is the lease apart from the financial lease. The Company, as a lease holder, accounts the rents into current period by straight line method during the term of the lease. The Company, as a leaser, accounts the rental income into current period by straight line method during the term of the lease.

22. Government subsidies

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 in the light of the received or

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 (RMB1).

The government subsidies pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life. The government subsidies pertinent to incomes are treated respectively in accordance with the indications as follows: 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.

23. Deferred tax assets and deferred tax liability

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. On the balance sheet date, deferred tax assets and deferred tax liability are measured at applicable tax rate.

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 which 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.

24. Income tax accounting

The Group recognizes income tax by balance sheet method. The income taxes of the current period and deferred income tax of the Group are treated as income tax expenses for the current period, and are accounted into current profit and loss, excluding the income taxes incurred in following circumstances: the deferred tax arising from consolidation and accounted as the adjustment on the book value of goodwill; the income taxes of the current period and deferred income tax related to the transactions or events directly recognized into owners' equity are accounted into owners' equity.

The income tax expenses for the current period are the amount payable to the Tax Office which are calculated and recognized according to the tax law and transactions and events of the current period, i.e. income taxes payable. The deferred income taxes refer to the differences recognized between the amount at the end of period and amount recognized originally of the deferred tax assets and deferred tax liability by the balance sheet liability method.

25. Business combination

Business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Company recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. The combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

Assets and liabilities that are obtained through a business combination for entities under common control are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserves. Any excess over capital reserves is adjusted against retained earnings.

For a business combination for entities not under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where the cost of combination exceeds the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

26. Preparation of consolidated financial statements***(1) Determination of the scope of consolidation***

The scope of consolidated financial statements of the Company covers all subsidiaries and special purpose entities in which the Group has actual control.

(2) Accounting method adopted in consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements and the relevant requirements. On consolidation, all the significant intra-group transactions and balances are eliminated. The shareholders' equity of the subsidiaries not attributable to the parent company is separately presented as minority interests under shareholders' equity in the consolidated financial statements.

When there is any inconsistency on the accounting policies or accounting period adopted between subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or accounting period adopted by the Company when preparing the consolidated financial statement.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries at the original carrying value from the beginning of the year presented as if the business combinations had occurred at the beginning of the year the combination took place.

V. TAXATION

Major taxes and relevant tax rates applicable to the Group are as follows:

1. Enterprise Income Tax

Except for the Company and its subsidiary American Fortune Company (hereinafter called American Fortune), the tax rates applicable to the enterprise income tax for other companies of the Group is 25%.

Taxation Benefits and Approval:

The Company was certified as High and New Enterprise on 24 Dec 2010, and the certificate with No. GR201011000725 was jointly issued by Beijing Municipal Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, SAT and Beijing Local Taxation Bureau. The certificate is with three-year validation. The Company applies 15% as the rate for enterprise income tax in the years 2010-2012. It is assumed in this consolidated profit forecast that the Company will continue to apply 15% as the rate for enterprise income tax in the years 2010-2013.

America Fortune Company, a subsidiary of the Company, adopted progressive tax rate as enterprise income tax rate.

2. Value added tax

The Group is subject to value added tax for its sales revenues at a VAT rate of 17% for domestic sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%. Of this tax, application can be made for refund of the duty paid for export of products.

The VAT payable for the period is the net amount of output VAT after deducting input VAT.

3. Business tax

The applicable business tax is based on technology service revenue, at a rate of 5%.

4. Urban maintenance & construction and educational surcharges

The Group's urban maintenance & construction tax, educational surcharges, local educational surcharges are calculated on the basis of the assessable amount of value-added tax and sales tax. The applicable tax rates are 7% and 3% respectively. The local educational surcharges have been levied since 1 Jan 2012. The applicable tax is 2%.

VI. SCOPE OF CONSOLIDATION FOR THE CONSOLIDATED PROFIT FORECAST REPORT

1. Subsidiaries

Company Name	Nature	Registration	Business Type	Registration Capital	Operating Scope
Subsidiaries acquired from business combination under common control					
Langfang Tianhai High Pressure Containers Co., Ltd. (廊坊天海高压容器有限公司)	Sino-foreign cooperative joint venture	Langfang City, Hebei Province	Manufacture	RMB180 million	Design and manufacture of B1 seamless cylinders (only steel seamless cylinders) and B3 special gas cylinders (only compressed natural gas cylinder for vehicle use), sales of self-produced products of the company (other than commodities and technologies whose dealing, import or export is restricted or prohibited to operate by the State)
Shanghai Tianhai Dekun Composite Cylinders Co., Ltd. (上海天海德坤复合气瓶有限公司)	Sino-foreign cooperative joint venture	Songjiang District	Manufacture	US\$3,017,400	Manufacture of new reinforced composite materials (carbon fiber, organic fiber and high-strength glass fiber composites) and its products, composite cylinders (wire wound cylinders), composite cylinders test equipment, sales of self-produced products of the company (involving administrative license and operation permit)
Beijing Panni Gackong Equipment Co., Ltd. (北京攀尼高空作业设备有限公司)	Limited company	Tongzhou District, Beijing	Manufacture	RMB20 million	Specific operating items: manufacture of high-altitude operation equipment General operating items: design of high-altitude operation equipment; sale and repair self-produced products
Subsidiaries acquired from business combination under non-common control					
America Fortune Company	Offshore enterprise	Houston, United States	Sales	US\$3,367,550	Import and export of industrial gas cylinders and mechanical and electrical products and the sales service of products

Company Name	Nature	Registration	Business Type	Registration Capital	Operating Scope
Other acquired subsidiaries					
Tianjin Tianhai High Pressure Containers Co., Ltd.	Sino-foreign equity joint venture	Tianjin Port Free Trade Zone	Manufacture	RMB225,578,400	Design, manufacture and sale of high-pressure containers and after-sales service; operation of the export business of the enterprise's self-produced products and technology and the import business of machine tools, parts and components, auxiliary materials and technologies required for the enterprise's production, but except from companies' operations limited by the State or commodities and technologies restricted by the State from import and export
Beijing Tianhai Cryogenic Equipment Co., Ltd.	Limited company	Daxing District, Beijing	Manufacture	RMB40 million	Specific operating items: manufacture of cryogenic tanks, tanks for tankers and tank containers General operating items: sale, repair and maintenance of cryogenic tanks, tanks for tankers and tank containers; sale of machine tools, metal, computer hardware and software and auxiliary equipment, chemical products (excluding hazardous chemicals and Class 1 precursor chemicals), hardware and electric materials and instruments and meters; import and export of goods; general contracting of constructions; specialized contracting (of which the contribution of intellectual properties amounts to RMB10 million)

**APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL
AND COMFORT LETTERS**

(continued)

Company Name	Shareholding (%)	Voting Right (%)	Consolidated (Yes/No)
Subsidiaries acquired from business combination under common control			
Langfang Tianhai High Pressure Cylinder Co., Ltd.	70.00	70.00	Yes
Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.	89.32	89.32	Yes
Beijing Panni Gaokong Equipment Co., Ltd.	100.00	100.00	Yes
Subsidiaries acquired from business combination under non-common control			
America Fortune Company	51.00	51.00	Yes
Other acquired subsidiaries			
Tianjin Tianhai High Pressure Containers Co., Ltd.	45.52	55.00	Yes
Beijing Tianhai Cryogenic Equipment Co., Ltd.	75.00	75.00	Yes

2. Reasons for inclusion of subsidiaries with shareholding of not more than 50% in consolidated statements:

Tianjin Tianhai was established with capital jointly contributed by the Company and Tianjin Pipe Co., Ltd. in January 2003. Upon its establishment, the registered capital of Tianjin Tianhai was RMB20 million, of which the percentage of contribution of the Company and Tianjin Pipe Co., Ltd. were 55% and 45% respectively. After various transfers of shares and increases of capital, the registered capital of Tianjin Tianhai as at 31 December 2010 was RMB85.50 million, of which the Company has contributed RMB25.65 million, accounting for 30%; TPCO Investment Co., Ltd. has contributed RMB38.4750 million, accounting for 45%; and Jingcheng HK has contributed RMB21.3750 million, accounting for 25%. In July 2011, the board of directors of Tianjin Tianhai resolved to increase the registered capital by RMB140.0784 million through a cash contribution of RMB77.0431 million by Tianhai Industrial and a real estate contribution of RMB63.0353 million by TPCO Investment Co., Ltd., fully paid within 24 months from the date of acquisition of business license. After such change, the registered capital was RMB225.5784 million, of which the Company has contributed RMB102.6931 million, accounting for 45.52% of its registered capital; TPCO Investment Co., Ltd. has contributed RMB101.5103 million (a contribution of RMB38.4750 million as at 31 March 2012), accounting for 45% of its registered capital; and Jingcheng HK has contributed RMB21.3750 million, accounting for 9.48% of its registered capital. The board of directors of Tianjin Tianhai has 9 members, of which 4 members are from the Company; 4 members are from TPCO Investment Co., Ltd.; and 1 member is from Jingcheng HK. As the director appointed by Jingcheng HK was assigned by the Company and was the senior management personnel of the Company, the actual percentage of voting right of the Company was 55%, which enable Tianhai Industrial to have a control over Tianjin Tianhai. Therefore, the Company has included Tianjin Tianhai in its consolidated statements.

**APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL
AND COMFORT LETTERS**

**VII. EXPLANATION ON MAJOR ITEMS OF CONSOLIDATED PROFIT FORECAST
STATEMENT (UNIT: RMB'0000)**

1. Operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating income	226,037.78	135,341.76	26,564.34	66,226.02	228,132.12	262,478.72
Of which: Seamless steel gas cylinders	134,156.39	76,181.60	12,451.12	36,003.92	124,636.64	133,920.18
Hoop-wrapped cylinders	56,525.09	33,708.34	7,337.11	16,816.35	57,861.80	70,591.23
Cryogenic cylinders	12,992.48	10,578.68	2,135.66	8,480.98	21,195.32	27,900.51
Cryogenic storage and transportation equipment	7,965.93	6,352.62	1,543.88	2,636.01	10,532.51	12,022.39
Others	14,397.89	8,520.52	3,096.57	2,288.76	13,905.85	18,044.41
Other operating income	7,116.64	4,540.52	1,147.87	707.34	6,395.73	5,971.09
Total	<u>233,154.42</u>	<u>139,882.28</u>	<u>27,712.21</u>	<u>66,933.36</u>	<u>234,527.85</u>	<u>268,449.81</u>

All main operating incomes of the Group derive from product sales income. The forecasts are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. The increase of 51.38% of cryogenic cylinders and cryogenic storage and transportation equipment in 2012 over 2011 is mainly due to the increase in natural gas fueling station which has provided broad development room for LNG cryogenic cylinders and cryogenic storage and transportation equipment products. The gross profit of other operating income was higher in 2011 due to higher income from sales of scrap, while the forecasts for 2012 and 2013 do not include income from scrap.

2. Operating cost

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating costs	194,524.80	115,131.22	22,186.23	56,973.09	194,290.54	222,514.38
Of which: Seamless steel gas cylinders	120,647.34	70,056.64	11,050.00	32,472.63	113,579.27	119,408.94
Hoop-wrapped cylinders	42,548.28	23,580.69	5,375.72	13,351.48	42,307.89	53,740.22
Cryogenic cylinders	11,380.42	8,484.72	1,799.11	7,097.56	17,381.39	23,289.00
Cryogenic storage and transportation equipment	6,156.51	4,747.65	1,111.74	2,099.82	7,959.21	9,156.13
Others	13,792.25	8,261.52	2,849.66	1,951.60	13,062.78	16,920.09
Other operating costs	5,592.27	4,151.94	1,005.63	472.57	5,630.14	5,549.03
Total	<u>200,117.07</u>	<u>119,283.16</u>	<u>23,191.86</u>	<u>57,445.66</u>	<u>199,920.68</u>	<u>228,063.41</u>

The forecasts of operating costs are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for material costs are based on sales volume of each product and the material consumption per unit product; the forecast for labour costs are based on the Group's human resources plan, salary level and contribution rate of social security provident fund; and the forecast for manufacturing costs are based on historical data and the trend of operating changes during the forecast period. Furthermore, as the fluctuation in gross margin of operating income of the Group in the past has been small, the forecast of operating cost has also taken into account that the gross margin will not change materially during the forecast period.

3. Tax and additional expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Business tax	1.13	11.09	6.61	4.66	22.36	22.00
Urban maintenance and construction tax	141.38	108.76	42.29	55.15	206.20	289.10
Educational surcharge	88.52	88.77	35.25	45.69	169.71	240.60
Total	<u>231.03</u>	<u>208.62</u>	<u>84.15</u>	<u>105.50</u>	<u>398.27</u>	<u>551.70</u>

Tax and additional expense mainly include business tax, urban maintenance and construction tax and educational surcharge. The forecasts are made mainly basing on taxable operating income, turnover tax and the corresponding applicable tax rate.

4. Sales expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Transportation fee	3,682.01	2,649.76	498.49	425.97	3,574.22	4,035.77
Salary	1,814.75	685.66	149.71	1,022.41	1,857.78	2,254.74
Operational fee	345.55	292.53	76.92	135.27	504.72	604.84
Maintenance cost	700.95	225.64	90.25	100.20	416.09	478.23
Travelling fee	335.57	294.94	144.88	119.37	559.19	626.92
Commodity inspection fee	121.02	66.22	13.47	26.56	106.25	130.00
Office and administrative fee	66.67	53.46	22.11	25.57	101.14	105.96
After sale cost	222.02	60.27	18.36	76.29	154.92	197.44
Gas fee	129.10	41.36	28.63	23.33	93.32	130.00
Others	280.87	172.28	60.83	125.22	358.33	415.96
Total	<u>7,698.51</u>	<u>4,542.12</u>	<u>1,103.65</u>	<u>2,080.19</u>	<u>7,725.96</u>	<u>8,979.86</u>

The forecasts of sales expenses are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Group's human resources plan, salary level and contribution rate of social security provident fund.

The increase of 46.06% of operational fee in 2012 over 2011 is mainly due to the changes in sales ideas and the proactive expansion of new clients and markets which have led to an increase in corresponding expenses. Sales expenses represent 3.30%, 3.29% and 3.35% of operating income for 2011, 2012 and 2013 respectively.

5. Administration expenses

Items	2011 Audited amount	2012			Total	2013 Forecasted amount
		Jan-Jul Audited amount	Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Salary	8,498.37	4,650.04	1,434.54	2,474.66	8,559.24	9,899.80
Depreciation and amortization charges	834.54	503.57	69.42	245.75	818.74	1,110.13
Entertainment fee	989.49	539.43	156.65	227.44	923.52	1,055.66
Research and development fee	1,422.77	939.38	259.52	158.55	1,357.45	1,831.59
Energy cost	130.07	216.00	11.61	75.87	303.48	340.65
Office and administrative fee	491.25	287.13	92.93	116.95	497.01	550.00
Tax expense	525.42	276.34	183.55	143.36	603.25	633.76
Agency fee	570.20	270.09	7.50	301.85	579.44	580.01
Meeting fee	192.96	84.56	69.08	80.67	234.31	248.45
Business advertising fee	276.87	273.62	3.48	85.00	362.10	410.00
Travelling fee	284.38	152.87	62.11	83.52	298.50	428.05
Others	2,458.21	1,537.56	372.94	599.41	2,509.91	2,976.93
Total	16,674.53	9,730.59	2,723.33	4,593.03	17,046.95	20,065.03

The forecasts of administration expenses are based on historical data of the Group and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Group's human resources plan, salary level and contribution rate of social security provident fund; depreciation and amortization is mainly based on the balance of fixed assets, intangible assets and other long-term assets, and the expected addition of assets during the forecast period; and tax expense is mainly based on the taxable items and the corresponding applicable tax rate. The forecasted increase of 34.93% of research and development fee in 2013 over 2012 is mainly due to the Company's intention of strengthening research and development capability for providing significant technique and raising market competitive edge.

The administration expenses of the Group mainly include: salary which is forecasted basing on the planned growth of staffing and salary, benefit, social security and housing provident fund; research and development fee is based on research and development plan; and others including material costs, leasing expense, vehicle expense and maintenance expense, are based on historical data.

**APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL
AND COMFORT LETTERS**

6. Financial expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Interest payment	2,107.17	1,687.01	307.96	914.16	2,909.13	3,128.93
Less: interest income	109.36	58.52	8.03	3.12	69.67	
Exchange gain or loss	195.75	54.27	14.66	19.56	88.49	106.59
Others	372.56	-96.03	-0.53		-96.56	
Total	<u>2,566.12</u>	<u>1,586.73</u>	<u>314.06</u>	<u>930.60</u>	<u>2,831.39</u>	<u>3,235.52</u>

Financial expenses mainly include interest payment and interest income, of which interest payment is forecasted basing on the Group's existing borrowings, operating capital requirement during the forecast period and corresponding interest rates. The forecasted bank interest payment of 2012 is higher than 2011 by RMB8,072,200 or 38.31%, which is mainly due to the increase in bank borrowings of the Group.

7. Impairment loss of assets

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Bad debt loss	225.47	148.85		260.00	408.85	600.00
Impairment loss on fixed assets						
Impairment loss on inventory						
Total	<u>225.47</u>	<u>148.85</u>		<u>260.00</u>	<u>408.85</u>	<u>600.00</u>

Impairment loss of assets mainly comprises bad debt loss, which is forecasted basing on the Group's business scale and forecasted aging of receivables. The Group does not expect any material asset impairment loss during the forecast period.

8. Investment income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Investment income	-46.80	-11.25			-11.25	
Total	<u>-46.80</u>	<u>-11.25</u>			<u>-11.25</u>	

**APPENDIX VI(2) PROFIT FORECAST OF TIANHAI INDUSTRIAL
AND COMFORT LETTERS**

9. Non-operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Gains from non-current assets disposal	13.39	60.50			60.50	
Among which: Gains from fixed assets disposal	13.39	60.50			60.50	
Government subsidy	158.25	8.10	0.06		8.16	
Others	0.80	14.13			14.13	
Total	172.44	82.73	0.06		82.79	

Save for the income recorded, no forecast on non-operating income is made for the forecast period due to its uncertainty.

10. Non-operating expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Loss from non-current assets disposal	70.65	20.42	31.09		51.51	
Among which: Loss from fixed assets disposal	70.65	20.42	31.09		51.51	
Others	0.15	1.37			1.37	
Total	70.81	21.79	31.09		52.88	

Save for the expenses recorded, no forecast on non-operating expenses is made for the forecast period due to its uncertainty.

11. Income tax expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Current income tax	1,040.58	826.06	169.35	260.92	1,256.33	1,340.13
Deferred income tax	-51.68	30.77			30.77	
Total	988.90	856.83	169.35	260.92	1,287.10	1,340.13

The Group forecasted the enterprise income tax expenses basing on the forecasted total profit and applicable enterprise income tax rates of the Company and its subsidiaries and related policy of preferential taxation.

**VIII. MAIN FACTORS AFFECTING THE REALIZATION OF CONSOLIDATED PROFIT
FORECAST AND COUNTERMEASURES**

Factors that may have material impact on the result of consolidated profit forecast of the Group during the forecast period and countermeasures mainly include:

1. Policy risk and countermeasures

The Group is a manufacturer of industrial gas cylinders. Changes in the industry policy of the country may have significant impact on the result of consolidated profit forecast. The expansion of production capacity to satisfy growing market demand, and changes in external environment such as interest rate for external finance and appreciation of Renminbi will also affect the result of consolidated profit forecast.

The Group will strengthen the collection of information related to such domestic and foreign policies and the research on related government guidelines and policies. It will also timely adjust its operation policies according to such policy changes to reduce its impact on the result of consolidated profit forecast.

2. Market risk and countermeasures

The growth of investment in infrastructure and industrial capital goods has remained high in China. There were substantial investment in fixed assets and improvements to technology in fundamental industries including machinery, metallurgy, chemicals, construction, building materials and food, which effectively facilitated rapid growth of industrial gas industry and supported demand for gas storage and transport equipment. Cyclical fluctuation of macro-economies in the future may lead to changes in operational environment of such industries and result in the decline and adjustment of fixed assets investment or technology upgrade, which will, in turn, affect the development of the gas storage and transport equipment industry. Therefore, there is risk to profitability of the listed company under such influence.

The Group will strengthen the collection of market information and the understanding of economic situation. It will timely adjust its operation policies to reduce the impact on the business and results of the Company.

3. Industry risk and countermeasures

Competition in the domestic and foreign industrial gas cylinder manufacturing industry is intense. In competing with large and renowned foreign players, we have shortage in technology, while in competing with the fast growing private enterprises in our surroundings, we do not have advantage in prices.

The Group will increase investment in research and development and establish good cooperation with research and development organisations to develop new products actively, adjust product mix and increase the proportion of high value-added products, so as to maintain its leading position in the industrial gas cylinder manufacturing sector.

4. Risk related to raw materials and labour costs and countermeasures

The main raw materials required for the production of industrial gas cylinders include pipes, boards, valves, diaphragm and others. In recent years, affected by respective production cost, market supply and demand and short-term speculation in the market, the

price of raw material fluctuated in large extent, which will bring risk to the Group's future production business and profitability. It is a general trend for the increase in labour costs year by year and the total salaries of the Group is also increasing year by year.

The Group will establish good cooperating relationship with its main suppliers, strengthen comparison and analysis of information related to raw material prices, and control purchasing cost. It will also further improve its information system, enhance inventory management and production efficiency, and reduce consumption to mitigate the increase in material cost. The Group will reasonably control its headcount, increase employee productivity and raise the output per employee to mitigate the rise in labour costs.

5. Talent risk and countermeasures

The Group is centered on research and development and sales of hi-tech products, and hi-tech talents are critical for its development. At present, the Group has established a high quality R&D team. However, as the business of the Company develops rapidly, the demand for high quality talents is increasing, and new comers need training, practicing and integration before they can adapt to the requirement of our operation and research and development. There will be talent risk if there is a gap between the talents introduced and the Company's goal.

The Group attaches great importance to the resource management of R&D personnel. It will constantly improve talents introduction, training and incentive mechanism, and build up its pool of talents. The Company will develop new channels of introducing talents and increase training; enhance internal talent exchanges and nurture high level R&D team and technology leaders through training and actual practicing; and improve the salary and benefit for R&D personnel to secure the stability of technology team and address the talent risk.

6. Risk of changes in preferential tax treatment and countermeasures

The Company is a high and new technology enterprise jointly certified by four departments including Beijing Municipal Science & Technology Commission. Pursuant to requirements of article 28 of Enterprise Income Tax Law of the People's Republic of China, the Company is subject to 15% enterprise income tax rate. There is the possibility that the Company may not be able to continue enjoying such preferential treatment in the future due to cancellation of such preferential policy, or the related entities being not recognized as high and new technology enterprises subsequent to expiration of their existing certificates.

The Company will expedite technology R&D, actively apply for patent and proprietary technology and reinforce its technology management to secure the recognition as a high and new technology enterprise.

7. Impact of imposition of the anti-dumping duties and countervailing duties by the US and countermeasures

Pursuant to the final ruling made in May 2012 of an anti-dumping and countervailing investigation conducted by United States International Trade Commission (USITC) against high pressure cylinders manufactured in China, seamless steel cylinder products (products produced according to DOT standards) of the Company exported to the US will be subject to 15.81% countervailing duties and 6.62% anti-dumping duties. Imposition of the two duties may affect sale results of the Company in the US market.

Due to the two duties, the sales results of products subject to the duties would decrease. The Company will increase the export of products that are not subject to the duties, and further develop other overseas market to compensate the loss brought to the Company by the two duties.

IX. LETTER OF UNDERTAKING FOR CONSOLIDATED PROFIT FORECAST

All directors of the Company solemnly undertake with the investors that, under normal production and operation conditions, the Group can achieve the consolidated profit forecasts for 2012 and 2013.

BEIJING TIANHAI INDUSTRY CO. LTD.

25 October 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

COMFORT LETTER FOR CONSOLIDATED PROFIT FORECAST

XYZH/2012TJA1016-11

To the members of Beiren Printing Machinery Holdings Limited,

We have been engaged to review the calculations and accounting policies adopted in the consolidated profit forecast report (hereinafter the “Profit Forecast”) of Beijing Tianhai Industry Co., Ltd. (hereinafter the “Tianhai Industrial”) for the year 2012 and 2013. The Profit Forecast is set out in the announcement of the Company (hereinafter the “Announcement”), for which the management of Tianhai Industrial are solely responsible.

We conducted our work in accordance with the “Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information” issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the management of Tianhai Industrial based on the financial statement as at 31 July 2012.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the management of Tianhai Industrial as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Tianhai Industrial in its financial statements for the period ended 31 July 2012.

ShineWing Certified Public
Accountants (Special General
Partnership)

Certified Public Accountant of China: Hua Qiang

Certified Public Accountant of China: Pang Rongzhi

Beijing, PRC, 2 November 2012

(b) Letter from the financial adviser



2 November 2012

PRIVATE & CONFIDENTIAL

The Board of Directors
Beiren Printing Machinery Holdings Limited
6 Rongchangdong Street
Economic and Technological
Development Zone
Beijing, PRC

Dear Sirs,

Beiren Printing Machinery Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”)

Very substantial acquisition, very substantial disposal and connected transactions – Profit forecast in relation to the Material Asset Reorganisation prepared under CASBE for the two years ending 31 December 2012 and 2013 as contained in the Company’s announcement dated 2 November 2012 (the “Announcement”)

We refer to the profit forecast of Tianhai Industrial for the two years ending 31 December 2013 (the “**Tianhai Profit Forecast**”) prepared by the Company and reviewed by ShineWing Certified Public Accountants (“**ShineWing**”) in relation to the Material Asset Reorganisation as set out in the Announcement. Capitalised terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Tianhai Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Tianhai Profit Forecast has been made. We have also considered the letter addressed to the Directors from ShineWing dated 2 November 2012 regarding the accounting policies and calculations upon which the Tianhai Profit Forecast has been made.

On the basis that the Directors are satisfied that there are no further matters that should be brought to our attention, in our opinion, the Tianhai Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

It must be emphasised that the Tianhai Profit Forecast necessarily depends on subjective judgement and it is, according to the nature of the business and the period covered, subject to substantial inherent uncertainties. The Tianhai Profit Forecast and its underlying assumptions relate to the future and actual financial and trading positions are likely to be different from the forecast since other anticipated events frequently do not occur as expected and the variation may be material. Accordingly, the Tianhai Profit Forecast cannot be relied upon to the same extent as information derived from audited financial statements for completed financial accounting periods. For this reason, we express no opinion on how closely the business targets eventually achieved will correspond with the Tianhai Profit Forecast.

We make no representation as to the legal interpretation of the above information as presented in the Announcement.

This letter is supplied on the understanding that it is for the sole use of the Company. It must not be made available to any other party or filed with or referred to (either in whole or in part) in the Announcement or any other document or otherwise quoted, circulated used for any other purpose without our prior written consent, except that we understand a copy of this letter may be distributed to The Stock Exchange of Hong Kong Limited. For the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties, including The Stock Exchange of Hong Kong Limited, are specifically disclaimed.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

(A) Profit Forecast of Jingcheng Compressor

The following is the text of the profit forecast report of Jingcheng Compressor (formerly known as Jingcheng Environmental Protection Development Co., Ltd.). This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

	信永中和會計師事務所 (特殊普通合夥)	北京市東城區朝陽門北大街 8號富華大廈A座9層	聯繫電話： +86(010)6554 2288 telephone: +86(010)6554 2288
	ShineWing certified public accountants (Special General Partnership)	9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	傳真： +86(010)6554 7190 facsimile: +86(010)6554 7190

AUDIT REPORT OF PROFIT FORECAST

XYZH/2012TJA1016-5

To the members of
Beiren Printing Machinery Holdings Limited,

We have audited the accompanying profit forecast report for 2012 and 2013 prepared by Jingcheng Environmental Protection Development Co., Ltd. (the "Company"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of the Company is responsible for the profit forecast report and the assumptions upon which it was based. Such assumptions have been disclosed in the profit forecast report.

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the profit forecast. Also, we believe this profit forecast report has been properly compiled based on such assumptions, which has been presented in accordance with the basis for the preparation of forecast as stated in the profit forecast report.

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information of the profit forecast.

This report is solely for the information of Beiren Printing Machinery Holdings Limited and Jingcheng Holding Machinery Electric Holding Co., Ltd., in connection with the submission of application documents to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited for the material asset reorganisation, and should not be used for any other purposes.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: HUA Qiang

Chinese Certified Public Accountant: PANG Rongzhi

Beijing, China, 26 October 2012

JINGCHENG ENVIRONMENTAL PROTECTION DEVELOPMENT CO., LTD.
PROFIT FORECAST REPORT FOR 2012 AND 2013

Important: This profit forecast report was prepared by the management of Jingcheng Environmental Protection Development Co., Ltd. basing on best estimates and assumptions, but since the assumptions upon which it was based are uncertain, investors should exercise caution and not place undue reliance on such information when making their investment decisions.

I. BASIS OF PREPARATION FOR THE PROFIT FORECAST

1. GENERAL

Beijing Jingcheng Environmental Protection Development Co., Ltd. (the “Company”) was incorporated on 6 August 2002. The Company was jointly established by Beijing State-Owned Assets Management Co., Ltd. (“Beijing Guotou”), Beiren Group Corporation (“Beiren Group”) and Jingcheng Machinery Electric Holding Co., Ltd. (“Jingcheng Holding”) with the then registered capital of RMB61 million. The Company’s shareholding structure is shown below:

Investors	Amount	Percentage (%)
Jingcheng Holding	21,000,000.00	34.42
Beiren Group	20,000,000.00	32.79
Beijing Guotou	20,000,000.00	32.79
Total	<u>61,000,000.00</u>	<u>100.00</u>

In June 2004, it was resolved at the general meeting of Company to increase its registered capital by RMB34.0041 million, which was contributed by Jingcheng Holding and Beiren Group of RMB17.0052 million and RMB16.9989 million respectively. After the capital increase, the registered capital of the Company was changed to RMB95.0041 million. The Company’s changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	21,000,000.00	17,005,200.00	38,005,200.00	40.00
Beiren Group	20,000,000.00	16,998,900.00	36,998,900.00	38.95
Beijing Guotou	20,000,000.00		20,000,000.00	21.05
Total	<u>61,000,000.00</u>	<u>34,004,100.00</u>	<u>95,004,100.00</u>	<u>100.00</u>

In January 2005, it was resolved at the general meeting of Company to increase its registered capital by RMB6 million, which was wholly contributed by Beijing Guotou. After the capital increase, the registered capital of the Company was changed to RMB101.0041 million. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00		38,005,200.00	37.63
Beiren Group	36,998,900.00		36,998,900.00	36.63
Beijing Guotou	20,000,000.00	6,000,000.00	26,000,000.00	25.74
Total	<u>95,004,100.00</u>	<u>6,000,000.00</u>	<u>101,004,100.00</u>	<u>100.00</u>

According to the resolution at the general meeting of Company dated 20 June 2005 and the share transfer agreement signed between Beijing Guotou and Beijing Industrial Development Investment Management Co., Ltd. ("Beijing Gongtou") on 22 December 2005, Beijing Guotou has transferred its 25.74% equity rights in our Company to Beijing Gongtou with nil consideration. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00		38,005,200.00	37.63
Beiren Group	36,998,900.00		36,998,900.00	36.63
Beijing Guotou	26,000,000.00	-26,000,000.00		
Beijing Gongtou		26,000,000.00	26,000,000.00	25.74
Total	<u>101,004,100.00</u>		<u>101,004,100.00</u>	<u>100.00</u>

In April 2008, it was resolved at the general meeting of Company to increase its registered capital by RMB8.2774 million, which was wholly contributed by Jingcheng Holding. After the capital increase, the registered capital of the Company was changed to RMB109.2815 million. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	38,005,200.00	8,277,400.00	46,282,600.00	42.35
Beiren Group	36,998,900.00		36,998,900.00	33.86
Beijing Gongtou	26,000,000.00		26,000,000.00	23.79
Total	<u>101,004,100.00</u>	<u>8,277,400.00</u>	<u>109,281,500.00</u>	<u>100.00</u>

According to the resolution at the extraordinary general meeting of Company dated 5 June 2007 and the Transfer Agreement of Enterprises State-owned Property Right without Consideration signed between Beiren Group and Jingcheng Holding in October 2008, Beiren Group has transferred its 33.86% equity rights in our Company to Jingcheng Holding with nil consideration. The procedure for changing industrial and commercial registration relating to the aforesaid equity transfer has been completed on 10 February 2009. The Company's changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	46,282,600.00	36,998,900.00	83,281,500.00	76.21
Beiren Group	36,998,900.00	-36,998,900.00		
Beijing Gongtou	26,000,000.00		26,000,000.00	23.79
Total	<u>109,281,500.00</u>	<u></u>	<u>109,281,500.00</u>	<u>100.00</u>

According to the resolution at the extraordinary general meeting of the Company dated 18 June 2012 and the Equity Transfer Agreement signed between Jingcheng Holding and Beijing Gongtou, Beijing Gongtou will transfer its 23.79% equity rights in our Company to Jingcheng Holdings. The Company will become a wholly-owned subsidiary of Jingcheng Holding after the equity transfer. The China Beijing Equity Exchange verified the equity transfer the issued the transaction certificate (產權交易憑證). The Company has completed the change of industrial and commercial registration and obtained the business license on 30 August 2012. The changes of shareholding are shown below:

Investors	Before change	Amount of changes	After change	Percentage (%)
Jingcheng Holding	83,281,460.92	26,000,000.00	109,281,460.92	100.00
Beijing Gongtou	26,000,000.00	-26,000,000.00		
Total	<u>109,281,460.92</u>	<u></u>	<u>109,281,460.92</u>	<u>100.00</u>

The gas storage and transportation equipment business of the Company is mainly engaged in the research and development, production and sales of gas compressors and its major products comprises of piston compressor and membrane compressor, which are mainly applied in gas filling, polysilicon, coal chemical industry, nuclear power and military industries, etc.

The business scope of the Company covers: ordinary freight (subject to operation by branches), import & export of commodities, technologies and acting as import and export agent; specialist contractor; excluding those prohibited by the law, administrative rules and regulations and the State Council's decision, which are not allowed to operate; Those prescribed of a license by law, administrative rules and regulations and the State Council's decision shall only be permitted of operation after being approved by competent authorities and registered in the commercial and industrial administration; and those not prescribed of a license by law, administrative rules and regulations and the State Council's decision shall be at the applicant's own discretion for its business items and activities.

The Company has established its board of shareholders and board of directors, and has a number of functional departments such as General Manager Office, Financial Operation and Control Department, Human Resources Department, Technical Centre, Marketing Department, Environmental Protection Industrial Division, Piston Compressor Product Division and Membrane Compressor Product Division.

Jingcheng Machinery Electric Holding Co., Ltd. is the controlling shareholder and also the ultimate controller of the Company.

2. BASIS OF PREPARATION FOR THE PROFIT FORECAST

- (1) This profit forecast is prepared for the purpose of the Material Asset Reorganisation of Beiren Printing Machinery Holdings Limited.
- (2) This profit forecast has been prepared basing on the operation results of the Company for 2011 and January to July 2012, in light of the 2012 and 2013 production and operation plans, sales plans, investment plans and financing plans of the Company, and in accordance with the basis of preparation and assumptions as stated in this report and the principle of significance.
- (3) This profit forecast is based on the board resolution of Jingcheng Holding, controlling shareholder of the Company, relating to the disposal of the Company's environmental protection business and 80% equity interest held by the Company in Beijing Jingcheng Tianyi Environment Technology Co., Ltd., and the actual financial statements and related books of the reporting period, assuming the proposed disposal of assets, liabilities and business structures related to environmental protection business and the equity interest had happened on 1 January 2009. The profit forecast is prepared on a going concern basis, based on the actual transactions and matters incurred and in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance and the accounting policies and estimates stated in IV "SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND COMPILATION METHOD OF FINANCIAL STATEMENTS" herein.

According to board resolution of Jingcheng Holding, controlling shareholder of the Company, relating to the disposal of the Company's environmental protection business, the assets to be disposed of include: 1) assets, liabilities and business structures related to environmental protection business; 2) 80% equity interest held by the Company in Beijing Jingcheng Tianyi Environment Technology Co., Ltd.

Explanation concerning the Company's proposed disposal of environmental protection business:

The pro forma balance sheet and pro forma income statement for the reporting period are based on the actual financial statements of the Company and on the principle of disposing assets, liabilities, business and equity interest directly related to environmental protection business.

- (4) This profit forecast was prepared in accordance with the accounting policies and accounting estimates as stated in IV of this report, and such policies and estimates are consistent in all material aspects with those adopted by the Company in the preparation of its financial statements for 2011 and January to July 2012.

II. BASIC ASSUMPTIONS OF THE PROFIT FORECAST

1. During the forecast period, there will be no material changes in the relevant laws, rules, regulations, departmental rules and industry policies of the countries which the Company is subject to, and in the social, political and economic environment of the regions in which the Company carries on its business;
2. During the forecast period, there will be no material changes in the accounting policies and accounting estimates of the Company;
3. During the forecast period, there will be no material changes in the tax policy and preferential taxation policy which our business is subject to;
4. During the forecast period, there will be no material changes in the industry condition in which the Company carries on its business;
5. During the forecast period, there will be no material changes in the bank lending rate and exchange rate;
6. During the forecast period, there will be no material changes in the market condition for the products of the Company, in particular, the domestic market demand for petrochemical, coal chemical, polysilicon, nuclear power and gas and in the key factors that affect such demand. During the forecast period, there is no material change in the market that Beijing Fusheng Machine Co., Ltd. (北京復盛機械有限公司), an associate of the Company, engage in and in the laws, regulations and industrial rules;
7. During the forecast period, there will be no material changes in the laws, rules and regulations and industry regulations that affect the production and operation of the Company;
8. During the forecast period, the operation plan, marketing plan, investment plan and financing plan of the Company would not be unable to realize on schedule or experience a material change due to changes in external environment;
9. During the forecast period, the operation of the Company will not be adversely affected by the lack of labour, lagging behind in technology, shortage of resources or severe change in costs;
10. During the forecast period, there will be no material changes in the corporate structure;
11. During the forecast period, there is no other material asset transaction.
12. During the forecast period, there will be no force majeure or unforeseeable factors of the Company that have material impact on the Company;

13. There will be no material changes in the market share of the Company's main business;
14. The Company is able to successfully develop and sell products according to contracts signed and operation plan with the confirmation from clients;
15. The selling price of the Company's existing products will not be limited by relevant authorities, and there will be no material changes in the material supply market and there is no material change in the price of materials.

III. PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

Items	Note	2012				2013	
		2011 Audited amount	Jan-Jul Audited amount	Aug-Sep Unaudited amount	Oct-Dec Forecasted amount	Total	Forecasted amount
1. Total Operating Income		12,479.74	3,014.77	2,075.42	4,083.35	9,173.54	10,500.00
Operating Income	VI.1	12,479.74	3,014.77	2,075.42	4,083.35	9,173.54	10,500.00
2. Total Operating Cost		12,722.20	4,193.57	2,314.95	4,028.64	10,537.15	11,842.54
Operating Cost	VI.2	9,223.72	2,203.22	1,604.09	2,907.12	6,714.43	7,860.74
Tax and Additional Expense	VI.3	46.64	8.12	9.70	19.00	36.82	37.80
Sales Expense	VI.4	1,012.45	551.10	178.88	285.02	1,015.00	1,120.00
Administration Expense	VI.5	2,510.41	1,232.91	467.86	749.24	2,450.00	2,524.00
Financial Expense	VI.6	102.44	57.64	54.42	43.94	156.00	240.00
Assets Impairment Losses	VI.7	-173.46	140.58		24.32	164.90	60.00
Add: Income of Fair Value Change (loss marked “-”)							
Investment Income (loss marked “-”)	VI.8	1,801.07	860.59	303.24	517.67	1,681.50	1,700.00
3. Operating Profit (loss marked “-”)		1,558.61	-318.21	63.71	572.39	317.89	357.46
Add: Non-operating Income	VI.9	36.55	44.54	39.07		83.61	
Less: Non-operating Expense	VI.10	109.88	131.74			131.74	
4. Total Profit (loss marked “-”)		1,485.28	-405.41	102.78	572.39	269.76	357.46
Less: Income Tax Expense	VI.11	-7.42	-31.31			-31.31	
5. Net Profit (loss marked “-”)		1,492.70	-374.10	102.78	572.39	301.07	357.46

Legal Person:
Kang Yiqing

Accounting Director:
Li Wen

Accounting Manager:
Dong Xiaodong

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**1. Accounting period**

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

2. Reporting currency

The reporting currency of the Company is RMB.

3. Principles of accounting and measurement

The Company uses the accrual method as its basis of accounting. All assets are measured at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement of the Company represents cash on hand and deposits held at call with banks. Cash equivalents in the cash flow statement represent short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

5. Foreign currency transactions

Foreign currency transactions of the Company are translated into RMB at the spot exchange rate of the date of transaction. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly recorded in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences is directly included in the profit and loss for the current period as a change of fair value. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction, while the translated amount in RMB should not be changed.

6. Financial assets and financial liabilities**(1) Financial assets****1) Classification of financial assets**

Financial assets of the Company are classified as financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables, and available-for-sale financial assets according to the purposes of investments and the economic substance of the assets.

Financial assets at fair value through profit or loss for the current period are those financial assets that have been acquired principally for the purpose of selling in 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 recoverable amounts that the management intends and is able to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable recoverable amounts that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are designated in this category and financial assets not classified into any other class upon initial recognition.

2) Recognition and measurement of financial assets

Financial asset are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss for the current period and available-for-sale financial assets are subsequently measured at fair value. Loans 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 for the current period are recorded as gain or loss on changes in fair value. Interest or cash dividends received during the period in which such financial assets are held are recognised as investment income. On disposal, the difference between fair value and initial recognised amount is recognised as gain or loss on investment and adjust the gain or loss into changes in fair value accordingly.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

3) Impairment of financial assets

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset 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 losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If the fair value of available-for-sale financial asset experienced a significant or non-temporary decline, the cumulative losses arising from the decline in fair value that had been recognised directly in equity shall be reversed and included in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

4) Transfer of financial assets

A financial asset is derecognised when any of the below condition is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Company has not retained control of the financial asset, although the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition condition, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

(2) *Financial liabilities*

Financial liabilities of the Company are classified as financial liabilities at fair value through profit or loss for the current period and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss for the current period include financial liabilities held for trading and those designated at fair value through profit or loss for the current period on initial recognition. They are subsequently measured at fair value. The gain or loss on changes in fair value, and dividends and interest expense in relation to such financial liabilities are charged to profit or loss for the current period as incurred.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the current period.

(3) *Method for Determination of fair values of financial assets and financial liabilities*

- a) If there is an active market for financial instrument, the quoted market price in an active market is used to determine the fair value of the financial instrument. In the active market, financial assets held or financial liabilities intending to bear by the Company take the current quoted price as the fair value of the relevant assets and liabilities. Financial assets intending to buy or financial liabilities borne by the Company take the current offer price as the fair value of the relevant assets and liabilities. If there are no quoted price and offer price for financial assets and liabilities, and the economic conditions do not change significantly after the latest transaction, the latest quotation is used to determine the fair value of such financial assets or liabilities. If the economic conditions changed significantly after the latest transaction, the fair value of such financial assets or financial liabilities shall be determined by adjusting the quoted price of the latest transaction through preferring to the current price or interest of the similar financial assets or financial liabilities. If the Company has sufficient evidence to prove that the quoted price of the latest transaction did not based on fair value, the fair value of such financial assets or financial liabilities shall be determined through appropriate adjustment on the quoted price of the latest transaction.

- b) If there is no active market for financial instrument, the fair values are determined by evaluation method, including consulting the latest prices in the marketing transaction by the parties who are familiar with the market and make the transaction voluntarily, the current fair values of the other identified financial assets, discounted method of cash flow and option pricing modes.

7. Provisions for bad debts on receivables

The Company recognises losses from bad debts on receivables when any of the following circumstances occur: the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended their businesses due to natural disaster and unable to settle the debts in the foreseeable period; or the receivables are defaulted for more than 3 years; or when there is objective evidence indicating that the debts cannot be recovered or are not likely to be recovered.

Potential loss on bad debts is provided for using allowance account method. At the end of the period, receivables are tested for impairment on individual or group basis and the provisions for bad debts are recognised in the profit or loss for the current period. When there is objective evidence indicating that the receivables cannot be collected, such receivables are written off against the provisions for bad debts as losses on bad debts after granting of approval by the Company according to the required procedures.

(1) *Receivables that are individually significant and are provided for bad debts on individual basis*

Basis of determination or threshold of individually significant receivables	Receivables of more than RMB5 million are regarded as individually significant receivables
Method of provision for bad debts on receivables that are individually significant and are provided on individual basis	Provisions for bad debts are made for the excess of the carrying amount over the present value of the future cash flows

(2) *Receivables provided for bad debts on group basis*

Basis for determination of groups

Aged group	Determine the credit risk characteristics by age of the receivables

Method of provision for bad debts on group basis

Aged group	Provision of bad debts is made by aging analysis

- 1) Proportion of provisions for bad debts on receivables by aging analysis basis:

Aging	Proportion to accounts receivable (%)	Proportion to other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

8. Inventories

The inventories of the Company mainly include raw materials, work in process and finished goods, etc.

The Company maintains a perpetual inventory system. Inventories are recorded at cost of purchase when received. Actual cost is calculated using weighted average method when the inventories are acquired or sent out.

At the end of the period, inventories are stated at the lower of costs and net realisable value. Where the inventories are not expected to be recoverable as they become damaged, partially or wholly obsolete or whose selling price is well below its cost, provision for inventory impairment is made for the excess of its cost and net realisable value. For finished goods and bulk raw material, inventory impairment provision is provided at the difference of cost of individual item of inventory exceeding its net realizable value. For inventories with tremendous number and relatively low unit price, provision is determined according to the type of inventory.

Net realisable value of finished goods, work in process or held-for-sale raw materials are determined by their estimated selling price less estimated selling expenses and related taxes. Net realisable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

9. Long-term equity investments

Long-term equity investments mainly include the equity investments in the invested company over which the Company has control, joint control or significant influence and entity over which the Group does not have control, joint control nor significant influence and do not have quoted prices in active market and its fair value cannot be reliably measured.

Joint control represents a contractual agreed common control over an economic activity. Joint control exists when any party does not have unilateral power to control the operating activities, and the decisions making relating to the operating activities of the jointly controlled entity require unanimous consent of the parties.

Significant influence exists when a party has the power to influence the decision making of the invested company's financial and operating policies, but is not able to have control or have joint control with other parties over the formulation of these policies. Significant influence exists when the Company directly or indirectly (through its subsidiary) owns 20% (inclusive) or more but less than 50% of shares with voting rights in the invested company. Significant influence cannot be established where there is explicit evidence indicating that the Group is unable to participate in the decision-making of the operating policy in the invested company.

The investment cost for long-term equity investment acquired through a business combination under common control is the carrying value of the share of equity in the absorbing company at the date of combination. The combination cost for long-term equity investment acquired through business combination not under common control is the fair value as at date of combination (acquisition) of the assets given, liabilities incurred or assumed and equity securities issued for the control of the party being absorbed (acquired) at the date of combination (acquisition).

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment, the investment cost is based on the actual amount of cash paid for the acquisition. For long-term equity investment acquired by issuing equity securities, the investment cost is the fair value of the equity securities issued. For long-term equity investment invested by the investor, the investment cost is the agreed consideration as specified in the contract or agreement. For long-term equity investment acquired through transactions such as debts restructuring and exchange of non-monetary assets, the investment cost is determined according to the relevant accounting standards.

Investments in subsidiaries are accounted for by the Company using cost method and adjusted for using equity method during the preparation of consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using equity method. Long-term equity investments are accounted for using cost method where the Company does not have control, joint control or significant influence over the invested company and there are no quoted prices in active market and the fair value of the invested company cannot be reliably measured. Long-term equity investments are accounted for as available-for-sale financial assets where the Company does not have control, joint control or significant influence over the invested company but there are quoted prices in active market and the fair value of the invested company can be reliably measured.

Under the cost method, long-term equity investments are measured at its investment cost, and its cost is adjusted by the amount of additional investment or the amount recovered. Under the equity method, investment gain or loss for the current period represents the Company's share of the net profits or losses made by the invested company for the current period. The share of the net profits or losses of the invested company is recognised based on the fair value of each of the identifiable assets of the invested company at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company and the gain or loss on transactions entered into between the Company and its associates and jointly controlled entities is eliminated for those attributable to the Company based on its share in the invested company. If long-term equity investments in associates and jointly controlled entities is held prior to the date on which investment is made at the first time, the debit balances in the investment-related equity investment shall be recognised as investment gain or loss after deducting the debit balance amortised over the original remaining period of the equity investment on straight-line basis.

The long-term equity investment will be accounted for by using cost method where the Company reduces the investment in the invested company so that the Company no longer has common control or significant influence over the invested company and there are no quoted prices in active market and fair value of the invested company cannot be reliably measured; or where the Company has control over the invested company due to the reasons such as making additional investment in the invested company; the long-term investment will be accounted for by using equity method where the Company has common control or significant influence over the invested company due to such reasons as making additional investment in the invested company or where the Company no longer has control but remain to have joint control or significant influence over the invested company due to reasons such as disposal of the investment.

On disposal of long-term equity investments, the difference between the carrying value of a long-term equity investments and the actual consideration received is recognised as investment income for the current period. For long-term equity investments accounted for using equity method, the movements of owner's equity, other than the net profit or loss, of the invested company, previously recorded in the owner's equity will be transferred and expensed as investment income for the current period on disposal.

10. Fixed assets

Fixed assets of the Company are tangible assets with unit value of more than RMB2000 that are held for the purpose of producing goods, rendering services, leasing or operation and management, and have a useful life of more than one year.

Fixed assets consist of buildings, plant and machinery, transportation facilities, office and electronic equipments. The cost for fixed asset is measured at cost at the time when it is acquired. The cost of fixed asset purchased from outsiders includes purchase prices, import tax and other related taxes and other expenses incurred to bring the assets to the condition of intended use. The cost of fixed asset constructed by the Company includes the required expenses incurred to bring the assets to the condition of intended use. The fixed asset acquired by an investor is measured at the agreed considerations as specified in the investment contracts or agreements, or the fair value where the agreed consideration as specified in the contracts or agreements is not justified. The fixed asset acquired under a finance lease is measured at the lower of its fair value and the present value of the minimum lease payment at the date of inception of the lease.

Subsequent expenditures incurred for a fixed asset, such as maintenance expenses and renovation and improvement expenses, are included in the cost of fixed asset when they meet the recognition criteria of a fixed asset, and the carrying amount of the replaced parts is derecognised. The subsequent expenditures incurred for a fixed asset are recognised in profit or loss for the current period in which they are incurred when they do not meet the criteria of a fixed asset.

Depreciation is provided for all fixed assets, except for the fixed assets that are fully depreciated and remain in use as well as the lands that are separately recorded. Fixed assets are depreciated using the straight-line method to measure the cost or expenses of the assets for the current period based on the usage of the assets. The useful lives, estimated residual rates and depreciation rate of each type of the fixed asset of the Company are as follows:

No.	Classes	Useful lives (years)	Estimated residual value rate (%)	Annual depreciation (%)
1	Buildings	20-40	5	2.38-4.75
2	Plant and Machinery	10	5	9.50
3	Transportation facilities	5	5	19.00
4	Office and electronic equipments	5	5	19.00

The Company re-assesses the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

A fixed asset is derecognised on disposal or it is expected that there shall be no economic benefit arising from using or after disposal. Where the fixed assets are sold, transferred, retired or damaged, the income received after disposal after deducting the carrying amount and related taxes are recognised in profit or loss for the current period.

11. Construction in progress

Cost of construction in progress is measured at the expenditure actually incurred for the construction. Cost of self-operating construction is recorded at such cost as direct materials, direct wages, and direct construction expenditures. Cost of sub-contracting construction is recorded at the amount of construction cost payable. Cost of equipment installation work is measured at such cost as cost of the equipment being installed, installation cost, and test running cost. Cost of construction in progress also includes capitalized borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets or intangible assets when the assets are ready for their intended use at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation or amortization is provided for from the next month of the transfer. The cost of the asset will be adjusted when the construction finalization procedures are completed.

12. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, is commenced when expenditures for the asset are being incurred; borrowing costs are being incurred; and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above that amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

Assets eligible for capitalization represent the fixed assets, investment property and inventories, etc, which shall take a long time (generally over one year) for acquisition, construction or production to be ready for its intended uses or sales.

When an asset eligible for capitalization is interrupted abnormally and the suspending period lasts more than 3 months during acquisition, construction or production, the capitalisation of borrowing costs shall be suspended until the acquisition, construction or production of such assets resume.

13. Intangible assets

Intangible assets of the Company, including land use rights and software, are recognised at actual cost at the time of acquisition. The actual cost of the purchased intangible assets is measured at the actual payment and other related expenses. The actual cost of intangible asset acquired by an investor is measured at the agreed considerations as specified in the investment contracts or agreements. In case where the agreed consideration of the contracts or agreements is not justified, the assets are measured at fair value.

Land-use rights are amortised over lease terms from the date of purchase. Patents, non-patented technologies and other intangible assets are evenly amortised over the shortest of their estimated useful lives, contractual beneficial period and useful life specified in the law. Amortisation amount is included in the cost of related assets and profit or loss for the current period based on the beneficiary of the assets.

The estimated useful lives and amortization method of intangible assets with finite useful lives are re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates. The estimated useful lives of intangible assets with indefinite infinite useful lives are reviewed in each accounting period. Where there is objective evidence to prove that the useful life of an intangible asset is finite, the Company shall estimate the useful life and amortise that intangible asset over its estimated useful life.

14. Research and development expenditure

Research and development expenditure of the Company is classified into expenditure on the research phase and expenditure on the development phase according to the nature of expenditures and uncertainty of the final achievement. Expenditure on the research phase is expensed in the period as incurred. Expenditure on the development phase is recognised as an intangible asset only when all of the following conditions are satisfied:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;

- (3) the products produced using the intangible asset has a market or there is market for the intangible asset itself;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenditures on the development phase not meeting the above recognition conditions are expensed in the period as incurred. Expenditure expensed in prior periods will not be recognised as an asset in subsequent periods. Capitalised expenditure on the research phase are stated in the balance sheet as 'Development Expenditure' and transfer to as 'Intangible assets' when it gets ready for their intended use.

15. Impairment of long-term non-financial assets

As at each balance sheet date, the Company assesses whether there is any indication indicating that the long-term equity investments, fixed assets, construction in progress and intangible assets with definite useful lives may be impaired. If there is any indication indicating that an asset may be impaired, the asset will be tested for impairment. Goodwill and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication indicating that the asset may be impaired. When it is impossible to make the impairment test on the recoverable amount of an individual asset, the impairment test should be made on the basis of the corresponding assets group or the portfolio to which such assets belongs.

After the test of impairment, if the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss. Once an impairment loss on the assets is recognised, it will not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher of the net of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators of impairment are as follows:

- (1) The current market price of an asset declines substantially, exceeding obviously the expected decline caused by time changes or normal application;
- (2) There are significant changes in the economic, technical or legal environment in which the enterprise operates and in the market where the asset is located in the current period or near future, resulting in adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other market investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of the asset estimated future cash flow which results in a substantial decline in the recoverable amount of the assets;
- (4) There is evidence to demonstrate that the asset has already gone obsolete or its entity has already been damaged;

- (5) The asset has already been or will be left idle, ceased to be used, or planned to be disposed in advance;
- (6) There is evidence from the internal reports demonstrating that the economic returns of asset, such as the net cash flows generated by asset or operating profit (or loss) realised by asset, are much lowered (higher) than that as expected;
- (7) Any other indicator indicates that the value of an asset may have already been impaired

16. Long-term prepaid expenses

Long-term prepaid expenses of the Company are expenditures that have been incurred but shall be undertaken in more than 1 year of amortization period (not including 1 year) of the current and future periods. They are amortized evenly over the estimated beneficial period. If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the period.

17. Employee Remuneration

The Company recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and allocates it to related cost of assets and expenses based on the beneficiaries of the services. Compensation for termination of employment with any employee is recognised in the profit or loss for the period.

Employee remuneration includes salaries, bonus, allowances and subsidies, staff benefits, social security insurance, housing fund, union fund and staff education fund and expenditure incurred in connection with the services rendered by employees.

When the Company terminates the employment with an employee before the expiry of the employment contract or provides compensation for acceptance of voluntary redundancy, if the Company has developed a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented immediately, and the Company is not allowed to unilaterally withdraw the termination plan or the redundancy offer, the estimated liability for compensation arising from the termination of employment with employees should be charged to the profit or loss for the current period.

18. Estimated liabilities

Estimated liabilities are recognised for an obligation related to a contingency, such as guarantee given to external parties, discounted bills and notes, pending litigation or arbitration, product quality warranty, as a liability when all of the following conditions are satisfied: 1) the obligation is a present obligation to the Company; 2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; 3) the amount of the obligation can be measured reliably.

Estimated liabilities are measured at the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. Where the impact of time value of money is material, the best estimate shall be

determined through discounting the relevant future cash flows. The carrying amounts of estimated liabilities are reviewed at each balance sheet date. If there are any changes, the carrying amount will be adjusted to reflect the current best estimate.

19. Principles of revenue recognition

The business revenues of the Company are generated mainly from sales of goods and rendering of services. The principles of revenue recognition are as follows:

- (1) Revenues from sales of goods are recognised when the major risks and rewards in the ownership of commodities has been transferred to the buyer; when the Company no longer exercises continuing management generally related to the ownership and no longer has effective control over the commodities sold; when the amount of revenue can be reliably measured; when it is very likely that the economic benefits will be flowed to the Company; and when the related costs has incurred or will be incurred can be reliably measured.
- (2) Revenue from rendering of services is recognised when total revenue and total costs of the services can be measure reliably and the associated economic benefits are probably flow to the Company. When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue is recognised using the percentage of completion method in which the percentage shall be determined by measurement of the completed works or the proportion of services rendered to date over the total contracted services. Where the results of the service rendering transaction cannot be reliably estimated but the labour cost incurred is expected to be compensated, the revenue shall be recognised at the amount of such labour cost which is expected to be compensated and the incurred labour costs shall be carried forward; Where the results of the service rendering transaction cannot be reliably estimated and all costs incurred are not expected to be compensated, the costs incurred are recorded in profit or loss for the current period and no revenue will be recognised.

20. Government grants

A government grant is recognised only when the Company can comply with the conditions attaching to the grant and the Company will receive the grant. If a government grant is in the form of a monetary asset, it is measured at the actually amount received. For a fixed quota for the allocation of the grant, it is measured at the amount receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If fair value can not be reliably obtained, it is measured at its nominal amount (RMB1).

The government grant pertinent to assets is recognized as deferred revenue, and equally accounted into the current profit and loss over its useful life. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised directly in profit or loss for the current period.

21. Deferred income tax assets and deferred income tax liabilities

The deferred income tax assets and deferred income tax liabilities of the Company are recognised based on the differences between the tax bases of assets and liabilities and their respective book values (temporary differences). For deductible tax losses or tax credit that can be brought forward in accordance with tax law for deduction of taxable income in subsequent years, it is considered as temporary differences and related deferred income tax assets are recognised. On the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rates that are expected to apply to the period in which the assets are realised or liability is settled.

The deferred income tax assets arising from the deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to the Company to offset such deductible temporary difference. If it is anticipated that no future taxable profits will be available to offset the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount so reduced will be reversed.

22. Accounting for income tax

Income tax is accounted by using the balance sheet liability method. Income tax expenses represent the sum of current income tax and deferred income tax. Current income tax and deferred income tax in connection with the transactions and matters that are directly recorded in shareholders' equity are dealt with in shareholders' equity. Deferred income tax arising from business combination is adjusted to the carrying value of goodwill. Expenses or income of all other current income tax and deferred income tax are recognised in the profit or loss for the period.

The current income tax payable is the amount of tax payable to taxation authority by the enterprises 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 income tax assets and deferred income tax liabilities that should be recognised using the balance sheet liabilities method at the end of the period and their balances originally recognised.

V. TAX**1. Enterprise Income Tax ("EIT")**

The Company is subject to EIT at an applicable rate of 15%.

On 28 October 2011, the Company obtained the Certificate of High and New Technology Enterprise with No. GF201111001877 jointly issued by the Beijing Science and Technology Committee, Beijing Municipal Finance Bureau, Beijing National Taxation Bureau and Beijing Local Taxation Bureau, which has a validity period of 3 years. The Company was subject to EIT at a rate of 15% from 2011 to 2013.

2. Value added tax ("VAT")

The VAT is applicable to the income arising from sales of goods, in which the rate of output tax for the goods for domestic market is 17%.

The input VAT paid on purchase of raw materials can be used to offset the output VAT on sales, and its applicable tax rate is 17%. VAT refund can be applied for the input tax paid for exporting products.

The amount of VAT payable is the balance of VAT on sales less the input VAT for the current period.

3. Business tax

The Group is subject to the business tax at the applicable rate of 5% on its lease income.

4. Urban maintenance & construction tax and education surcharge

The urban maintenance and construction tax and education surcharge both are based on the amounts of VAT and business tax payable, and shall be paid at the applicable rate of 5% and 3% respectively. Local education surcharge were levied starting from 1 January 2012, the applicable rate of which was 2%.

VI. EXPLANATION ON MAJOR ITEMS OF PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

1. Total operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating income	12,399.88	2,891.30	2,068.63	4,043.35	9,003.28	10,390.00
Other operating income	79.86	123.47	6.79	40.00	170.26	110.00
Total	12,479.74	3,014.77	2,075.42	4,083.35	9,173.54	10,500.00

All main operating incomes of the Company derive from compressor product sales income. The forecasts of main operating incomes are based on sales contract signed and the installation and commissioning period of compressor products.

All other operating incomes of the Company derive from material sales income.

2. Total operating cost

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Main operating costs	9,163.72	2,139.48	1,598.24	2,889.71	6,627.43	7,810.74
Other operating costs	60.00	63.74	5.85	17.41	87.00	50.00
Total	9,223.72	2,203.22	1,604.09	2,907.12	6,714.43	7,860.74

The forecasts of operating costs are based on historical data of the Company and have accounted for their trend of operating changes during the forecast period. Of which the forecast for material costs are based on sales volume of compressor products and the material consumption per set of product; the forecast for labour costs are based on the Company's human resources plan, salary level and contribution rate of social security provident fund; and the forecast for manufacturing costs are based on historical data and the trend of operating changes during the forecast period. Furthermore, as the fluctuation in gross margin of operating income of the Company in the past has been small, the forecast of operating cost has also taken into account that the gross margin will not change materially during the forecast period. Gross margin for our operating income in 2011 was 26.09%, and the forecasted margin for 2012 and 2013 are 26.81% and 25.14% respectively.

3. Tax and additional expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Business tax	0.90	3.04			3.04	4.00
Urban maintenance and construction tax	28.59	2.54	4.85	9.50	16.89	16.90
Educational surcharge	17.15	2.54	4.85	9.50	16.89	16.90
Total	46.64	8.12	9.70	19.00	36.82	37.80

Tax and additional expense mainly include business tax, urban maintenance and construction tax and educational surcharge. The forecasts are made mainly basing on taxable operating income and the corresponding applicable tax rate.

4. Sales expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Salary	275.08	171.92	63.46	82.12	317.50	349.25
Travelling fee	150.43	94.50	33.53	31.98	160.00	176.00
Entertainment expenses	113.76	61.82	18.90	21.68	102.40	123.64
Business service expenses	288.12	104.52	26.54	113.94	245.00	307.76
Transportation and storage fee	141.58	90.15	21.23	28.61	140.00	144.00
Exhibition fee	25.98	17.77	6.66	0.57	25.00	15.00
Others	17.50	10.42	8.56	6.12	25.10	4.35
Total	1,012.45	551.10	178.88	285.02	1,015.00	1,120.00

The forecasts of sales expenses are based on historical data of the Company and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Company's human resources plan, salary level and contribution rate of social security provident fund.

5. Administration expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Research and development fee	826.53	355.71	159.16	242.13	757.00	789.00
Salary	782.31	363.00	177.96	319.59	860.55	903.57
Energy and property costs	90.56	20.58	6.89	12.53	40.00	50.00
Office and administrative fee	81.78	21.84	8.80	44.36	75.00	90.00
Entertainment expenses	86.45	23.21	5.25	24.54	53.00	80.00
Maintenance cost	113.07	79.85	21.75	8.41	110.00	110.00
Agency fee	81.55	35.93	1.16	27.11	64.20	65.00
Depreciation and amortization charges	97.84	52.44	15.33	32.86	100.63	100.63
Vehicle expenses	93.66	48.59	11.84	24.68	85.11	90.00
Tax expense	54.54	31.54	25.85	4.28	61.67	35.00
Others	202.12	200.22	33.87	8.75	242.84	210.80
Total	2,510.41	1,232.91	467.86	749.24	2,450.00	2,524.00

The forecasts of administration expenses are based on historical data of the Company and have accounted for their trend of operating changes during the forecast period. Of which the forecast for salary is mainly based on the Company's human resources plan, salary level and contribution rate of social security provident fund; depreciation and amortization is mainly based on the balance of fixed assets, intangible assets and other long-term assets, and the expected addition of assets during the forecast period; and tax expense is mainly based on the taxable items and the corresponding applicable tax rate.

6. Financial expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Interest payment	118.69	70.72	56.76	47.45	174.93	264.00
Interest income	25.84	16.73	3.63	5.45	25.81	26.00
Exchange gain or loss	7.68	3.65	1.29	1.94	6.88	2.00
Bank charges	1.91					
Total	102.44	57.64	54.42	43.94	156.00	240.00

Financial expenses mainly include interest payment and interest income, of which interest payment is forecasted basing on the Company's existing borrowings, operating capital requirement during the forecast period and corresponding interest rates. The forecasted financial expenses of 2012 is higher than 2011 by RMB535,600 and 2013 is higher than 2012 by RMB840,000, which is mainly due to the increase in borrowings.

7. Impairment loss of assets

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Bad debt loss	-173.46	140.58		24.32	164.90	60.00
Total	-173.46	140.58		24.32	164.90	60.00

Impairment loss of assets mainly comprises bad debt loss, which is forecasted basing on the Company's business scale and forecasted aging of receivables. The Company does not expect any material asset impairment loss during the forecast period in 2013.

8. Investment income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Income of long-term equity investments accounted for using equity method	1,801.07	860.59	303.24	517.67	1,681.50	1,700.00
Total	1,801.07	860.59	303.24	517.67	1,681.50	1,700.00

The gain or loss of long-term equity investments accounted for using equity method is forecasted basing on the forecasted net profit of the investee and the shareholding of the Company. All long-term equity investments accounted for using equity method by the Company comprise its investment in Beijing Fuxing Machinery Co., Ltd. with a 30% shareholding.

9. Non-operating income

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Gains from non-current assets disposal	8.94	3.04	0.07		3.11	
Among which: Gains from fixed assets disposal	8.94	3.04	0.07		3.11	
Government subsidy	27.60	41.44	38.00		79.44	
Others	0.01	0.06	1.00		1.06	
Total	36.55	44.54	39.07		83.61	

Save for the income recorded, no forecast on non-operating income is made for the forecast period due to its uncertainty.

10. Non-operating expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Loss from non-current assets disposal	3.37	108.14			108.14	
Among which: Loss from fixed assets disposal	3.37	108.14			108.14	
Others	106.51	23.60			23.60	
Total	109.88	131.74			131.74	

Save for the expenses recorded, no forecast on non-operating expenses is made for the forecast period due to its uncertainty.

11. Income tax expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Current income tax expense						
Deferred income tax expense	-7.42	-31.31			-31.31	
Total	-7.42	-31.31			-31.31	

The Company forecasted the enterprise income tax expenses basing on the forecasted total profit and applicable enterprise income tax rates of the Company and related policy of preferential taxation.

VII. MAIN FACTORS AFFECTING THE REALIZATION OF PROFIT FORECAST AND COUNTERMEASURES

Factors that may have material impact on the result of consolidated profit forecast during the forecast period and countermeasures mainly include:

1. Policy risk and countermeasures

Changes in the industry policy of the country may have significant impact on the business of the Company. For instance, being influenced by the nuclear leakage incident of Japan, China will be more cautious and strict in approving new and under construction nuclear stations, which will inevitably affect the Company. In addition, the expansion of production capacity to satisfy growing market demand, the continuous increase in using external credit facilities, and changes in financial policy of the country will also have large impact on our operation.

The Company will strengthen the collection of relevant information and the research on policies. It will also timely adjust its operation policies to reduce its impact on the business and results of the Company.

2. Market risk and countermeasures

The Company mainly supplies comprehensive compressor products to petrochemical, coal chemical and polysilicon enterprises, nuclear power station and gas refilling enterprises, and the market demand is more vulnerable to fluctuation in economic cycles. For instance, the discontinuation or delay of polysilicon projects in PRC due to oversupply has material impact on the Company.

The Company will strengthen the collection of market information and the understanding of economic situation. It will timely adjust its operation policies to reduce the impact on the business and results of the Company.

3. Industry risk and countermeasures

Competition in the domestic compressor industry is intense. Our piston compressors face competition with large and renowned domestic players, where we have shortage in technology, while our diaphragm compressors face competition with the fast growing private enterprises in our surroundings, where we do not have advantage in prices.

The Company will increase investment in research and development and establish good cooperation with research and development organisations to develop new products actively, adjust product mix and increase the proportion of high value-added products, so as to maintain its leading position in the diaphragm compressor sector and to offer prime medium-end products in the piston compressor sector.

4. Risk related to raw materials and labour costs and countermeasures

As the Company is a machinery manufacturer, raw materials and labour are key elements of its costs and important factors that may affect its profit. The fluctuation of material costs could have a material impact on its operation. It is a general trend for the increase in labour costs year by year and the total salaries of the Company is also increasing year by year.

The Company will establish good cooperating relationship with its main suppliers, strengthen comparison and analysis of information related to raw material prices, and control purchasing cost. It will also further improve its information system, enhance inventory management and production efficiency, and reduce consumption to mitigate the increase in material cost.

The Company will reasonably control its headcount, increase employee productivity and raise the output per employee to mitigate the rise in labour costs.

5. Technology risk

The Company is currently conducting R&D of GD8 diaphragm compressors. The product is a completely new product in China and abroad and there is a risk of uncertainty in its application technology.

To mitigate the technology risk and support the Company's rapid development, it will collaborate with domestic universities and science and technology institutions to conduct joint research on the technology used by the new product.

6. Talent risk

The Company is centered on research and development and sales of hi-tech products, and hi-tech talents are critical for its development. At present, the Company has established a high quality R&D team. However, as the business of the Company develops rapidly, the demand for high quality talents is increasing, and new comers need training, practicing and integration before they can adapt to the requirement of our operation and research and development, therefore, there is a gap between the introduction of talents and the Company's goal and the existence of talent risk.

The Company attaches great importance to the resource management of R&D personnel. It will constantly improve talents introduction, training and incentive mechanism, and build up its pool of talents. The Company will develop new channels of introducing talents and increase training; enhance internal talent exchanges and nurture high level R&D team and technology leaders through training and actual practicing; and improve the salary and benefit for R&D personnel to secure the stability of technology team and address the talent risk.

7. Risk of changes in preferential tax treatment

The Company is a high and new technology enterprise jointly certified by four departments including Beijing Municipal Science & Technology Commission. Pursuant to requirements of article 28 of Enterprise Income Tax Law of the People's Republic of China, the Company is subject to 15% enterprise income tax rate. There is the possibility that the Company may not be able to continue enjoying such preferential treatment in the future due to cancellation of such preferential policy, or the related entities being not recognized as high and new technology enterprises subsequent to expiration of their existing certificates.

The Company will expedite technology R&D, actively apply for patent and proprietary technology and reinforce its technology management to secure the recognition as a high and new technology enterprise.

VIII.LETTER OF UNDERTAKING FOR CONSOLIDATED PROFIT FORECAST

All directors of the Company solemnly undertake with the investors that, under normal production and operation conditions, the Company can achieve the consolidated profit forecasts for 2012 and 2013.

**JINGCHENG ENVIRONMENTAL PROTECTION
DEVELOPMENT CO., LTD.**

25 October 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

COMFORT LETTER FOR PROFIT FORECAST

XYZH/2012TJA1016-10

To the members of Beiren Printing Machinery Holdings Limited,

We have been engaged to review the calculations and accounting policies adopted in the profit forecast report (hereinafter the "Profit Forecast") of Beijing Jingcheng Environmental Protection Development Co., Ltd. (hereinafter the "Jingcheng Environment") for the year 2012 and 2013. The Profit Forecast is set out in the announcement of the Company (hereinafter the "Announcement"), for which the management of Jingcheng Environment are solely responsible.

We conducted our work in accordance with the "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the management of Jingcheng Environment based on the financial statement as at 31 July 2012.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the management of Jingcheng Environment as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Jingcheng Environment in its financial statements for the period ended 31 July 2012.

ShineWing Certified Public Accountants
LLP (Special General Partnership)

Certified Public Accountant of China: Hua Qiang

Certified Public Accountant of China: Pang Rongzhi

Beijing, PRC, 2 November 2012

(b) Letter from the financial adviser



2 November 2012

PRIVATE & CONFIDENTIAL

The Board of Directors
Beiren Printing Machinery Holdings Limited
6 Rongchangdong Street
Economic and Technological
Development Zone
Beijing, PRC

Dear Sirs,

Beiren Printing Machinery Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”)

Very substantial acquisition, very substantial disposal and connected transactions – Profit forecast in relation to the Material Asset Reorganisation prepared under CASBE for the two years ending 31 December 2012 and 2013 as contained in the Company’s announcement dated 2 November 2012 (the “Announcement”)

We refer to the profit forecast of Jingcheng Compressor for the two years ending 31 December 2013 (the “**Jingcheng Compressor Profit Forecast**”) prepared by the Company and reviewed by ShineWing Certified Public Accountants (“**ShineWing**”) in relation to the Material Asset Reorganisation as set out in the Announcement. Capitalised terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Jingcheng Compressor Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Jingcheng Compressor Profit Forecast has been made. We have also considered the letter addressed to the Directors from ShineWing dated 2 November 2012 regarding the accounting policies and calculations upon which the Jingcheng Compressor Profit Forecast has been made.

On the basis that the Directors are satisfied that there are no further matters that should be brought to our attention, in our opinion, the Jingcheng Compressor Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

It must be emphasised that the Jingcheng Compressor Profit Forecast necessarily depends on subjective judgement and it is, according to the nature of the business and the period covered, subject to substantial inherent uncertainties. The Jingcheng Compressor Profit Forecast and its underlying assumptions relate to the future and actual financial and trading positions are likely to be different from the forecast since other anticipated events frequently do not occur as expected and the variation may be material. Accordingly, the Jingcheng Compressor Profit Forecast cannot be relied upon to the same extent as information derived from audited financial statements for

completed financial accounting periods. For this reason, we express no opinion on how closely the business targets eventually achieved will correspond with the Jingcheng Compressor Profit Forecast.

We make no representation as to the legal interpretation of the above information as presented in the Announcement.

This letter is supplied on the understanding that it is for the sole use of the Company. It must not be made available to any other party or filed with or referred to (either in whole or in part) in the Announcement or any other document or otherwise quoted, circulated used for any other purpose without our prior written consent, except that we understand a copy of this letter may be distributed to The Stock Exchange of Hong Kong Limited. For the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties, including The Stock Exchange of Hong Kong Limited, are specifically disclaimed.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

(A) Profit Forecast of Jingcheng HK

The following is the full text of the Profit Forecast of Jingcheng HK. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.



信永中和會計師事務所
(特殊普通合夥)

ShineWing
certified public accountants
(Special General Partnership)

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AUDIT REPORT OF PROFIT FORECAST

XYZH/2012TJA1016-7

To the members of
Beiren Printing Machinery Holdings Limited,

We have audited the accompanying profit forecast report for 2012 and 2013 prepared by Jingcheng Holding (Hong Kong) Company Limited (the "Company"). We have conducted the audit on basis of No. 3111 of the Standards on other Assurance Engagements for Certified Public Accountants of China – Auditing on the Prospective Financial Information. The management of the Company is responsible for the profit forecast report and the assumptions upon which it was based. Such assumptions have been disclosed in the profit forecast report.

Based on our audit result on the evidences supporting such assumptions, nothing has come to our attention that causes us to believe that such assumptions have not given a reasonable basis for the profit forecast. Also, we believe this profit forecast report has been properly compiled based on such assumptions, which has been presented in accordance with the basis for the preparation of profit forecast as stated in the profit forecast report.

As the expected matters often do not occur as expected, and the changes could be material, the actual results may be different from the prospective financial information of the profit forecast.

This report is solely for the information of Beiren Printing Machinery Holdings Limited and Jingcheng Holding Machinery Electric Holding Co., Ltd., in connection with the submission of application documents to the China Securities Regulatory Commission for the material asset reorganisation transaction, and should not be used for any other purposes.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: HUA Qiang

Chinese Certified Public Accountant: PANG Rongzhi

Beijing, China, 26 October 2012

**JINGCHENG HOLDING (HONG KONG) COMPANY LIMITED
PROFIT FORECAST REPORT FOR 2012 AND 2013**

Important: This profit forecast report was prepared by the management of Jingcheng Holding (Hong Kong) Company Limited basing on best estimates and assumptions, but since the assumptions upon which it was based are uncertain, investors should exercise caution and not place undue reliance on such information when making their investment decisions. This profit forecast report must be read in conjunction with the consolidated profit forecast report of Beijing Tianhai Industry Co., Ltd. for 2012 and 2013.

I. BASIS OF PREPARATION FOR THE PROFIT FORECAST

1. GENERAL

Jingcheng Holding (Hong Kong) Company Limited (the “Company”) was approved by Jing Guo Zi Gui Hua Zi No.43 of State-owned Assets Supervision and Administration Commission of Beijing Municipal Government and Jing Shang Jing Zi No. 263 of Beijing Municipal Bureau of Commerce for establishment with capital contributed by Jingcheng Machinery Electric Holding Co., Ltd. It was incorporated in Hong Kong on 15 December 2005 with certificate of incorporation No. 1013872 and its address at 16-19/F, Prince’s Building, 10 Chater Road, Central, Hong Kong, and registered capital of HK\$1,000.

The business scope of the Company covers: import and export trade, investment holding and consultancy service, etc.

Both the controlling shareholder and ultimate shareholder of the Company is Jingcheng Machinery Electric Holding Co., Ltd.

2. BASIS OF PREPARATION FOR THE PROFIT FORECAST

- (1) This profit forecast is prepared for the purpose of the Material Asset Reorganisation transaction of Beiren Printing Machinery Holdings Limited and Jingcheng Holding Machinery Electric Holding Co., Ltd.
- (2) This profit forecast has been prepared basing on the operation results of the Company for 2011, in light of the 2012 and 2013 operation plans and investment plans of the Company, and in accordance with the basis of preparation and assumptions as stated in this report and the principle of significance.
- (3) This profit forecast was prepared in accordance with the accounting policies and accounting estimates as stated in IV of this report, and such policies and estimates are consistent in all material aspects with those adopted by the Company in the preparation of its financial statements for 2011 and January to July 2012.

II. BASIC ASSUMPTIONS OF THE PROFIT FORECAST

1. During the forecast period, there is no material change in the state laws, regulations, departmental rules and industrial policies complied by the Company and Beijing Tianhai Industry Co., Ltd., its associates, and its subsidiaries (hereinafter referred to as “Tianhai Industrial”) as well as the social, political, economic and environmental situation of the region where the Company and Tianhai Industrial are located.

2. During the forecast period, there is no material change in the relevant accounting policy and accounting estimation of Tianhai Industrial and its subsidiaries.
3. During the forecast period, there is no material change in the taxation policy and the relevant preferential taxation policy complied by the Company and Tianhai Industrial.
4. During the forecast period, there is no material change in the industry that the Company and Tianhai Industrial engage in.
5. During the forecast period, there is no material change in interest rate of bank loan of the Company and Tianhai Industrial and foreign exchange rate.
6. During the forecast period, there is no material change in the market of the products of The Company and Tianhai Industrial, especially the international and domestic market demand of industrial gas cylinders and the relevant significant factors affecting the market demand of industrial gas cylinders.
7. During the forecast period, there is no material change in the laws, regulations and industrial rules which significantly affect the production and operation of the Company and Tianhai Industrial.
8. During the forecast period, the operation plan, marketing plan, investment plan and financing plan of The Company and Tianhai Industrial would not be unable to realize on schedule or experience a material change due to changes in external environment.
9. The Company and Tianhai Industrial having maintained the relevant certificates held by them for the production of product and timely obtained such new certificates being applied for (such as the UT certificate, etc, for exports to the United States of America); and there would not be any material effect on the international sales market as a result of non-compliance of requirements under the relevant certificates.
10. During the forecast period, the operating activities of the Company and Tianhai Industrial would not experience a material adverse impact due to shortage of manpower or resources, lagging behind in technology or material change in cost.
11. During the forecast period, there is no material change in the corporate structures of The Company and Tianhai Industrial.
12. During the forecast period, there is no other material asset transaction.
13. During the forecast period, there is no other force majeure and unexpected factors of the Company that would materially affect the Company and Tianhai Industrial.
14. There is no material change in the market share of the principal businesses of Tianhai Industrial.
15. Tianhai Industrial have established strategic cooperative relationships with companies in the oil industry, are able to enter into contracts with these companies according to the negotiated intentions and is able to successfully develop and sell products in accordance with the signed contracts and operation plans.

16. The selling prices of the existing products of Tianhai Industrial would not be subject to the restrictions of the relevant authorities, there is no significant fluctuation in sales prices, no material change in materials supply market and no material change in the price of raw materials.

III. PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

Items	Note	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
				Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
1. Total Operating Income							
In which: Operating Income							
2. Total Operating Cost		4.13	8.47	0.82	1.08	10.37	11.50
In which: Operating Cost							
Tax and Additional Expense							
Sales Expense							
Administration Expense	VII.1	4.11	8.22	0.80	1.00	10.02	11.00
Financial Expense	VII.2	0.02	0.25	0.02	0.08	0.35	0.50
Assets Impairment Losses							
Add: Income of Fair Value Change (loss marked "-")							
Investment Income (loss marked "-")	VII.3	1,243.11	875.28	51.13	332.38	1,258.79	1,433.11
3. Operating Profit (loss marked "-")		1,238.98	866.81	50.31	331.30	1,248.42	1,421.61
Add: Non-operating Income							
Less: Non-operating Expense							
4. Total Profit (loss marked "-")		1,238.98	866.81	50.31	331.30	1,248.42	1,421.61
Less: Income Tax Expense							
5. Net Profit (loss marked "-")		1,238.98	866.81	50.31	331.30	1,248.42	1,421.61

Legal Person:
Ren Yaguang

Accounting Director:
Wang Bin

Accounting Manager:
Wang Bin

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**1. Accounting period**

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

2. Reporting currency

The reporting currency of the Company is USD, while monetary units in this report are in RMB.

3. Principles of accounting and measurement

The Company uses the accrual method as its basis of accounting. All assets are measured at historical cost, except for financial assets for trading and financial assets available-for-sale which are measured at fair value.

4. Cash and cash equivalents

Cash in the cash flow statement of the Company represents cash on hand and deposits held at call with banks. Cash equivalents in the cash flow statement represent short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

5. Foreign currency business and conversion of foreign currency statements***(1) Foreign currency transactions***

Foreign currency transactions of the Company are translated into RMB at the spot exchange rate of the date of transaction. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly recorded in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences is directly included in the profit and loss for the current period as a change of fair value. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction, while the translated amount in RMB should not be changed.

(2) Foreign currency translation

Foreign currency items of assets and liabilities to be presented in balance sheets are translated at the spot rate as at the balance sheet date. All items of owners' equity, except for undistributed profit, are translated at the spot rate upon occurrence. Items of income and expenses to be presented in income statements are translated at the spot price of the transaction date. Such translation differences are presented separately under owners' equity. Cash flow is translated at the spot rate of the date of occurrence. Impact of changes in exchange rate on cash is presented separately in cash flow statements.

6. Financial assets and financial liabilities**(1) Financial assets****1) Classification of financial assets**

Financial assets of the Company are classified as financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables, and available-for-sale financial assets according to the purposes of investments and the economic substance of the assets.

Financial assets at fair value through profit or loss for the current period are those financial assets that have been acquired principally for the purpose of selling in 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 recoverable amounts that the management intends and is able to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable recoverable amounts that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are designated in this category and financial assets not classified into any other class upon initial recognition.

2) Recognition and measurement of financial assets

Financial asset are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss for the current period and available-for-sale financial assets are subsequently measured at fair value. Loans 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 for the current period are recorded as gain or loss on changes in fair value. Interest or cash dividends received during the period in which such financial assets are held are recognised as investment income. On disposal, the difference between fair value and initial recognised amount is recognised as gain or loss on investment and adjust the gain or loss into changes in fair value accordingly.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative

gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

3) Impairment of financial assets

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset 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 losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If the fair value of available-for-sale financial asset experienced a significant or non-temporary decline, the cumulative losses arising from the decline in fair value that had been recognised directly in equity shall be reversed and included in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and such increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

4) Transfer of financial assets

A financial asset is derecognised when any of the below condition is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Company transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition condition, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

(2) *Financial liabilities*

Financial liabilities of the Company are classified as financial liabilities at fair value through profit or loss for the current period and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss for the current period include financial liabilities held for trading and those designated at fair value through profit or loss for the current period on initial recognition. They are subsequently measured at fair value. The gain or loss on changes in fair value, and dividends and interest expense in relation to such financial liabilities are charged to profit or loss for the current period as incurred.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the current period.

(3) *Method for Determination of fair values of financial assets and financial liabilities*

- a) If there is an active market for financial instrument, the quoted market price in an active market is used to determine the fair value of the financial instrument. In the active market, financial assets held or financial liabilities intending to bear by the Company take the current quoted price as the fair value of the relevant assets and liabilities. Financial assets intending to buy or financial liabilities borne by the Company take the current offer price as the fair value of the relevant assets and liabilities. If there are no quoted price and offer price for financial assets and liabilities, and the economic conditions do not change significantly after the latest transaction, the latest quotation is used to determine the fair value of such financial assets or liabilities. If the economic conditions changed significantly after the latest transaction, the fair value of such financial assets or financial liabilities shall be determined by adjusting the quoted price of the latest transaction through preferring to the current price or

interest of the similar financial assets or financial liabilities. If the Company has sufficient evidence to prove that the quoted price of the latest transaction did not based on fair value, the fair value of such financial assets or financial liabilities shall be determined through appropriate adjustment on the quoted price of the latest transaction.

- b) If there is no active market for financial instrument, the fair values are determined by evaluation method, including consulting the latest prices in the marketing transaction by the parties who are familiar with the market and make the transaction voluntarily, the current fair values of the other identified financial assets, discounted method of cash flow and option pricing modes.

7. Provisions for bad debts on receivables

The Company recognises losses from bad debts on receivables when any of the following circumstances occur: the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended their businesses due to natural disaster and unable to settle the debts in the foreseeable period; or the receivables are defaulted for more than 3 years; or when there is objective evidence indicating that the debts cannot be recovered or are not likely to be recovered.

Potential loss on bad debts is provided for using allowance account method. At the end of the period, receivables are tested for impairment on individual or group basis and the provisions for bad debts are recognised in the profit or loss for the current period. When there is objective evidence indicating that the receivables cannot be collected, such receivables are written off against the provisions for bad debts as losses on bad debts after granting of approval by the Group according to the required procedures.

(1) *Receivables that are individually significant and are provided for bad debts on individual basis*

Basis of determination or threshold of individually significant receivables	Receivables of more than RMB5 million are regarded as individually significant receivables
Method of provision for bad debts on receivables that are individually significant and are provided on individual basis	Provisions for bad debts are made for the excess of the carrying amount over the present value of the future cash flows

(2) *Receivables provided for bad debts on group basis*

Basis for determination of groups

Aged group	Determine the credit risk characteristics by age of the receivables

Method of provision for bad debts on group basis

Aged group	Provision of bad debts is made by aging analysis

- 1) Proportion of provisions for bad debts on receivables by aging analysis basis:

Aging	Proportion to accounts receivable (%)	Proportion to other receivables (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

8. Long-term equity investments

Long-term equity investments mainly include the equity investments in the invested company over which the Company has control, joint control or significant influence and entity over which the Company does not have control, joint control nor significant influence and do not have quoted prices in active market and its fair value cannot be reliably measured.

Joint control represents a contractual agreed common control over an economic activity. Joint control exists when any party does not have unilateral power to control the operating activities, and the decisions making relating to the operating activities of the jointly controlled entity require unanimous consent of the parties.

Significant influence exists when a party has the power to influence the decision making of the invested company's financial and operating policies, but is not able to have control or have joint control with other parties over the formulation of these policies. Significant influence exists when the Company directly or indirectly (through its subsidiary) owns 20% (inclusive) or more but less than 50% of shares with voting rights in the invested company. Significant influence cannot be established where there is explicit evidence indicating that the Group is unable to participate in the decision-making of the operating policy in the invested company.

The investment cost for long-term equity investment acquired through a business combination under common control is the carrying value of the share of equity in the absorbing company at the date of combination. The combination cost for long-term equity investment acquired through business combination not under common control is the fair value as at date of combination (acquisition) of the assets given, liabilities incurred or assumed and equity securities issued for the control of the party being absorbed (acquired) at the date of combination (acquisition).

Other than long-term equity investment acquired through mergers as mentioned above, the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid, which includes fees, tax and other required expenses directly attributable to such investments. The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued. The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value

stipulated in the contract or agreement. The initial cost of a long-term equity investment obtained by recombination of liabilities or the exchange of nonmonetary assets shall be ascertained in accordance with Accounting Standards for Enterprises.

Investments in subsidiaries are accounted for by the Company using cost method and adjusted for using equity method during the preparation of consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using equity method. Long-term equity investments are accounted for using cost method where the Company does not have control, joint control or significant influence over the invested company and there are no quoted prices in active market and the fair value of the invested company cannot be reliably measured. Long-term equity investments are accounted for as available-for-sale financial assets where the Company does not have control, joint control or significant influence over the invested company but there are quoted prices in active market and the fair value of the invested company can be reliably measured.

Under the cost method, long-term equity investments are measured at its investment cost, and its cost is adjusted by the amount of additional investment or the amount recovered. Under the equity method, investment gain or loss for the current period represents the Group's share of the net profits or losses made by the invested company for the current period. The share of the net profits or losses of the invested company is recognised based on the fair value of each of the identifiable assets of the invested company at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company and the gain or loss on transactions entered into between the Company and its associates and jointly controlled entities is eliminated for those attributable to the Company based on its share in the invested company. If long-term equity investments in associates and jointly controlled entities is held prior to the date on which investment is made at the first time, the debit balances in the investment-related equity investment shall be recognised as investment gain or loss after deducting the debit balance amortised over the original remaining period of the equity investment on straight-line basis.

The long-term equity investment will be accounted for by using cost method where the Company reduces the investment in the invested company so that the Company no longer has common control or significant influence over the invested company and there are no quoted prices in active market and fair value of the invested company cannot be reliably measured; or where the Company has control over the invested company due to the reasons such as making additional investment in the invested company; the long-term investment will be accounted for by using equity method where the Company has common control or significant influence over the invested company due to such reasons as making additional investment in the invested company or where the Company no longer has control but remain to have joint control or significant influence over the invested company due to reasons such as disposal of the investment.

On disposal of long-term equity investments, the difference between the carrying value of a long-term equity investments and the actual consideration received is recognised as investment income for the current period. For long-term equity investments accounted for using equity method, the movements of owner's equity, other than the net profit or loss, of the invested company, previously recorded in the owner's equity will be transferred and expensed as investment income for the current period on disposal.

9. Impairment of long-term non-financial assets

As at each balance sheet date, the Company assesses whether there is any indication indicating that the long-term equity investments, fixed assets, construction in progress and intangible assets with definite useful lives may be impaired. If there is any indication indicating that an asset may be impaired, the asset will be tested for impairment. Goodwill and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication indicating that the asset may be impaired. When it is impossible to make the impairment test on the recoverable amount of an individual asset, the impairment test should be made on the basis of the corresponding assets group or the portfolio to which such assets belongs.

After the test of impairment, if the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss. Once an impairment loss on the assets is recognised, it will not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher of the net of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators of impairment are as follows:

- (1) The current market price of an asset declines substantially, exceeding obviously the expected decline caused by time changes or normal application;
- (2) There are significant changes in the economic, technical or legal environment in which the enterprise operates and in the market where the asset is located in the current period or near future, resulting in adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other market investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of the asset estimated future cash flow which results in a substantial decline in the recoverable amount of the assets;
- (4) There is evidence to demonstrate that the asset has already gone obsolete or its entity has already been damaged;
- (5) The asset has already been or will be left idle, ceased to be used, or planned to be disposed in advance;
- (6) There is evidence from the internal reports demonstrating that the economic returns of asset, such as the net cash flows generated by asset or operating profit (or loss) realised by asset, are much lowered (higher) than that as expected;
- (7) Any other indicator indicates that the value of an asset may have already been impaired

10. Deferred income tax assets and deferred income tax liabilities

The deferred income tax assets and deferred income tax liabilities of the Company are recognised based on the differences between the tax bases of assets and liabilities and their respective book values (temporary differences). For deductible tax losses or tax credit that can be brought forward in accordance with tax law for deduction of taxable income in subsequent years, it is considered as temporary differences and related deferred income tax

assets are recognised. On the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rates that are expected to apply to the period in which the assets are realised or liability is settled.

The deferred income tax assets arising from the deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to the Company to offset such deductible temporary difference. If it is anticipated that no future taxable profits will be available to offset the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount so reduced will be reversed.

11. Accounting for income tax

Income tax is accounted by using the balance sheet liability method. Income tax expenses represent the sum of current income tax and deferred income tax. Current income tax and deferred income tax in connection with the transactions and matters that are directly recorded in shareholders' equity are dealt with in shareholders' equity. Deferred income tax arising from business combination is adjusted to the carrying value of goodwill. Expenses or income of all other current income tax and deferred income tax are recognised in the profit or loss for the period.

The current income tax payable is the amount of tax payable to taxation authority by the enterprises 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 income tax assets and deferred income tax liabilities that should be recognised using the balance sheet liabilities method at the end of the period and their balances originally recognised.

VII. EXPLANATION ON MAJOR ITEMS OF PROFIT FORECAST STATEMENT (UNIT: RMB'0000)

1. Administration expenses

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Agency fee	4.11	8.22	0.8	1.00	10.02	10.00
Others						1.00
Total	4.11	8.22	0.8	1.00	10.02	11.00

The forecasts of administration expenses are based on historical data of the Company and have accounted for their trend of operating changes during the forecast period.

2. Financial expense

Items	2011 Audited amount	Jan-Jul Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Interest payment						
Interest income						
Exchange gain or loss	0.01	0.12			0.12	
Others	0.01	0.13	0.02	0.08	0.23	0.50
Total	0.02	0.25	0.02	0.08	0.35	0.50

Financial expenses mainly include bank charges and etc.

3. Investment income

Items	2011 Audited amount	Jan-Mar Audited amount	2012		Total	2013 Forecasted amount
			Aug-Sep Unaudited amount	Oct-Dec Forecasted amount		
Income of long-term equity investments accounted for using equity method	1,243.11	875.28	51.13	332.38	1,258.79	1,433.11
Total	1,243.11	875.28	51.13	332.38	1,258.79	1,433.11

The gain or loss of long-term equity investments accounted for using equity method is forecasted basing on the forecasted net profit attributed to the parent company of the investee and the shareholding of the Company. All long-term equity investments accounted for using equity method by the Company comprise its investment in Beijing Tianhai Industry Co. Ltd. The Company holds a shareholding of 28.44% in Beijing Tianhai Industry Co. Ltd.

Since the shareholding of the Company in Tianjin Tianhai High Pressure Containers Co., Ltd. is 9.48% and cost method is used to account for it, therefore, the forecasted net profit of Tianjin Tianhai High Pressure Containers Co., Ltd. is not used by the Company to forecast investment income.

VIII. LETTER OF UNDERTAKING FOR PROFIT FORECAST

All directors of the Company solemnly undertake with the investors that, under normal operation conditions, the Company can achieve the profit forecasts for 2012 and 2013.

JINGCHENG HOLDING (HONG KONG) COMPANY LIMITED
25 October 2012

(B) COMFORT LETTERS

(a) Letter from the reporting accountant

	信永中和會計師事務所 (特殊普通合夥) ShineWing certified public accountants (Special General Partnership)	北京市東城區朝陽門北大街 8號富華大廈A座9層 9/F, Block A, Fu Hua Mansion, No. 8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P. R. China	聯繫電話: +86(010)6554 2288 telephone: +86(010)6554 2288 傳真: +86(010)6554 7190 facsimile: +86(010)6554 7190

COMFORT LETTER FOR PROFIT FORECAST

XYZH/2012TJA1016-12

To the members of Beiren Printing Machinery Holdings Limited,

We have been engaged to review the calculations and accounting policies adopted in the profit forecast report (hereinafter the "Profit Forecast") of Jingcheng Holding (Hong Kong) Company Limited (hereinafter the "Jingcheng HK") for the year 2012 and 2013. The Profit Forecast is set out in the announcement of the Company (hereinafter the "Announcement"), for which the management of Jingcheng HK are solely responsible.

We conducted our work in accordance with the "Standard on Other Assurance Engagements 3111 for Chinese Certified Public Accountants – Audit of Forecasted Financial Information" issued by the Chinese Institute of Certified Public Accountants.

The Profit Forecast is prepared by the management of Jingcheng Environment based on the financial statement as at 31 July 2012.

In our opinion, the Profit Forecast, as far as the calculation and accounting policies are concerned, has been prepared in accordance with the bases and assumptions made by the management of Jingcheng HK as set out in the Announcement, and is presented on a basis consistent in all material respects with the accounting policies adopted by Jingcheng HK in its financial statements for the period ended 31 July 2012.

ShineWing Certified Public Accountants
LLP (Special General Partnership)

Certified Public Accountant of China: Hua Qiang

Certified Public Accountant of China: Pang Rongzhi

Beijing, PRC, 2 November 2012

(b) Letter from the financial adviser



2 November 2012

PRIVATE & CONFIDENTIAL

The Board of Directors
Beiren Printing Machinery Holdings Limited
6 Rongchangdong Street
Economic and Technological
Development Zone
Beijing, PRC

Dear Sirs,

Beiren Printing Machinery Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”)

Very substantial acquisition, very substantial disposal and connected transactions – Profit forecast in relation to the Material Asset Reorganisation prepared under CASBE for the two years ending 31 December 2012 and 2013 as contained in the Company’s announcement dated 2 November 2012 (the “Announcement”)

We refer to the profit forecast of Jingcheng HK for the two years ending 31 December 2013 (the “**Jingcheng HK Profit Forecast**”) prepared by the Company and reviewed by ShineWing Certified Public Accountants (“**ShineWing**”) in relation to the Material Asset Reorganisation as set out in the Announcement. Capitalised terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

This letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

We have reviewed the Jingcheng HK Profit Forecast and discussed with you the bases and assumptions made by you as the Directors as set out in the Announcement upon which the Jingcheng HK Profit Forecast has been made. We have also considered the letter addressed to the Directors from ShineWing dated 2 November 2012 regarding the accounting policies and calculations upon which the Jingcheng HK Profit Forecast has been made.

On the basis that the Directors are satisfied that there are no further matters that should be brought to our attention, in our opinion, the Jingcheng HK Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

It must be emphasised that the Jingcheng HK Profit Forecast necessarily depends on subjective judgement and it is, according to the nature of the business and the period covered, subject to substantial inherent uncertainties. The Jingcheng HK Profit Forecast and its underlying assumptions relate to the future and actual financial and trading positions are likely to be different from the forecast since other anticipated events frequently do not occur as expected and the variation may be material. Accordingly, the Jingcheng HK Profit Forecast cannot be relied upon to the same extent as information derived from audited financial statements for completed financial accounting periods. For this reason, we express no opinion on how closely the business targets eventually achieved will correspond with the Jingcheng HK Profit Forecast.

We make no representation as to the legal interpretation of the above information as presented in the Announcement.

This letter is supplied on the understanding that it is for the sole use of the Company. It must not be made available to any other party or filed with or referred to (either in whole or in part) in the Announcement or any other document or otherwise quoted, circulated used for any other purpose without our prior written consent, except that we understand a copy of this letter may be distributed to The Stock Exchange of Hong Kong Limited. For the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties, including The Stock Exchange of Hong Kong Limited, are specifically disclaimed.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

The following is the full text of the Valuation Reports of the Outgoing Assets. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

Statements of certified asset appraiser

In the preparation of this report, the appraisal personnel have provided earnest verification and applied necessary formula for appraisal assumptions on all assets included in the scope of appraisal. We hereby make the following statement with regard to this appraisal report:

1. During the appraisal hereof, the certified asset appraiser have complied with relevant laws and regulations and assets appraisal standards and adhered to the principles of independence, objectivity and impartiality in performing the assets appraisal services. According to the materials collected by us during the appraisal process, the contents of this assets appraisal report are objective and we will assume corresponding legal liabilities for the justification of the conclusion of appraisal.
2. The list of assets and liabilities related to the title holder is declared and signed/sealed for confirmation by the client/target company. The client and the relevant parties are responsible for the authenticity, legality and completeness of the materials provided by them as well as the proper use of this Report.
3. The certified asset appraiser has no existing or potential interest in the object of appraisal under this appraisal report, and we have no existing or potential interest in or bias against the entrusting party and relevant parties.
4. The certified asset appraiser and other appraisal personnels have conducted on-site inspection of the object of appraisal under this appraisal report and the related assets. We have paid due attention to the legal titles of the object of appraisal and the related assets, verified the materials related to such legal titles, made truthful disclosures of the problems we have discovered and requested the client and the relevant parties to improve the title issues to meet the requirements for purposes of this appraisal report. However, no guarantee in any form could be provided towards the truthfulness of the legal titles of the object of appraisal.
5. The analysis, judgments and conclusions made in this appraisal report are subject to the assumptions and restrictive conditions herein. Users of this appraisal report are required to take into full consideration the assumptions, restrictive conditions and explanatory notes on special issues specified herein as well as their impact on the conclusion of appraisal.
6. This appraisal report and its disclosed conclusion were subject to the purpose set out herein and usage within the valid date in the conclusion. The appraisal company and the certified asset appraiser would not be responsible for any consequences arising from the improper use of this appraisal report.

Summary of Asset Appraisal Report
for
the outgoing assets of the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited
China Faith Appraisal Report Ref (2012) No. 248A

Important

This content of this summary is selected from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

China Faith Appraisers Co., Ltd. was appointed by Beiren Printing Machinery Holdings Limited to make a appraisal on the entire assets and liabilities of Beiren Printing Machinery Holdings Limited involved in the entire outgoing assets and liabilities of the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited in accordance with the relevant national laws and regulations and principles of assets appraisal based on independent, objective and fair principles.

The object and scope of appraisal was and covered the entire outgoing assets and related liabilities of the proposed material asset reorganisation of Beiren Printing Machinery Limited. with appraisal made on market value used in appraisal on the benchmark date of appraisal on 31 March 2012.

The appraiser performed all necessary procedures for appraisal, to make appraisal by replacement cost approach on the assumptions of the continued use of assets and an open market and the appraisal result was taken as the final conclusion.

On the benchmark date of appraisal, the appraisal result of entire assets and liabilities of the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited was RMB1,184.8696 million.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

Table of summary of the assets appraisal

Price unit: RMB0'000

Items		Book value	Appraisal	Difference in value	[%] Difference in value D=C/A ×100%
		A	B	C=B-A	
1	Current assets	65,089.69	65,331.28	241.59	0.37
2	Non-current assets	66,915.80	104,114.02	37,198.22	55.59
	Included: Financial assets available				
3	for sale	—	—	—	
4	Held-to-maturity investment	—	—	—	
5	Long-term receivables	—	—	—	
6	Long-term equity investment	16,537.85	19,715.02	3,177.17	19.21
7	Investment properties	669.20	913.07	243.87	36.44
8	Fixed assets	40,005.84	51,328.44	11,322.60	28.30
9	Construction in progress	353.04	353.04	—	—
10	Construction materials	—	—	—	
11	Disposal of fixed assets	—	—	—	
12	Productive biological assets	—	—	—	
13	Oil and gas assets	—	—	—	
14	Intangible assets	8,413.14	30,867.72	22,454.58	266.90
15	Development expenditures	—	—	—	
16	Goodwill	—	—	—	
17	Long-term deferred cost	936.73	936.73	—	—
18	Deferred income tax assets	—	—	—	
19	Other non-current assets	—	—	—	
20	Total assets	132,005.49	169,445.30	37,439.81	28.36
21	Current liabilities	48,288.17	48,288.17	—	—
22	Non-current liabilities	2,670.17	2,670.17	—	—
23	Total liabilities	50,958.34	50,958.34	—	—
24	Net assets (owners' equity)	81,047.15	118,486.96	37,439.81	46.20

Report users should note that title defects during the appraisal process were explained as special issues in the appraisal report.

The effective period of the conclusion of this appraisal report is one calendar year, from the benchmark date of appraisal of 31 March 2012 till 30 March 2013.

The date of this report is 17 August 2012.

The above content is exacted from the valuation report. For the details and explanation and conclusion of the valuation subjects, please refer to the valuation report.

Full Asset Appraisal Report
for
the outgoing assets of the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited
China Faith Appraisal Report Ref (2012) No. 248A

To Beiren Printing Machinery Holdings Limited,

China Faith Asset Appraisal Company Limited was appointed by the Company to make a appraisal on the market value of entire assets and liabilities of Beiren Printing Machinery Holdings Limited involved in the entire outgoing assets and liabilities of the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited on 31 March 2012 in accordance with the relevant national laws and regulations and principles and standards of assets appraisal by replacement cost approach via necessary procedures for appraisal. We hereby report the appraisal as follows.

I. Entrusting party, title holder and other users of the appraisal report

The entrusting party and title holder of this project is Beiren Printing Machinery Holdings Limited. The user of the report is the entrusting party, relevant parties in the business aspect, the state-owned assets supervision and administration authority and the securities regulatory authority.

(i) Review of the entrusting party and title holder

1. Review

Name of entity	:	Beiren Printing Machinery Holdings Limited (Beiren Holdings)
Registered capital	:	RMB422 million
Legal representative	:	Zhang Peiwu
Registered address	:	No. 6 Rong Chang Dong Street, Economic and Technological Development Zone, Beijing
Nature of business	:	Joint-stock company
Scope of business	:	Authorised scope of operation: production of printing machines, press equipments, packing machines and parts and components for the aforesaid machines; general logistics.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

General scope of operation	:	development, design and sales, maintenance and installation of printing machines, press equipment, packing machines and parts of the aforesaid machines and equipment; technical consultancy, technical service, technical training with respect to printing equipment and technologies; management of the export of own enterprises' and member enterprises' self-produced products and technology; the import of auxiliary materials, instruments and meters, parts and components of machine tools and technologies required for own enterprises' and member enterprises' production (apart from those restricted by the State from import and export); processing on customer-supplied materials and "processing raw materials on clients' demands, assembling parts for clients and processing according to clients' samples or compensation trade"; the rental of office space, machineries and equipment; sales of printing machines.
Registration number	:	110000005015956

2. *History*

Beiren Printing Machinery Holdings Limited is located in Beijing Economic-Technological Development Area, which is famous for produce BEIREN brand printing presses, it has a history of over 50 years in production of printing machinery, and also as one of China's top 500 machinery manufacturers. In 1993, it was approved by SCRES to restructure as a joint-stock company with H shares listed on Hong Kong Stock Exchange. In 1994, its A shares were listed on Shanghai Stock Exchange. It was one of first group of the nine foreign-listing companies.

The Company possesses an integrated development, design, production, sale and services and manufactures five major series of sheet-fed offset printing press, web-fed offset press, commercial revolving press, forms printing press, soft cover press and intaglio press with more than 120 models and specification. Beiren Holdings possesses a state-level technical center established under the authorization of SETC and a metering physical and chemical test center with authorization of First-class Measurement Unit.

The double-sheet single color plastic printing press and the double-sheet four-color plastic printing press manufactured by Beiren Holdings won gold quality award while the double-sheet double-color plastic printing press and double-sheet two-side plastic printing press won silver quality award. All of the above products obtained the ISO 9001 quality assurance certificate and reached EU Safety Standards (GS) and International Standards for Electricity and Gas (CE). In 1996, Beiren was approved by the State Council as the first group of companies cooperating with Tsinghua University to develop integrated manufacturing system for applicable computers. In 1999, Beiren was appointed as a CIMS applied engineering demonstrating unit of national hi-tech research and development program.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

Beiren Holdings has a country-wide marketing, sales and service network, which includes two sales networks, namely single sheet-fed press and web offset press. The company owns 11 offices in 32 provinces and cities and there are more than 60 sales agency branches, more than 40 installation and testing centers and nearly 100 spare parts sale centers across the country.

The “BEIREN” brand printing machines are widely used in all provinces and major cities in China, and exported to more than 30 countries and regions in Asia, Europe, North America, South America and Africa. The company also enjoys the advantages in five aspects, namely variety, quality, scale, market and efficiency.

Under the fierce market competition, Beiren Printing Machinery Holdings Limited maintains sustainable development and the leading industrial position. The company pays equal attention to the production operation and capital management, optimizes industrial structure and actively involves in international projects. As of printing technique, the company engages in various categories in printing industry, develops pre-printing and post-printing technique and extends to upstream and downstream printing machinery industry for the purpose of seeking and creating new and efficient profit growing point. Through acquisition and merger, restructuring, joint-venture cooperation and share issue in capital market, the company enlarges its scale and raises its financing ability to improve the overall strength of the company. Meanwhile, based on technology innovation, mechanism innovation and market exploration, the company gradually develops competitive products in various series for various classes.

Beiren Holdings was established by Beiren Group Corporation as a joint stock limited company. Beiren Holdings 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, Beiren Holdings became a listed company with the right of issuing public shares in both mainland of China and Hong Kong. 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 listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC in 1993 and 1994 respectively.

Upon the approval of General Shareholders’ Meeting 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, during the period from 26 December 2002 to 7 January 2003, Beiren Holdings issued 22,000,000 additional A Shares listed on the Shanghai Stock Exchange, with par value of RMB1 Yuan. After the additional issues, the total outstanding shares of Beiren Holdings are added up to 422,000,000 shares, among which 250,000,000 shares are state-owned institutional shares, 72,000,000 shares are inland public issues 100,000,000 shares are offshore public issues. All shares are with par value RMB1 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), issued by the Committee of State-owned Assets Supervision and Administration of Beijing Government, Beiren Holdings as the sole non-floating shares holder should transfer the original 27,360,000 state-owned shares to the A share holders through the bonus issue on 10 for 3.8, and the registration date related to the share segregation reform was 29 March 2006.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

Beiren Group Corporation has sold 21,000,000 unconditioned tradable shares of Beiren Holdings through Shanghai Stock Exchange Bulk Exchange Platform on 6 January 2010 and 7 January 2010 respectively. On 2 December 2010, Beiren Group Corporation has sold 20,000 unconditioned tradable shares to public on 2 December 2010, which accounts for 4.98% of total share rights of Beiren Holdings held by Beiren Group Corporation. Up to 31 December 2011, Beiren Group Corporation has held 201,620,000 state-owned institutional shares, as 47.78% of total share rights, which are all unconditioned floating shares; 120,380,000 shares which are 28.52% of the total share rights are unconditioned inland public shares and unconditioned offshore public shares are 100,000,000 shares as 23.70% of the total share rights.

3. *The entity balance sheet and operation results in the past 3 years and on the benchmark date of appraisal*

The balance sheets of Beiren Holdings as of 31 December 2009, 2010 and 2011 and benchmark date and that as of the benchmark date of appraisal are summarised as follows:

Price unit: RMB'0,000				
Items	31 March 2012	31 December 2011	31 December 2010	31 December 2009
Current assets	65,089.69	64,536.06	49,679.95	64,607.94
Non-current assets	66,915.80	67,513.37	71,367.28	82,155.40
Including: Long-term equity				
investments	16,537.85	16,547.31	16,537.98	21,616.13
Investment properties	669.20	673.91	692.73	1,504.79
Fixed assets	40,005.84	40,609.89	44,374.97	47,487.53
Construction in				
progress	353.04	281.65	158.02	169.76
Intangible assets	8,413.14	8,463.88	8,666.85	10,184.17
Long-term				
prepayments	936.73	936.73	936.73	1,193.03
Total assets	132,005.49	132,049.42	121,047.23	146,763.34
Current liabilities	48,288.17	47,765.21	38,806.28	63,146.35
Non-current liabilities	2,670.17	2,654.10	1,086.84	1,133.79
Total liabilities	50,958.34	50,419.32	39,893.13	64,280.14
Net assets (owners' equity)	81,047.15	81,630.11	81,154.10	82,483.20

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

The statements of income of Beiren Holdings for 2009, 2010, 2011 and from January to March 2012 are as follows:

Price unit: RMB'0,000

Items	Jan-Mar 2012	2011	2010	2009
Operating income	7,663.08	36,991.98	44,484.13	44,451.79
Less: Operating costs	6,443.26	30,017.86	38,457.03	42,824.23
Business taxes and surcharges	74.21	400.02	391.99	425.65
Sales expenses	414.55	2,481.84	3,938.17	3,437.45
Managing costs	1,628.13	6,308.85	9,296.49	9,186.85
Financing costs	180.08	221.06	1,172.04	1,320.89
Asset impairment loss	-487.28	1,003.93	6,487.65	3,029.32
Add: Investment gains	9.46	20.69	12,561.06	-186.19
Operating profits	-602.12	-3,420.89	-2,698.17	-15,958.79
Add: Non-operating revenue	17.87	3,905.44	1,380.93	694.69
Less: Non-operating expenses	1.49	8.54	82.81	37.53
Total profit	-582.95	476.01	-1,400.05	-15,301.63
Less: Income tax expenses	—	—	—	-32.08
Net profit	-582.95	476.01	-1,400.05	-15,269.55

The data for the year 2009 was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2009A4009) was issued; the data for the year 2010 was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2010A4005) was issued; the data for the year 2011 was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2011A4028) was issued; the data for the benchmark date of appraisal was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2011A4080) was issued.

4. Relationship between the entrusting party and the title holder

The entrusting party and title holder was Beiren Printing Machinery Holdings Limited.

II. Purpose of appraisal

The purpose of this appraisal is to appraise the entire assets and liabilities of Beiren Printing Machinery Holdings Limited, so as to provide its market value on the benchmark date of appraisal for reference of the value of outgoing assets and liabilities of the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited.

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The business action documents involved in this appraisal include: “The Board Resolution of Beiren Printing Machinery Holdings Limited” (No. 5 – 2012) passed on 5 July 2012, at the sixth board meeting of the seventh session of the Board of Beiren Printing Machinery Holdings Limited.

“The Board Resolution”, Jing Ji Dong (Que) (2012) No. 14-01, of Jingcheng Holding Machinery Electric Holding Co., Ltd.

III. Object and scope of appraisal

(i) Object and scope of appraisal

The object and scope of appraisal was and covered the entire outgoing assets and liabilities of Beiren Printing Machinery Holdings Limited, the carrying amount of which upon and it is as follows:

Total assets amount to RMB1,320,054,998.81, including:

Current assets	:	Carrying amount	RMB650,896,947.35
Non-current assets	:	Carrying amount	RMB669,158,051.46
Long-term investments	:	Carrying amount	RMB165,378,479.39
Investment properties	:	Carrying amount	RMB6,692,036.48
Fixed assets	:	Carrying amount	RMB400,058,396.48
Construction in progress	:	Carrying amount	RMB3,530,410.24
Intangible assets	:	Carrying amount	RMB84,131,408.87
Long-term prepayments	:	Carrying amount	RMB9,367,320.00

Total liabilities amount to RMB509,583,371.58, including:

Current liabilities	:	Carrying amount	RMB482,881,665.52
Non-current liabilities	:	Current amount	RMB26,701,706.06

The above data was audited by Shinewing Certified Public Accountants and an unqualified-opinion audit report (No. XYZH/2001A4080) was issued.

Furthermore, the scope of appraisal also includes the intangible assets with no book entry.

Beiren Printing Machinery Holdings Limited reported for appraisal 21 technical patents and 2 patented technologies, namely “N525 Double-sheet Double-color Printing Press Technology” and “N530 Double-sheet Single-color Double-side Planographic Printing Press Technology”, but the scope of appraisal mentioned above did not included such 21 patents and 2 patented technologies.

The objects and scopes of this appraisal are consistent with those confirmed in the entrustment.

IV. Type of value and its definition

The type of value for the object of appraisal is defined as market value based on the business activity and purpose of this appraisal, Its definition is as follows: under the situation that the buyer and the vendor are acting voluntarily, reasonably and without any coercion, the estimated amount is the value of fair and normal transaction carried out by the object of appraisal on the benchmark date of appraisal.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

V. Benchmark date of appraisal

The benchmark date of appraisal of this project is 31 March 2012.

The benchmark date of appraisal was selected by the entrusting party taking account into factors including the end of the reporting period and facilitation for such business activity etc.

VI. References of appraisal

(i) Business activity basis

1. “The Board Resolution of Beiren Printing Machinery Holdings Limited” (No. 5 – 2012) passed on 5 July 2012, at the sixth board meeting of the seventh session of the Board of Beiren Printing Machinery Holdings Limited.
2. “The Board Resolution”, Jing Ji Dong (Que) (2012) No. 14-01, of Jingcheng Holding Machinery Electric Holding Co., Ltd.

(ii) Laws and regulations basis

1. “Company Law of People’s Republic of China” (amended on the 18th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China 27 October 2005);
2. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises”(Order of the President No.5 in 2008);
3. “The Law of Land Administration of the People’s Republic of China”(amended on the 11th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China 28 August 2004);
4. “Law of the People’s Republic of China on Urban Real Estate Administration” (Order of the President of the People’s Republic of China No.72 as amended on the 29th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China 30 August 2007);
5. “Rules of Administration on Appraisal of State-Owned Assets” (Order 91, issued by the State Council in 1991);
6. “Patent Law of the People’s Republic of China” (Order of the President of the People’s Republic of China No.8 as published on the 6th Meeting of the Standing Committee of the 11th National People’s Congress of the People’s Republic of China 27 December 2008);
7. “Detailed Implementation Rules of Administration on Appraisal of State-Owned Assets” (Guo Zi Ban Fa [1992] No.36);
8. “Provisional Rules on Supervision and Administration of Enterprises’ State-Owned Assets” (Order 378, issued by the State Council in 2003);
9. “Provisional Rules of Administration on Transferring Enterprises’ State-Owned Properties” (Order 3 issued by the State-Owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance in 2003);

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

10. “Provisional Rules of Administration on Appraisal of Enterprises’ State-Owned Assets” (Order 12 issued by the State-Owned Assets Supervision and Administration Commission of the State Council in 2005);
11. “Notice on Issues in relation to Strengthening Administration on Appraisal of Enterprises’ State-Owned Assets” (Guo Zi Wei Chanquan [2006] No.274 issued by the State-Owned Assets Supervision and Administration Commission of the State Council);
12. Other laws, regulations and rules relevant to the appraisal.

(iii) Basis of appraisal standards

1. “Assets Appraisal Standards-Basic Standards” (Cai Qi [2004]20) No. 20 issued by the Ministry of Finance);
2. “Assets Appraisal Professional Ethics Standards-Basic Standards” (Cai Qi [2004]No.20) issued by the Ministry of Finance);
3. “Assets Appraisal Standards-Appraisal Reports” (Zhong Ping Xie [2007] No.189));
4. “Assets Appraisal Standards-Appraisal Formulae” (Zhong Ping Xie [2007] No.189));
5. “Assets Appraisal Standards-Machineries and Equipment” (Zhong Ping Xie [2007] No.189));
6. “Assets Appraisal Standards-Real Estates” (Zhong Ping Xie [2007] No.189));
7. “Assets Appraisal Standards – Intangible Assets” (Zhong Ping Xie [2008] No.217));
8. “Assets Appraisal Standards – Corporate Valuation” (Zhong Ping Xie [2011] No. 227);
9. “Guide on Enterprise State-Owned Assets Appraisal Report” (Zhong Ping Xie [2008] No.218);
10. “Guiding Opinion on the Appraisal of Investment Properties (Pilot)” (Zhong Ping Xie [2009] No. 211);
11. “Guidelines for Certified Public Appraisers Concerning Legal Ownership of Appraisal Object” (Zhong Zhu Xie Hui Xie [2003] No. 18);
12. “Guidelines on Type of Values in Assets Appraisal” (Zhong Ping Xie [2007] No.189);
13. “Accounting Standards for Enterprises – Basic Standards” (order 33 issued by the Ministry of Finance);
14. 38 specific standards listed in “Accounting Standards for Enterprises No.1 – Inventories” (Cai Hui [2006] No.3 issued by the Ministry of Finance);

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15. “Accounting Standards for Enterprises – Guidelines on Application” (Cai Hui [2006] No.18 issued by the Ministry of Finance);
16. “Standards on Valuation of Estate” (GB/T50291-1999);
17. “Regulations for Valuation on Urban Land” (GB/T18508-2001);
18. “Regulations for Classification on Urban Land” (GB/T18507-2001).

(iv) Asset title basis

1. House Ownership Certificate;
2. Utilisation Permit of State-owned Land;
3. Vehicle Travel Licenses;
4. Contracts or receipts of purchase of major assets;
5. Other documentary proof of property ownership.

(v) Price determination basis

1. Notice of “Requirements of Financial Management of Infrastructure” (Cai Jian [2002] No. 394 issued by the Ministry of Finance);
2. “Rules on Administration of Engineering Investigation and Design Charges” (Ji Jia Ge [2002] No. 10 issued by the former State Planning Commission and the Ministry of Housing and Urban-Rural Development);
3. “Supplementary Notice in relation to the Rules on Administration of Engineering Investigation and Design Charges” (Ji Ban Jia Ge [2002] No. 1153) issued by the Administration Department of the former State Planning Commission and the Administration Department of the Ministry of Housing and Urban-Rural Development;
4. “Rules on Construction Supervision and Related Services Charges” (Fa Gai Jia Ge [2007] No. 670 issued by the National Development and Reform Commission and Ministry of Construction);
5. “Provisional Regulations of the People’s Republic of China on Vehicle Acquisition Tax” (Order No.294 of the Central People’s Government of the People’s Republic of China on 22 October 2000);
6. “The Standard of Vehicles Scrappage” (published by the original State Economic and Trade Commission [1997] No.456);
7. “The Notice of Regulating the Vehicles Scrappages Standard” (published by the original State Economic and Trade Commission [2000] No.1202);
8. “2009 PRC Import and Export Tax Rules” (The Tariff Commission of the State Council)
9. “List of lending rates of the People’s Bank of China”;

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10. Forex rates by State Administration of Foreign Exchange on 31 March 2012;
11. “Quota of Construction Budget of Beijing (2001)”;
12. “Quota of Construction Fee of Beijing (2001)”;
13. “Beijing construction costs information” (3rd issue in 2012);
14. “Standard for the Pricing of Work Volume List of Construction Projects” (2003);
15. Requirements in relation to the adjustment to the cost calculation method of “Quota of Construction Budget of Beijing (2001)” (Jing Zao Ding [2009] No. 6);
16. “Standardised National Quota of Construction and Installation Duration” (issued by Ministry of Construction, Jian Biao [2000] No.38);
17. “Handbook of Mechanical and Electrical Products Pricing” (issued by Mechanical Industry Research Institution in 2012);
18. “Price Information for Imported and Foreign Mechanical and Electrical Products in China” (issued by Mechanical Industry Research Institution in 2012);
19. “(2006-2007) Assets Appraisal Data & Parameters Handbook” (issued by Economic Science Press);
20. Construction budget and accounts and other relevant information provided by the title holder;
21. List of assets and other relevant information provided by the title holder;
22. Financial, accounting and operational information provided by the title holder;
23. Market information, industrial economic and macro-economic information provided by the appraised entity;
24. Information obtained via on-site survey and investigation by the appraisal personnel;
25. Wind Capital Information Terminal;
26. Relevant technical information for construction and geological exploration information;
27. Other reference materials.

VII. Appraisal Methodology

According to “Assets Appraisal Standards – Corporate Valuation”, appraisal approaches mainly include replacement cost approach, income approach and market approach. Replacement cost approach was used herein with reference to relevant conditions including the purpose of appraisal, object of appraisal, type of value and availability of information .

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Replacement cost approach refers to the concept of determining value of title holder basing on rational appraisal of all assets and liability within or out of the balance sheet of the appraised enterprise on the benchmark date of appraisal.

Basic Formulae of replacement cost approach:

Appraisal value = sum of the appraisal value of each asset – sum of the appraisal value of each liability

The title holder hereof assumes continued operation and continued use of an asset. The selection of economic technical parameters involved in the assets under valuation during the course of appraisal is based on sufficient data. Thus replacement cost approach is a feasible way for appraisal.

Income approach refers to the approach of valuating the appraised object by capitalising or realising the expected income.

The typical and specified approaches of income approach include discounted dividend approach and discounted cash flow approach.

The appraised object in this report covers its entire assets and liabilities. As the title holder has recorded loss for the recent years, the operation condition of the entity has been deteriorating, alongside with gradually declined operation result and challenging production situation. There has been considerable uncertainty for its future operation and it is not likely to reverse or alter existing challenging operation condition even in a longer period in future. It is highly possible that the entity would continue to record loss in future. Thus, there is no prerequisite for income approach and income approach is not suitable in this case.

Market approach means to compare the appraised entity with comparable cases to evaluate the value of the appraised object.

As the title holder is a listed company and the appraised object covers its entire assets and liabilities. It would be difficult to obtain the comparable cases of the similar listed assets and liabilities. Thus market approach was not used in this appraisal.

(i) Replacement cost approach

1. Current assets

Current assets include currency fund, bill receivable, accounts receivable, advance payment, interests receivable, dividends receivable, other receivables, inventories and other current assets.

- (1) Currency fund: include cash, bank deposits and other currency fund. The appraisal personnel adopted the approach of inspection stocking to conduct on-site stocktaking for cash. They performed a reasonable deduction calculation based on the cash daily log. After the deduction calculation, they appraised the cash balance of the benchmark date of appraisal, which was verified against the cash log. The verified book value was used as an appraisal value. On bank saving accounts, after verifying internals records, completing bank statement reconciliation, and checking the status of the company's correspondence with the bank, a trial balance on the bank saving amount was conducted. After verifying that there was no error, the verified book value was used as an appraisal value. For other currency

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fund, after completing bank statement reconciliation, and checking the status of the company's correspondence with the bank, the verified book balance was used to confirm the appraisal value.

- (2) Bill receivable: the appraisal personnel first verified the accounts, breakdowns of accounts, accounting statements and appraisal on the breakdowns of accounts, and then applied inspection stocking of the bills to verify the relevant content in the bill receivable record. Then, the staff investigated the future acceptance and endorsement transfer of the bills to confirm the truthfulness of the business activities involved in the bills and the accuracy of the amount. Due to the short time and high realization ability of bill receivable and the credit of the note drawing entity, the verified book value was taken as the appraisal value.
- (3) Accounts receivable: include accounts receivable and other receivables. The appraisal personnel provide confirmation on large amounts and have conducted a specific analysis of the amount of receivables, time overdue and reasons for default, recovery status, debtors' availability of funds, credibility and management situation on the basis of business content and aging analysis by reviewing books and statements. Upon such specific analysis, possibilities of recovering each of the accounts receivables were determined. By individual identification approach and aging analysis approach, an integrated analysis of the recoverable amount was obtained to evaluate the appraisal value of the accounts receivable. According to the relevant appraisal, the provision for bad debt of the accounts receivable was zero.
- (4) Interests receivable: the appraisal personnel verified the book records, checked relevant information such as original evidence and loan contract, verified the principal amount, date of loan, interest-paying period and interest rate. After verifying that there was no error in interest amount, the verified book value was taken as the appraisal value.
- (5) Dividends receivable: the appraisal personnel verified the book records, checked relevant information such as the investment agreement and Board resolution, verified the truthfulness, business content and amount of the transaction items, and the consistency among the amount stated on accounts, statements and invoices. The verified book value was taken as the appraisal value.
- (6) Advance payment: the appraisal personnel verified the book records, checked relevant information such as the original voucher and business contracts, verified the truthfulness, aging business content and amount of the transaction items. For the prepayments with short account age and being able to be realised within short period of term, the verified book value was taken as the appraisal value.
- (7) Inventories

Inventories include raw materials, working materials, finished products (commodity stocks) and work-in-progress.

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For appraisal of inventories, the appraisal personnel first verified the progress of inventory control to understand the system for the in and out of the inventories and the management and accounting system, and verified the financial records, statistics statements and on-site inspection. They also undertake sampling inspection on the receive and dispatch and carry-over of inventories and the maintained invoices and records, as well as reviewed the relevant book records and original vouchers, in order to confirm the truthfulness and title status of the inventories.

Then, the appraisal personnel inspected the pricing and audit approach of the inventories. Value of the inventories is calculated based on the actual costs.

The appraisal of each inventory items is made based on the following approach:

1) Raw materials

There are certain raw materials purchased for a long time and remaining unused. For the raw materials purchased for a long time and remaining useful, the appraisal personnel determined the appraisal value based on prevailing market price. For those purchased for a long time and cannot be used, the appraisal personnel determined the appraisal value based on the realised price. For those purchased recently and widely used, the unit price of book value is close to the market price of benchmark date, the assessed value is confirmed by actual quantity multiplying the book unit price. The appraised provision for price decline was Zero.

2) Working materials

If the carrying amount of working materials with short turnover period, which are frequently stocked and used and purchased near the benchmark date of appraisal with good condition, basically reflects the market price on the benchmark date of appraisal, the appraisal personnel determined the appraisal value as the purchasing cost after verifying internal records and completing bank statement reconciliation. The appraised provision for price decline was Zero.

3) Work-in-progress

Work-in-progress means the products under production progress. According to the reported product breakdowns for appraisal provided by the title holder, the appraisal personnel undergo screening of the original invoices, vouchers, and account breakdowns, sampling inspection on their production and dispatching business, and investigation on the composition of the value of the work-in-progress. Upon verification, it was concluded that the carry-over of cost of the work-in-progress normally produced for sale was timely and complete. Its amount was accurate and production cycle was short. For the work-in-progress with low completion rate, if the book value of the product basically reflects its market value, it is taken as appraisal value.

4) Finished products

Finish products are products of all specifications and types produced for sale by the title holder. For confirming the appraisal value of products for normal sales, selling prices net of tax was deducted by the sales expenses, all taxes and appropriate amount of net profit after tax. Sales tax and expenses include sales expenses and the relevant tax liabilities. Sales expenses was calculated based on the average sales expense rates in recent years. The relevant tax liabilities was calculated taking into account the actual tax liabilities situation of the company, which includes sales tax and surcharges and income tax. The appropriate net profit after tax was confirmed by 50% of the profit after tax. For slowing-moving items, appropriate profit after tax is determined based on 80% profit after tax. The appraised provision for price decline was zero.

- (8) Other current assets: Other current assets represent entrusted loan. For other current assets, the general account, general ledger account, accounting statement and breakdown of inspection and appraisal were firstly verified, then the accounting evidence and the amounts stated was verified. Finally, the verified book amount was taken as appraisal value.

2. *Non-current assets*

Non-current assets include long-term investments, investment properties, fixed assets, construction in progress, intangible assets and long-term prepayments etc.

(1) Long-term equity investments

1) Long-term equity investment in controlled subsidiaries

The appraisal personnel have carried out overall assessment of wholly-owned and controlled subsidiaries of the entity. The valuation principles have complied with, the valuation approaches adopted, and the valuation procedures in which their assets and liabilities are assessed, are the same as the parent companies for the subsidiaries (i.e. the same standards and scale).

Appraisal value of the long-term equity investments in controlled subsidiaries = Appraisal value of the total equity of the investee X the proportion of investment.

If the appraisal value of the total equity of the investee is negative, the appraisal value of such long-term investment is zero.

2) Long-term investment in non-controlled subsidiaries

The appraisal personnel have carried out overall assessment of associated companies with prerequisite for overall assessment. The valuation principles have complied with, the valuation approaches adopted, and the valuation procedures in which their assets and liabilities are assessed, are the same as the parent companies for the associated companies (i.e. the same standards and scale).

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Appraisal value of the long-term equity investments = Appraisal value of the total equity of the investee X the proportion of investment.

For the associated companies with prerequisite for overall assessment, after verifying the trueness of capital verification report, capital contribution certificate, investment contract and articles of association, business license, original invoices and other relevant documents by the appraisal personnel, the appraisal value was determined as the book value of the net assets of the investee on the accounting statement as of the benchmark date of appraisal multiplying the proportion of investment.

(2) Investment properties

As investment properties appraised by the enterprise are not rented and their book values do not include the occupation of land value and there is only a few transaction cases of similar properties in the market, the properties shall be assessed and estimated by using the replacement cost method on the principle of estimating housing buildings and land respectively.

The replacement cost method refers to the method of determining the value of house property by multiplying the investment, which is necessary for replacing the same housing property based on the market conditions prevailing at the valuation time and the structural characteristics of the assessed housing property, (briefly referred to as replacement price), by the integrated depreciation rate of the housing property, which is made out through comprehensive valuation.

Appraised value = Full replacement price × Integrated depreciation rate

Full replacement cost = Construction and installation costs + Upfront fee and other fees + Financing costs

Integrated depreciation rate = Theoretical depreciation rate × Weight factor + Survey depreciation rate × Weight factor

A. Determination of the full replacement price

a. Estimation of the construction and installation costs

According to the detailed conditions of the assessed housing buildings, the valuer has collected construction completion information such as the budget/settlement statements, construction drawings etc., selectively checked and verified the engineering amount, calculated out quota direct cost and calculated out construction and installation cost according to Beijing Engineering Cost Quota.

b. Upfront fee and Other Fees

The fees are determined in accordance with the regulations of local government and the industrial standards.

c. Financing Cost

Based on the enterprise's construction scale and original materials, and project construction period determined in line with the national duration quota, it shall be calculated subject to the capital construction loan rate on the benchmark date of evaluation under the condition of uniform capital investment of funds within regular construction period.

Financing Cost = (construction and installation costs + upfront fee and other fees) construction period $\times$ interest rate $\times$ 1/2

Full replacement cost = construction and installation costs + upfront fee and other fees + financing cost

B. Determination of the integrated depreciation rate

The method of combining the theoretical depreciation rate with the survey depreciation rate shall be adopted to determine the integrated depreciation rate of the housing buildings.

a. Calculation of the theoretical depreciation rate

Theoretical depreciation rate = (Economic useful life – used life)/Economic useful life $\times$ 100%

Or

Theoretical depreciation rate = Residual useful life/(used life + Residual useful life) $\times$ 100%

b. Measurement of the survey depreciation rate

Firstly, the valuer puts the main factors affecting the depreciation rate of the housing buildings into such groups as structure (foundation, wall, load bearing, roof covering), decoration (flooring, internal and external decoration, doors and windows, ceiling), facilities (water equipment, toilet, heater, electric illuminator), making reference to the provisions in Depreciation & Damage Level Valuation Standards for Houses issued by the Ministry of Construction, and combines the actual conditions of on-site survey to determine the depreciation valuation value of each group. Then, weight factor is used to determine the survey depreciation rate.

Survey depreciation rate = Structural group value $\times$ Weight factor + Decoration group value $\times$ Weight factor + Installation group Value $\times$ Weight factor

c. Integrated depreciation rate

The weight factor for the theoretical depreciation rate is 0.4, the weight factor for the survey depreciation rate is 0.6.

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$$\text{Integrated depreciation rate} = \text{Theoretical depreciation rate} \times 0.4 \\ + \text{Survey depreciation rate} \times 0.6$$

C. Calculation of the appraised value

$$\text{Appraised value} = \text{Full replacement price} \times \text{Integrated depreciation rate}$$

(3) Appraisal of fixed assets

1) Estate assets

Estate assets were appraised using replacement cost approach and market approach.

① Replacement cost method

For the housing buildings cases with no profit and transaction, they shall be assessed and estimated by using the replacement cost method on the principle of estimating housing buildings and land respectively.

The replacement cost method refers to the method of determining the value of house property by multiplying the investment, which is necessary for replacing the same housing property based on the market conditions prevailing at the valuation time and the structural characteristics of the assessed housing property, (briefly referred to as replacement price), by the integrated depreciation rate of the housing property, which is made out through comprehensive valuation.

$$\text{Appraisal value} = \text{replacement price} \times \text{integrated depreciation rate}$$

$$\text{Replacement price} = \text{construction and installation cost} + \text{preliminary expense and other charges} + \text{capital cost}$$

$$\text{Integrated depreciation rate} = \text{theoretical depreciation rate} \times \text{weight} + \text{surveyed depreciation rate} \times \text{weight}$$

A. Determination of replacement price

a. Estimation of construction and installation cost

According to the actual condition of the assessed housing construction, the appraisal personnel systematically classified the construction under appraisal based on the type of structures, functionality and geographical distribution, to group structurally equal or similar buildings. From different structures, typical construction works would be selected. The appraisal institution then collected the completion information such as the financial account budget/settlement and completion drawings and verified the construction amount. The

appraisal personnel calculated out quota direct cost by applying the “Quota of Construction Fee of Beijing”. The construction and installation cost of other housing with the same kind of structures was calculated with differential adjustment approach for typical construction works. Factors affecting construction installation cost of housing mainly include the number of floors, height of each floor, appearance, floor plan layout, width, open area, construction materials, renovation standards, equipment and facilities and level of difficulty during construction. The appraisal object and typical construction works were compared so as to obtain an integrated adjustment figure. The construction and installation cost of the appraisal object equaled to the construction and installation cost of typical construction works multiplied by integrated adjustment coefficient.

For estimation of the replacement unit price of small buildings, calculation was done by the difference adjustment on the price of similar structured buildings in the area on the benchmark date of appraisal.

b. Preliminary expense and other charges

It is charged according to the local government requirement and industry standards.

c. Capital cost

According to the company’s scale of construction and original information, the terms of construction of the project was determined by the national construction term quota. Assuming a normal construction term and all construction capital would be injected evenly during the construction period, the capital cost was calculated based on the loan interest rate on the benchmark date of appraisal.

Capital cost = (construction and installation cost + preliminary expense + other charges) × construction period × interest rate × 1/2

Replacement price = Construction and installation cost + preliminary expense and other charges + capital cost

B. Setting the integrated depreciation rate

The approach of combining theoretical depreciation rate and surveyed depreciation rate was used to set the integrated depreciation rate of the construction.

a. Calculation of the theoretical depreciation rate

Theoretical depreciation rate = (Economic useful life – used life) / Economic useful life × 100%

Or:

Theoretical depreciation rate = residual useful life / (used life + residual useful life) × 100%

b. Determination of the surveyed depreciation rate

Firstly, the main factors affecting the surveyed depreciation rate was classified according to structures (basic, walls, load, façades), decoration (floor, interior and exterior, doors and windows, ceilings), equipment and facilities (water and hygiene, air conditioning, power and lightings). With reference to the requirements under “Appraisal standard for the damage condition of houses” issued by the Ministry of Construction, combined with the items confirmed during on-site surveying, the sound value was appraised, and by which the surveyed depreciation rate was arrived based on its weight.

Surveyed depreciation rate = scores for structural parts × weight + scores for decoration parts × weight + scores for installation parts × weight

c. Integrated depreciation rate

Integrated depreciation rate was calculated taking a weight value of 40% from theoretical depreciation rate, and a weight value of 60% from surveyed depreciation rate.

Integrated depreciation rate = theoretical depreciation rate × 0.4 + surveyed depreciation rate × 0.6

C. Determination of appraisal value

Appraisal value = Replacement price × Integrated depreciation rate

② Market comparison approach

The book values of the commodity housing obtained by procurement within the scope of appraisal include the value of their land use rights. With transaction cases of the same type of housing in the same district, this appraisal would adopt a principle combining the housing and land to obtain the appraisal value of the real estate (including the land value).

Market comparison approach means an approach to obtain the appraisal value of real estates by comparing the appraised real estate with similar real estates within the same demand circle which has been transacted near the benchmark date of appraisal. By adjustments on various factors on the prices of these transacted real estates, the price of the appraised real estate could be arrived.

By market comparison approach, the formula for calculating the appraisal value of the real estates is:

Appraisal value of the appraised real estate to be appraised = transaction prices of the real estates with transaction cases × modification factor of the transaction × modification factor of the transaction date × modification factor of the region × modification factor of individual factors

2) Equipment assets

Machineries and equipment within the scope of this appraisal were mainly appraised using cost approach for the purpose of this appraisal, according to the principle of continuous use, taking market price as a reference, while considering equipment characteristics and the details of the data collected. For those with longer duration of use for which no market price of the same type of new equipment with active secondary market could be obtained (e.g. general electronic office equipment) was appraised by market approach.

For equipment to be scrapped, their appraisal value was determined at their realised value.

① Replacement cost approach

Appraisal value = replacement price × integrated depreciation rate

A. Determination of total replacement cost

a. Machinery equipment

For Chinese made equipment, the reference of the replacement price was mainly the current marketing price of same-model or same-type equipment in the China market. It was determined after considering other factors such as necessary transportation and miscellaneous fees, installation and adjustment fee, basic and other charges and capital cost.

For imported equipment, the replacement price were mainly based on the CIF price or FOB of the recent equipment of the same type with reference to the foreign transportation insurance premium, foreign trading administration fee, commodity inspection fee, customs

duty, value added tax, domestic transportation and miscellaneous fee, equipment installation and adjustment fee, basic charge, other charges and capital cost.

Replacement price = equipment procurement fee net of tax + transportation and miscellaneous fee + installation and adjustment fee + basic charge + other charges + capital cost – value added tax of transportation fee

a) Procurement price

This was determined mainly by inquiring pricing from manufacturing factories, trading market and trading companies or pricing information with reference from “2012 Handbook of Mechanical and Electrical Products Pricing”, while also taking reference from recent contract price of same-type equipment.

b) Transportation and miscellaneous fees

Taking the procurement price (tax inclusive) as a basis, factors such as the distance between the location of the production plant and the equipment and the weight, shape and size of the equipment were used as a reference to make calculations based on different transportation and miscellaneous fees.

c) Installation and adjustment fee

According to the characteristics, weight, ease of installation, the procurement price (tax inclusive) of the equipment was used as a calculation basis to make calculations based on different installation rates.

Small equipment without the need of installation were not considered to have installation and adjustment fees.

d) Basic charge

Based on the characteristics of the equipment, with reference to “The Arrangement Method and Various Standards for Budget Estimation of Machinery Industry Construction Projects”, the procurement price (tax inclusive) was used as a basis. Basic charge was calculated based on different basic rates.

e) Other charges

Other charges include management fee, feasibility research report and appraisal fee, designation fee, construction supervision fee etc, which was calculated based on the standard of other charges of the construction work at such location of the equipment combined with the characteristics of the equipment. It was calculated based on the sum of the procurement price (tax inclusive), transportation and miscellaneous fees, basic charges and installation and adjustment fee.

f) Capital cost

According to the reasonable construction period of the project, and based on the applicable loan interest rate on the benchmark date of appraisal, capital cost was calculated based on even injection.

Capital cost = (procurement price (tax inclusive) + transportation and miscellaneous fees + installation and adjustment fees + basic charge + other charges) $\times$ loan interest rate $\times$ construction period $\times$ 1/2

g) Transportation value-added cost

According to the Provisional Regulations of VAT, 7% transportation cost will be deducted from the import tax.

b. Electronic equipment

For electronic equipment with the same type of products available for sales in the market and procured in the same town, the transportation and called-on installation and adjustment services are included during purchasing. Generally no other charges are included on top of the procurement price.

Replacement price = procurement price

c. Vehicles

Replacement price of vehicles consists of 3 parts: the procurement price, vehicle purchase tax, and other charges (e.g. vehicle inspection fees, license fees, administration fees etc.).

B. Determination of the integrated depreciation rate

a. Machinery equipment

Integrated depreciation rate = Surveyed depreciation rate $\times$ weight + theoretical depreciation rate $\times$ weight

a) Surveyed depreciation rate

Determination of surveyed depreciation rate was mainly focused on the actual situation of the equipment of the company, based on the technical status, working environment, maintenance condition of the equipment while taking reference to the scores of individual parts of the equipment during on-site surveying.

b) Theoretical depreciation rate

Theoretical depreciation rate was determined by the economic useful life over used life.

Theoretical depreciation rate = (economic useful life – used life) / economic useful life $\times$ 100%

Or:

Theoretical depreciation rate = residual life / (used life – residual life) $\times$ 100%

c) Weight

For structurally complicated and large equipment, the depreciation rate was determined with useful life approach and surveyed depreciation rate, taking a weight value of 40% from useful life approach, and a weight value of 60% from surveyed depreciation rate approach.

For light, simple equipment with normal use, the depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

b. Electronic equipment

The depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

c. Vehicles

Pursuant to the current standard for mandatory vehicles scrappage, the theoretical depreciation rate was determined by both the mileage driven by the vehicle and the residual life. Then, the integrated rate was determined by combining the above with the surveyed depreciation rate obtained by on-site surveying.

C. Determination of appraisal value

Appraisal value = Replacement price × integrated depreciation rate

② Market Approach

A. Vehicles

A vehicle transaction case with more correlation and replacement which fell into the same scope of demand and supply in recent secondary market for vehicles was selected. By comparing the object under appraisal and this comparable case, with comparative analysis and modification on factors affecting the price of vehicles in secondary markets such as residual rate, remaining mileage available and transaction date, the market price of the object under appraisal was estimated by the following formulae:

Market comparison approach value = price of comparable case × modification factor of the mileage driven × modification factor of residual useful life × modification factor of the vehicle condition × modification factor of the transaction date of the vehicle × modification factor of the transaction condition of the vehicle

Market comparison approach value = (case A + case B + case C) / 3

Appraisal value of vehicles by market approach = market comparison approach value

B. Electronic office equipment

By selecting not less than 3 market transaction cases of the same or similar type, at the same transaction time or similar market with the equipment to be appraised, the average value was taken as the appraisal result for the equipment.

(4) Construction in progress

Construction in progress was appraised by replacement cost approach. For construction in progress with normal procedures, shorter construction duration and less changes in price of construction materials, the company paid construction fee according to the progress and contract requirements. Based on

the investigation and verification of the progress of construction image, subject to a reasonable construction budget confirmed, the appraisal value was taken as the verified book value. For those with more than RMB500,000 sum of paid amount and construction duration of over half year, the appraisal value was determined upon considering the appropriate capital cost.

(5) Intangible assets

Intangible assets include land use rights and other intangible assets.

1) Land use rights

Upon integrated analysis and comparison of the information provided by the title holder and the relevant information obtained by the surveying and investigation of the appraisal personnel, the land use rights were appraised by the benchmark land value modification factor approach and finally determines the appraisal value by the weightiness of the two approaches.

① Benchmark land value modification factor approach

The benchmark land value modification factor approach is an appraisal based on the benchmark value of urban land and the table of modification factors for benchmark land value according to the principle of substitution. The influence on the land value by the regional factors and individual factors of land pieces is determined by comparing the standard condition of such regional factors and individual factors stated in the table of modification factors for benchmark land value. Then, modification was done after obtaining the modification factors affecting the land value. Finally, modification for the date and residual useful life is made respectively according to the benchmark date of appraisal for benchmark land value and useful life, in order to determine the value of the land on the benchmark date of appraisal.

$$\text{Value of the land piece} = \text{Applicable benchmark land value} \times K_1 \times K_2 \times K_3 \times K_4 \times (1 + \sum K)$$

where: K_1 – date modification factor

K_2 – duration modification factor

K_3 – progress of development modification factor

K_4 – floor area ratio modification factor

$\sum K$ – sum of various modification factor affecting the land value

② Market approach

Market approach is an appraisal by comparing the appraised object with the similar land transaction near the time of appraisal and making appropriate correction to the transaction price of such similar land transaction, thus estimating the objective and reasonable price or value of the appraised object.

Price of benchmark land = Comparable transaction price X Transaction modification factor X Date modification factor of the transaction X District factor modification factor X Individual factor modification factor

Appraisal value = (Comparable transaction A + Comparable transaction B + Comparable C) / 3

2) Other intangible assets

Other intangible assets are patented technology and intangible assets categorized into know-how.

Intangible assets are appraised by current income value approach, which refers to appraisal by first estimating the expected future income arising from patented technology and intangible assets categorized into know-how, which is then discounted according to a certain discount rate to current value which is taken as the value of the appraised asset. Its formula is as follow:

$$P1 = \sum_{i=1}^n \frac{R_i}{(1+r)^i} \times C$$

Of which : P – Appraisal value of intangible assets

C – Income-sharing ratio of intangible assets

R_i – Sharing benchmark (operation income)

r – discount rate

n – term of income

(6) Long-term prepayment

The appraisal personnel verified the financial accounts and evidence as well as their existence and validity. As the accounts, statements and evidence are consistent, the appraisal value is determined with remaining assets and rights.

3. Liabilities

To verify the actual debtors and debt amount of various liabilities upon realization of the appraisal purpose, so as to use the liability items and amount that the title holder would have to actually undertake upon realization of the appraisal purpose in order to confirm the appraisal value.

VIII. Implementation process and details of appraisal procedures

China Faith Appraisers Co., Ltd. accepted the entrustment from Beiren Printing Machinery Holdings Ltd. has conducted an appraisal on the entire outgoing assets and relevant liabilities of the intended material asset reorganisation of Beiren Printing Machinery Holdings Limited. The benchmark date of appraisal was agreed to be 31 March 2012. China Faith Appraisers Co., Ltd. on 15 April 2012 drafted the appraisal plan and confirmed the appraisal proposal. The appraisal work started officially on 16 April 2012 and completed on-site on 14 May 2012. On 17 August 2012, an official report was released. Major appraisal work processes were as follows:

(I) Preparation stage before the appraisal

1. On 14 April 2012, the appraisal institution negotiated and agreed with the entrusting party and the title holder on basic issues including the appraisal purpose, scope of appraisal and benchmark date of the appraisal of this appraisal. A “Business Engagement Letter” was signed with the entrusting party, and a work plan was formulated;
2. The appraisal institution coordinated with the title holder to complete tasks such as conducting asset inventory inspection and filling in the “Asset Appraisal Details Form”. Appraisal team staff paid on-site visit to have an initial understanding on the entrusted assets and assisted the enterprise to conduct the asset report work for conducting asset appraisal, and to collect documents and information as required by the asset appraisal.

(II) On-site Verification and Appraisal Stage

1. To listen to the relevant staff from the entrusting party and title holder to give an introduction to the general enterprise status and the history and current of the appraised assets, to understand the financial system, business status, fixed asset technology and other information of the enterprise;
2. To verify the “Asset Appraisal Details Form” and relevant financial records and data as provided by the title holder, and to coordinate with the title holder to make adjustments when problems are found;
3. To conduct verification on intangible assets listed on the “Asset Appraisal Details Form” based on the requirements of the asset appraisal standard and appraisal system, and to conduct sampling inspection on inventory physical assets under current assets;
4. To review and collect property certification documents of the appraised assets;
5. To confirm the actual appraisal methods according to the actual situation and characteristics of the appraised assets;
6. To review and collect technical information and collection information of the relevant assets; to conduct market research, survey and collect relevant information and price information;
7. To make an initial appraisal and calculation of the assets and liabilities within the scope of appraisal.

(III) Appraisal Summary Stage

To compile an initial analysis and summary of various types of assets, to make necessary adjustments, amendments and improves on the appraisal results.

(IV) Preparation and Submission Stage of the Appraisal Report

To compile asset appraisal report, and to exchange opinions on the appraisal draft with the entrusting party. After make comprehensive consideration of relevant opinions, amendments and corrections were made to the appraisal report according to the internal three-tier audit system and procedures of the appraisal authority, and to provide the official asset appraisal report.

IX. APPRAISAL HYPOTHESIS

- (1) Hypothesis on transaction;
- (2) Hypothesis on open market;
- (3) Hypothesis on continuous use of assets;
- (4) Hypothesis on continuous operation of the enterprise;
- (5) The existing macro economy of the State would have no substantial changes;
- (6) The social economic environment where the company is in, and policies such as tax and tax rate would have no substantial changes;
- (7) The future management team of the company fulfill their duties and the company keep operating with the current management approach, so that the operation plans after the benchmark date could be implemented smoothly;
- (8) For the current management approach and standard, assume that the scope and approach of operation will be in line with the current direction;
- (9) This appraisal did not consider influence from the factor of inflation;
- (10) This appraisal did not consider the effect of premiums or discounts of controlling interests or non-controlling interests.

The appraisal personnel determined that these hypothesis were tenable on the benchmark date of appraisal pursuant to the requirement of asset appraisal. Should there be any material changes in the future economic environment or any changes in the pre-conditions, the appraisal personnel would not be liable for the difference in appraisal results arising from any changed pre-conditions.

X. APPRAISAL CONCLUSION

This appraisal adopted the replacement cost approach to conduct appraisal and calculations.

As at the benchmark date of appraisal, the book value of the total assets of Beiren Printing Machinery Holdings Limited amounted to RMB1,320.0549 million, with appraisal value as RMB1,694.453 million, appreciation value as RMB374.3981 million and appreciation rate as 28.36%. The book value of liabilities amounted to RMB509.5834 million, with appraisal value as

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

RMB509.5834 million, appreciation value as RMB0 and appreciation rate as 0.00%. The book value of owners' equity (net assets) amounted to RMB810.4715 million, with appraisal value as RMB1,184.8696 million, appreciation value as RMB374.3981 million and appreciation rate as 46.20%. For the details of appraisal conclusion, please refer to the appraisal schedule.

Summary of the assets appraisal results

Price unit: RMB'0,000

Item		Book Value	Appraisal value	Appreciation/Depreciation	Appreciation rate % D=C/A ×100%
		A	B	C=B-A	
1	Current assets	65,089.69	65,331.28	241.59	0.37
2	Non-current assets	66,915.80	104,114.02	37,198.22	55.59
3	Included: Financial assets available for sale	—	—	—	
4	Held-to-maturity investment	—	—	—	
5	Long-term receivables	—	—	—	
6	Long-term equity investment	16,537.85	19,715.02	3,177.17	19.21
7	Investment properties	669.20	913.07	243.87	36.44
8	Fixed assets	40,005.84	51,328.44	11,322.60	28.30
9	Construction in progress	353.04	353.04	—	—
10	Construction materials	—	—	—	
11	Disposal of fixed assets	—	—	—	
12	Productive biological assets	—	—	—	
13	Oil and gas assets	—	—	—	
14	Intangible assets	8,413.14	30,867.72	22,454.58	266.90
15	Development expenditures	—	—	—	
16	Goodwill	—	—	—	
17	Long-term deferred cost	936.73	936.73	—	—
18	Deferred income tax assets	—	—	—	
19	Other non-current assets	—	—	—	
20	Total assets	132,005.49	169,445.30	37,439.81	28.36
21	Current liabilities	48,288.17	48,288.17	—	—
22	Non-current liabilities	2,670.17	2,670.17	—	—
23	Total liabilities	50,958.34	50,958.34	—	—
24	Net assets (owners' equity)	81,047.15	118,486.96	37,439.81	46.20

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

XI. EXPLANATORY NOTES ON SPECIAL ISSUES

- I. As of the benchmark date of appraisal, Beiren Printing Machinery Limited has not obtained State-owned Land Use Rights Certificates for an industrial land located at No. 1 Nanhuan Road, Industrial Zone, Yinghai Village, Daxing District, Beijing, with a total site area of 61,420.40 square meters. Beiren Printing Machinery Limited entered into a Land Transfer Contract with the People's Government of Yinghai Town, Daxing District, Beijing on 6 April 2004, pursuant to which Beiren Printing Machinery Limited has made a guarantee in written that the land use rights belong to Beiren Printing Machinery Limited and there is no title dispute. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account.
- II. As of the benchmark date of appraisal, Beiren Printing Machinery Limited has not obtained Building Ownership Certificates for 10 buildings. Beiren Printing Machinery Limited has provided corresponding guarantee for such titles. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The floor area of those 10 properties in this appraisal is based on number reported by the entity after on-site surveying. The final determination of the gross floor area of and title to the buildings shall depend on the title certificates issued by the local real estate management authorities upon surveying and mapping. The details of the buildings without title certificates are as follows:

Name	Structure	Completion	Floor area (M ²)	Book Value (RMB)	
				Original value	Net asset value
Main factory building	Steel	2005/6/1	12,103.00	48,008,241.25	40,466,561.66
Office	Brick-concrete	2005/6/1	1,860.00	7,369,632.71	6,162,261.40
Mill	Steel	2005/6/1	2,506.00	5,900,000.00	4,912,745.35
Wood store room	Steel	2005/6/1	2,162.00	3,757,854.00	3,129,047.46
Leisure room	Brick-concrete	2005/6/1	594.00	764,736.46	636,772.12
Leisure room	Brick-concrete	2005/6/1	671.00	892,192.54	742,900.54
Canteen and bathroom	Brick-concrete	2005/6/1	757.80	2,732,996.95	2,285,248.43
Reception room	Brick-concrete	2005/6/1	45.00	282,302.80	239,488.65
Fire Protection Pump Station	Brick-concrete	2005/6/1	32.00	413,663.00	344,444.09
Garbage station	Brick-concrete	2005/6/1	52.25	120,000.00	99,920.07
Total			20,783.05	70,241,619.71	59,019,389.77

- (III) For the appraisal procedure without restriction, the appraiser has not conducted detection of technical parameters and performance of all kinds of equipment on the benchmark date of appraisal. The appraiser makes judgments through field survey with the assumption that the relevant technical data and operating records provided by the title holder is true and effective without the help of any testing instruments. The appraiser have not made any technical test to the underground construction work and the interior structure (which are not directly visible) of the buildings in this appraisal, and have only made judgments through on-site inspections without using any testing equipment on the assumption that the related work information provided by title holder are true and valid.

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

- IV. Long-term equity investment unit – Beijing Beiren Jinyan Printing Machinery Limited has not obtained Building Ownership Certificates for 13 buildings with floor area of 4,273.60 m². The title holder has provided accounting invoices and guarantee for the titles. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The floor area for such 13 buildings is based on the number reported by the entity after on-site surveying. The details of the buildings without title certificates are as follows:

Sequence Number	Name	Structure	Accounting Date	Measuring unit	Floor area	Book value (RMB)	
						Original value	Net asset value
1	Large-sized machine processing mill	Steel-concrete	1996/5/1	m ²	540.00	605,881.40	456,317.88
2	Painting workshop	Brick-concrete	1996/5/1	m ²	125.10	75,600.00	57,134.88
3	Simple broiler sheds	Brick-concrete	2003/11/1	m ²	120.00	35,000.00	1,050.00
4	West wing of staff quarter	Brick-concrete	2002/12/1	m ²	105.00	89,184.61	69,185.63
5	Shed for resistance furnace	Brick-concrete	2007/3/1	m ²	54.00	33,535.00	15,055.59
6	Simple garage	Brick-concrete	2007/3/1	m ²	52.40	30,852.00	14,028.31
7	Public bath	Brick-concrete	1978/6/1	m ²	80.20	54,000.00	33,443.43
8	Simple warehouse	Brick-concrete	2003/11/1	m ²	102.00	65,000.00	1,950.00
9	Simple store (steel materials)	Brick-concrete	2004/12/31	m ²	100.00	45,590.57	13,530.01
10	Standard product unit store (Caster laboratory)	Brick-concrete	1996/5/1	m ²	98.40	20,500.00	12,696.00
11	Jobbing shop	Brick-concrete	1985/6/1	m ²	168.00	47,960.00	36,245.76
12	United production plant	Steel-concrete	1995/6/1	m ²	2,160.00	2,446,842.57	1,888,261.63
13	New Canteen	Brick-concrete	1997/6/1	m ²	568.50	617,142.31	392,080.13
	Total				4,273.60	4,167,088.46	2,990,979.25

- V. Long-term equity investment unit – Beijing Beiren Jinyan Printing Machinery Limited has 38 buildings in total, 25 of which has been granted building title certificates. The title ownership certificate Jing Fang Quan Zheng Yan Guo Zi Di No. 00394 evidences that the titles of the buildings belong to Beijing Beiren Jinyan Printing Machinery Factory. Beijing Beiren Jinyan Printing Machinery Limited has made a guarantee in written that such titles belong to Beijing Beiren Jinyan Printing Machinery Limited and there is no title dispute. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account.

- VI. Long-term equity investment unit – Beijing Beiren Jinyan Printing Machinery Limited has 2 land parcels in total. Land Use Rights Certificates, Yan Qing Guo Yong (1997) Zi Di No. 047 and Yan Qing Guo Yong (2004 Hua) Zi Di No. 049 evidences the titles of the land parcels belong to Beijing Beiren Jinyan Printing Machinery Factory. Beijing Beiren Jinyan Printing Machinery Limited has made a guarantee in written that such titles belong to Beijing Beiren Jinyan Printing Machinery Limited and there is no title dispute. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account.

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VII. Long-term equity investment unit – A Samsung (三星) jeep, license plant number of which is D41560, of Beijing Beiren Fuji Printing Machinery Co., Ltd. cannot be registered in Beijing as it has served for long time and its emission cannot reach the EU III standard. Such car is only used within the factory of Beijing Beiren Fuji Printing Machinery Co., Ltd.. Beijing Beiren Fuji Printing Machinery Co., Ltd. has guaranteed that the car belongs to the company and there is no title dispute. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account.

VIII. Long-term equity investment unit -Shaanxi Beiren Printing Machinery Company Limited has not obtained Building Ownership Certificates for certain buildings. Shaanxi Beiren Printing Machinery Company Limited has made a guarantee in written that such titles belong to Beiren Printing Machinery Limited and there is no title dispute. The appraisal conclusion is made on the hypothesis that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The details of the buildings without title certificates are as follows:

Unit: RMB

Name	Structure	Completion	Measuring unit	Floor area (m ²)	Book value	
					Original value	Net asset value
Distribution room	Brick-concrete	1971-7-2	m ²	105.00	54,600.00	7,688.74
Coordinate laboratory	Steel-concrete	2009-12-30	m ²	70.00	48,000.00	45,381.00
Building used for production	Steel-concrete	2010-3-15	m ²	10.00	26,800.00	25,500.16
Facility management office	Brick-concrete	2007-12-31	m ²	776.83	551,640.00	481,409.11
Casting bungalow and janitor's room	Steel-concrete	2007-12-31	m ²	414.30	849,250.95	761,724.93
Office building for branch factory	Brick-concrete	2007-12-31	m ²	640.63	1,313,192.46	1,177,851.41
Quarter	Brick-concrete	2007-12-31	m ²	1,353.50	2,616,000.00	2,282,950.25
Canteen	Steel-concrete	2007-12-31	m ²	788.50	1,524,000.00	1,329,975.62
Security room	Brick-concrete	2007-12-31	m ²	242.70	252,320.14	221,390.30
Color printing factory	Brick-concrete	1984-1-1	m ²	672.00	344,064.00	211,035.34
Secondary school	Brick-concrete	1975-12-30	m ²	1,912.00	1,440,000.00	166,413.82
Leisure room for senior officer	Brick-concrete	2001-11-30	m ²	337.70	34,172.10	17,957.05
Wu Qi College	Brick-concrete	1971-12-26	m ²	2,461.40	457,018.99	112,622.77
Quarter for mother and children	Brick-concrete	1986-12-30	m ²	337.31	96,798.32	51,000.90
Classroom for preschool course	Brick-concrete	1978-12-30	m ²	240.00	21,843.81	7,544.85
Nursery	Brick-concrete	1971-12-15	m ²	756.43	186,435.33	34,640.15
Public bath house and salon	Brick-concrete	1973-12-31	m ²	341.00	146,009.34	20,553.15
Badminton stadium	Steel-concrete	2011-12-30	m ²	300.00	165,936.27	164,020.11
Total				11,759.30	10,128,081.71	7,119,659.66

APPENDIX VII VALUATION REPORTS OF THE OUTGOING ASSETS

- (IX) The appraiser has conducted due diligence survey and did not, from the benchmark date of appraisal to the date of appraisal report, find any major events that may have any influence on the appraisal conclusion. After the benchmark date of appraisal, within the validity period of the appraisal conclusion, if the asset quantity and appraisal standard have any changes, they should be handled according to the following principles:
1. When there is a change in asset quantity, the original appraisal method should be adopted to make corresponding adjustments to the asset amount;
 2. When there is a change in asset appraisal standards and has brought significant influence to the asset appraisal, the entrusting party should promptly deploy a qualified appraisal institution to reconfirm the appraised value;
 3. On changes to asset quantity and appraisal standards after the benchmark date of appraisal, the entrusting party should give full consideration when making an actual appraisal for the assets and should make adjustments accordingly.
- (X) In the appraisal of long-term equity investments, the certified asset appraiser understood the liquidity of asset may have significant influence on value of appraisal objects. Due to the lack of analysis base for asset liquidity, such as information on industry and property exchange of relevant assets, the appraisal does not consider the impact of lack of market mobility on value of appraised objects.
- (XI) In the appraisal of long-term equity investments, the certified asset appraiser understood value of part of shareholder equity does not always equal to total value of shareholder equity multiply percentage of equity. Due to lack of information on industry and exchange of relevant equity, the appraisal does not consider depreciation of appraised objects as non-controlling equity.
- (XII) In terms of defects which existed in the enterprise that are likely to affect value of assets, the appraiser institution and the appraisal personnel shall not assume relevant responsibilities if the enterprise did not provide any special explanations when performing entrusting and the said faulty matters could not be clarified after evaluators had gone through the appraisal procedures.
- (XIII) After the benchmark date of appraisal, the People's Bank of China has downward adjustments of the benchmark interest rate for RMB loans and deposits of financial institutions in 8 June 2012 and 6 July 2012 respectively. The factor such as change of interest rates is not included in the impact to the value of appraised object.

The appraiser would like to draw special attention from all report users to the above special issues.

XII. EXPLANATIONS ON THE LIMITATIONS OF THE APPRAISAL REPORT

- (1) This appraisal report should only be used for the appraisal purpose and use specified in this appraisal report, and it should not be used in any other purposes or use. Any consequences due to inappropriate use shall not be liable to the signed assets appraiser and the affiliated appraisal body;
- (2) This appraisal report should only be used by the appraisal report users specified in the Business Engagement Letter on Asset Appraisal signed between China Faith Appraisers Co, Ltd. and the entrusting party, as well as report users stipulated by national laws and regulations;
- (3) The appraisal report has not been verified or kept as a back-up copy. The appraisal conclusion should not be used;
- (4) Without consent from the appraisal body, no party should copy, quote or disclose all or part of the content of the appraisal report to the mass media;
- (5) From the benchmark date of appraisal, unless there is substantial change to market conditions or asset status, the validity of the appraisal conclusion in this appraisal report is one year from the benchmark date of appraisal, i.e. from the date of asset appraisal, 31 March 2012 to 30 March 2013;
- (6) When policy adjustments have a substantial influence on the appraisal conclusion, the benchmark date of appraisal should be reconfirmed to conduct appraisal.

XIII. DATE OF APPRAISAL REPORT

This appraisal report is dated 17 August 2012.

China Faith Appraisers Co., Ltd.

Legal representative: Chen Dongmei

Certified asset appraiser: Du Huijie Luo Junjun

17 August 2012

The following is the full text of the Valuation Report of Tianhai Industrial. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

Statements of certified asset appraiser

In the preparation of this report, the appraisal personnel have provided earnest verification and applied necessary formula for appraisal assumptions on all assets and liabilities included in the scope of appraisal. We hereby make the following statement with regard to this appraisal report:

1. During the appraisal hereof, the certified asset appraiser has complied with relevant laws and regulations and assets appraisal standards and adhered to the principles of independence, objectivity and impartiality in performing the assets appraisal services. According to the materials collected by us during the appraisal process, the contents of this assets appraisal report are objective and we will assume corresponding legal liabilities for the justification of the conclusion of appraisal.
2. The list of assets and liabilities related to the object of appraisal is declared and signed/sealed for confirmation by the entrusting party and appraised entity. The entrusting party and the relevant parties are responsible for the authenticity, legality and completeness of the materials provided by them as well as the proper use of this Report.
3. The certified asset appraiser has no existing or potential interest in the object of appraisal under this appraisal report, and we have no existing or potential interest in or bias against the entrusting party and relevant parties.
4. The certified asset appraiser and other appraisal personnels have conducted on-site inspection of the object of appraisal under this appraisal report and the related assets. We have paid due attention to the legal titles of the object of appraisal and the related assets, verified the materials related to such legal titles, made truthful disclosures of the problems we have discovered and requested the entrusting party and the relevant parties to improve the title issues to meet the requirements for purposes of this appraisal report. However, no guarantee in any form could be provided towards the truthfulness of the legal titles of the object of appraisal.
5. The analysis, judgments and conclusions made in this appraisal report are subject to the assumptions and restrictive conditions herein. Users of this appraisal report are required to take into full consideration the assumptions, restrictive conditions and explanatory notes on special issues specified herein as well as their impact on the conclusion of appraisal.
6. This appraisal report and its disclosed conclusion were subject to the purpose set out herein and usage within the valid period in the conclusion. The appraisal company and the certified asset appraiser would not be responsible for any consequences arising from the improper use of this appraisal report.

Summary of Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and
acquisition of interests in Beijing Tianhai Industry Co. Ltd.
China Faith Appraisal Report Ref (2012) No. 238A

Important

This content of this summary is extracted from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

China Faith Appraisers Co., Ltd. was appointed by Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited to make an appraisal on the entire shareholders' equity in Beijing Tianhai Industry Co. Ltd. involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited in accordance with the relevant national laws and regulations and the principles of independence, objectivity and impartiality.

The Object of appraisal was the entire shareholders' equity in Beijing Tianhai Industry Co. Ltd.. The scope would cover the entire assets and relevant liabilities of Beijing Tianhai Industry Co. Ltd., with appraisal made on market value used in appraisal on the benchmark date of appraisal on 31 March 2012.

The appraiser performed all necessary procedures for appraisal, to make appraisal by asset-based approach and income approach on the assumptions of the continued use of assets and an open market. Upon integrated analysis, the appraisal result arrived by asset-based approach was taken as the final conclusion.

On the benchmark date of appraisal, the appraisal result of Beijing Tianhai Industry Co. Ltd. was RMB659.5301 million.

Table of summary of the assets appraisal

Price unit: RMB'0,000

Items		Book value	Appraisal value	Difference in value	Difference in value D=C/A ×100 %
		A	B	C=B-A	
1	Current assets	75,123.46	75,582.39	458.93	0.61
2	Non-current assets	47,590.13	75,326.65	27,736.52	58.28
3	Including: Long-term receivables	—	—	—	
	Long-term equity investment	24,389.30	28,394.86	4,005.56	16.42
4	Fixed assets	22,095.18	32,289.85	10,194.67	46.14
5	Construction in progress	176.08	184.27	8.19	4.65
6	Construction materials	—	—	—	
7	Intangible assets	883.48	14,411.58	13,528.10	1,531.23
8	Development expenses	—	—	—	
9	Deferred income tax assets	46.09	46.09	—	—
10	Total assets	122,713.59	150,909.04	28,195.45	22.98
11	Current liabilities	84,686.03	84,686.03	—	—
12	Non-current liabilities	270.00	270.00	—	—
13	Total liabilities	84,956.03	84,956.03	—	—
14	Net assets (owners' equity)	37,757.56	65,953.01	28,195.45	74.67

Report users should note that defects during the appraisal process were explained as special issues in the appraisal report.

The effective period of the conclusion of this appraisal report is one calendar year, from the benchmark date of appraisal of 31 March 2012 till 30 March 2013.

The date of this report is 17 August 2012.

The above content is extracted from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

Full Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and
acquisition of interests in Beijing Tianhai Industry Co., Ltd.
China Faith Appraisal Report Ref (2012) No. 239A

To Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited,

China Faith Asset Appraisal Company Limited was appointed by the Company to make an appraisal on the market value of entire shareholders' equity in Beijing Tianhai Industry Co., Ltd. involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited on 31 March 2012 in accordance with the relevant national laws and regulations and principles and standards of assets appraisal by asset-based approach and income approach via necessary procedures for appraisal. We hereby report the appraisal as follows.

I. Entrusting party, appraised entity and other users of the appraisal report

The entrusting party of this project is Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited. The appraised entity is Beijing Tianhai Industry Co., Ltd.. The user of the report is the entrusting party, relevant parties in the business aspect, the state-owned assets supervision and administration authority and the securities regulatory authority.

(i) Summary of the entrusting party

Name of entity	:	Beijing Jingcheng Machinery Electric Holding Co. Ltd. (named hereafter Jingcheng EM)
Address	:	18/F, No.59, East Third Ring Middle Road, Chaoyang District, Beijing
Legal representative	:	Ren Yaguang
Registered capital	:	RMB1,634.5455 million
Nature of business	:	Limited liability company (wholly state-owned)
Scope of business	:	General operations: operation and management of the state-owned assets according to the given authority; investments and investment management; property development and sales of commodity housing; leasing of properties; property management; technology transference, training, consultancy and service; sales of machinery and electric (EM) equipment ex. Auto.
Licensed management	:	Service dispatching.

(ii) Summary of the entrusting party

Name of entity	:	Beiren Printing Machinery Holdings Limited (named hereafter Beiren Holdings)
Registered capital	:	RMB422.00 million
Legal representative	:	Zhang Peiwu

Registered address	:	No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing
Type of company	:	Stock limited company (listed, state controlled)
Scope of business	:	Authorised scope of operation: production of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; general logistics.
General scope of operation	:	Development, design and sales, maintenance and installation of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; technical consultancy, technical support, technical training for printing equipment and printing skills; management of the export of own enterprises' and member enterprises' self-produced products and technology; the import of own enterprises and member enterprises production of the required auxiliary materials, instruments and meters, parts and components of machines and technology (apart from those products restricted by the State from import and export); processing on customer-supplied materials and "processing raw materials on clients demands, assembling parts for clients and processing according to clients' samples or compensation trade"; the rental of office space, machineries and equipment; sales of printing machines.
Registered no.	:	110000005015956

(iii) Summary of the appraised entity

1. Summary

Name of entity	:	Beijing Tianhai Industry Co. Ltd. (named hereafter Tianhai Industry)
Registered capital	:	US\$24.924 million
Legal representative	:	Wang Pingsheng
Registered address	:	No. 9 Tiangying North Road, Chaoyang District, Beijing
Nature of Company	:	Limited liability company (sino-foreign joint venture)

Scope of business	:	Licensed operation: production of gas cylinders, accumulator shells, pressure vessels and auxiliary equipment, add-on components, fire extinguishers, fire extinguishing products and components, gas cylinders for medical use, gas cylinders for life rescues, gas cylinders and components for food machineries, gas and wrapped cylinders and components for gas vehicles, gas storage special containers, cryogenic gas cylinders and components, LPG cylinders and components, aluminum cores, cylinders and components, new enhanced complex materials (carbon fiber, organic fibre and high strength glass fibre) and products, complex gas cylinders (auto natural gas storage cylinders, gas storage cylinders for respirators, containers for water treatment), testing equipment for complex gas cylinders.
General operation	:	Installation, adjustment, maintenance, technical consultancy and services of self-production product; sales of self-production product; wholesale of cryogenic containers; after-sales service and maintenance.

2. *History*

Tianhai Industrial (previously known as Beijing High Pressure Container Co., Ltd. 北京天海高壓容器有限公司) was established pursuant to the foreign trade and economic cooperation approval certificate Jing Zuo Zi (1992) No. 0574 from People's Government of Beijing Municipality, which obtained the Business License For Enterprise's Legal Person Qi Zuo Jing Zong Fu Zi No. 002286 from the State Administration for Industry and Commerce. With capital contribution from Beijing High Pressure Gas Cylinders Factory (北京市高壓氣瓶廠) ("Beijing HPGC") and Korea High Pressure Containers Company Limited (韓國高壓容器株式會社) ("Korea HPC"), the registered capital of the Company was US\$16 million, with each of Beijing HPGC and Korea HPC subscribed to RMB8.00 million and holding 50% of the interests.

On 29 August 1993, Tianhai Industrial convened the second meeting for the first Board of Directors for the resolution for renaming Beijing High Pressure Container Co., Ltd.. (Bei Tian Dong Zi (93) No. 3). Upon resolution, Beijing High Pressure Container Co., Ltd. was renamed as Beijing Tianhai Industry Co. Ltd..

As of July 1996, Beijing HPGC had fully paid the subscription of US\$8.00 million to the registered capital, and Korea HPC had paid US\$6.60 million, i.e. 41.25% of the capital subscription.

On 17 July 1996, Beijing Tianhai Industry Co., Ltd. reduced its capital by US\$1.40 million pursuant to the official reply from Beijing Foreign Trade and Economic Relations Commissions Jing Jing Mou Zi Zi (1996) No. 555 regarding the reduction of registered capital. Upon capital reduction, Beijing HPGC owned 54.8% interests with US\$8.00 million capital contribution, and Korea HPC owned 45.2% interests with US\$6.60 million capital contribution.

On 28 December 1998, Beijing Tianhai Industry Co., Ltd. increased its registered capital by US\$2.15 million pursuant to the official reply from Beijing Foreign Trade and Economic Relations Commissions Jing Jing Mou Zi Zi (1998) No. 014 regarding the increase of capital. Upon capital increase, the registered capital became US\$16.75 million with contributions and proportion of interests of various shareholders as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	1,015.00	60.60
Korea HPC	660.00	39.40
Total	1,675.00	100.00

On 5 February 2001, pursuant to the resolution of the Board of Tianhai Industrial and the revised Memorandum and Articles of Association and the Jing Jing Mou Zi Zi (2001) No. 387 “official reply regarding the revision of contract and Memorandum and Articles of Association” from Beijing Foreign Trade and Economic Relations Commissions, it was agreed that Beijing Jingcheng Machinery Electric Holding Co. Ltd. would become a new shareholder of the Company with a HK\$1.81 million increase in the registered capital to be fully paid by Beijing Jingcheng Machinery Electric Holding Co. Ltd.. It was also agreed that KOREA HPC would transfer its US\$6.60 million shares in Tianhai Industrial to Oh Soo Jong. Upon capital increase and shares transfer, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	1,015.00	54.69
Oh Soo Jong	660.00	35.56
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	181.00	9.75
Total	1,856.00	100.00

On 22 November 2001, Tianhai Industrial applied for demerge pursuant to the Board resolution and demerge agreement and requirements under the revised contract and Memorandum and Articles of Association of Tianhai Industrial as well as the approval of the separation from the Jing Jing Mou Zi Zi “official reply regarding the demerge of Beijing Tianhai Industry Co. Ltd.” (京經貿資字《關於北京天海工業有限公司存續分立的批復》) from Beijing Foreign Trade and Economic Relations Commissions. Upon demerging, Beijing Tianhai Industry Co. Ltd. subsisted with its registered capital reduced from US\$18.56 million to US\$17.06 million. Upon capital reduction, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	932.96	54.69
Oh Soo Jong	606.66	35.56
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	166.38	9.75
Total	1,706.00	100.00

On 28 November 2001, the registered capital was increased from US\$17.06 million to US\$18.7347 million, pursuant to the Board resolution and Memorandum and Articles of Association revision resolution, and the Jing Jing Mou Zi Zi (2002) No. 574 “official reply regarding the capital increase and change of proportion of interests of Beijing Tianhai Industry Co. Ltd.” from Beijing Foreign Trade and Economic Relations Commissions. The increased share capital would be fully paid by Jingcheng EM. Upon capital increase, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	932.96	49.80
Oh Soo Jong	606.66	32.38
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	333.85	17.82
Total	1,873.47	100.00

In 2003, Beijing HPGC transferred its 40.30% interests in Tianhai Industrial to Jingcheng EM, at the same time increasing the registered capital by \$96,700, pursuant to the Bei Tian Dong (2003) No. 2 Board resolution of Tianhai Industrial and the approval via Jing Jing Mou Zi Zi (2003) No. 114 “official reply regarding the transfer of interests of Beijing Tianhai Industry Co. Ltd.” from Beijing Foreign Trade and Economic Relations Commissions. Upon which, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	178.34	9.47
Oh Soo Jong	606.66	32.22
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	1,098.14	58.31
Total	1,883.14	100.00

On 28 June 2006, Tianhai Industrial applied for increasing the registered capital by US\$3.1686 million to US\$22.00 million by increasing the paid-up capital from unappropriated profits pursuant to Bei Tian Dong Que (2006) No. 6 Board resolution of Tianhai Industrial and the requirements under the revised Memorandum and Articles of Association. Upon which, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	208.35	9.47
Oh Soo Jong	708.73	32.22
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	1,282.92	58.31
Total	2,200.00	100.00

On 1 March 2007, Oh Soo Jong transferred his 32.22% interests in Tianhai Industrial to Jingcheng Holding (Hong Kong) Company Limited, as agreed by Bei Tian Dong Que (2007) No. 7 Board resolution of Tianhai Industrial. Upon which, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Beijing HPGC	208.35	9.47
Jingcheng Holding (Hong Kong) Company Limited	708.73	32.22
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	1,282.92	58.31
Total	2,200.00	100.00

On 9 June 2009, Beijing HPGC transferred his 9.47% interests in Tianhai Industrial to Beijing Jingcheng Machinery Electric Holding Co. Ltd. while increasing the registered share capital by RMB2.9240 million, pursuant to Bei Tian Dong Que (2009) No. 4 Board resolution of Tianhai Industrial and the requirements under the revised Memorandum and Articles of Association. Upon which, the contributions and proportion of interests of various shareholders were as follows:

Name of shareholder	Contribution (US\$'0,000)	Proportion of contribution (%)
Jingcheng Holding (Hong Kong) Company Limited	708.73	28.44
Beijing Jingcheng Machinery Electric Holding Co. Ltd.	1,783.67	71.56
Total	2,200.00	100

3. *Scope of business operation and major operation results*

Tianhai Industrial is the largest high pressure container producer in China possessing B1, B2, B3, A1, C3, D1 and D2 qualification grades for designing and producing high pressure containers.

Together with its subsidiaries including Tianjin Tianhai, Langfang Tianhai, Shanghai Tianhai, Tianhai Westport and Tianhai Cryogenic, Tianhai Industrial's market share in industrial gas cylinders ranks the 1st in China and the 3rd globally. Its main products include high pressure seamless gas cylinders, welded cylinders, wrapped cylinders, accumulator shells, cryogenic gas cylinders, gas storage special containers, aluminum liner fully wrapped with carbon fiber composite cylinders etc., for a wide application in various industries like auto, chemical industries, firefighting, medical, petroleum industries, energy, city construction, food process, metallurgy, mechanics and electronics etc.

Tianhai Industrial has now obtained the certificates of ISO9001: 2000 and ISO/TS16949 international quality control system and the ISO14001 and OHSAS18001 environmental and occupational health and safety management system, and 34 international products approval certificates including the US DOT approval, Germany TUV approval certificate and Canada TC approval. JP brand seamless steel cylinder won the national silver medal in 1984. Today, Tianhai Industrial's products have been exported to more than 40 countries with great reputation as "Beijing Famous Brand Product" and "Chinese Well-known Product".

On 24 December 2010, Tianhai Industrial obtained the Certificate of New and High-tech Enterprises (No. GR201011000725).

4. The Company's balance sheet and operation results in the recent 3 years

The balance sheets as of 31 December 2009, 2010 and 2011 and 31 March 2012 and that as of the benchmark date of appraisal (as audited by Shinewing Certified Public Accountants) are summarised as follows:

Price unit: RMB'0,000

Items	31 March 2012	31 December 2011	31 December 2010	31 December 2009
Current assets	75,123.46	69,616.51	46,865.94	41,406.40
Non-current assets	47,590.12	48,039.44	31,963.92	27,836.54
Including: Long-term equity investments	24,389.30	24,396.18	8,219.20	4,694.72
Investment properties	—	—	—	—
Fixed assets	22,095.18	20,199.77	19,066.23	19,682.62
Construction in progress	176.08	2,497.58	3,678.22	2,541.52
Intangible assets	883.48	902.21	977.13	881.34
Deferred income tax assets	46.09	43.69	23.15	36.33
Total assets	122,713.59	117,655.95	78,829.86	69,242.93
Current liabilities	84,686.03	80,797.90	39,656.21	37,212.61
Non-current liabilities	270.00	0.00	5,000.00	0.00
Total liabilities	84,956.03	80,797.90	44,656.21	37,212.61
Net assets (owners' equity)	37,757.56	36,858.05	34,173.65	32,030.32

The statements of income of Tianhai Industrial for 2009, 2010, 2011 and from January to March 2012 are as follows:

Price unit: RMB'0,000

Items	Jan-Mar 2012	2011	2010	2009
Operating income	63,575.49	259,338.31	210,595.01	180,194.55
Less: Operating costs	57,680.64	236,241.51	194,029.95	162,591.30
Business taxes and surcharges	7.34	1.17	0.67	0.00
Sales expenses	1,721.27	6,935.94	6,446.75	5,438.57
Managing costs	2,640.33	9,549.21	7,070.76	6,569.41
Financing costs	421.97	1,648.56	1,374.34	822.35
Asset impairment loss	82.40	136.93	-31.45	56.58
Add: Investment gains	-6.88	109.20	-108.22	-77.03
Operating profits	1,014.65	4,934.19	1,595.77	4,639.31
Add: Non-operating revenue	59.17	23.70	15.92	189.36
Less: Non-operating expenses	18.69	67.21	75.45	38.85
Total profit	1,055.14	4,890.68	1,536.24	4,789.82
Less: Income tax expenses	155.62	812.85	255.23	1,383.70
Net profit	899.52	4,077.83	1,281.01	3,406.13

The data for the benchmark date of appraisal was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2011TJA1097-5) was issued.

5. Relationship between the entrusting party and the appraised entity

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd holds 100% shareholdings of Beiren Group Corporation. Beiren Group Corporation holds 47.78% shareholdings of the entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd.

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd. owns 71.56% interests in Beijing Tianhai Industry Co., Ltd., the appraised entity.

II. Purpose of appraisal

According to the development strategies and marketing positioning of the Beijing Jingcheng Machinery Electric Holding Co. Ltd and in order to achieve rapid development of Beiren Printing Machinery Holdings Limited, Beiren Printing Machinery Holdings Limited plan to use its entire assets and liabilities to carry out a material assets reorganisation with the gas storage and transportation equipment business owned by Jingcheng Holdings, which is involving 71.56% equity of Tianhai Industry, 100% equity of Jingcheng HK and 100% equity of Jingcheng Environment after spinning out environmental business.

Beiren Printing Machinery Holdings Limited is intend to make a material asset reorganisation. The purpose of this appraisal is to appraise the entire shareholders' equity of Beijing Tianhai Industry Co., Ltd., the acquisition target, so as to provide its market value on the benchmark date of appraisal for reference of such business action.

The business action documents involved in this appraisal include:

1. Jing Ji Dong (Que) (2012) No. 10 "Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) (2012) No. 14-01 "Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) (2012) No. 14-02 "Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

III. Object and scope of appraisal**(i) Object and scope of appraisal**

The object of appraisal was the entire shareholders' equity of Beijing Tianhai Industry Co., Ltd. The scope of appraisal covers the entire assets and relevant liabilities of Beijing Tianhai Industry Co., Ltd.

Total assets amount to RMB1,227,135,875.91, Including:

Current assets	:	Carrying amount	RMB751,234,637.50
Non-current assets	:	Carrying amount	RMB475,901,238.41
Long-term investments	:	Carrying amount	RMB243,892,995.05
Fixed assets	:	Carrying amount	RMB220,951,785.35
Construction in progress	:	Carrying amount	RMB1,760,775.71
Intangible assets	:	Carrying amount	RMB8,834,814.69
Deferred assets	:	Carrying amount	RMB460,867.61
RMB849,560,272.06, in which	:		
Current liabilities	:	Carrying amount	RMB846,860,272.06
Non-current liabilities	:	Carrying amount	RMB2,700,000.00

The above data was audited by Shinewing Certified Public Accountants and an audit report (No. XYZH/2011TJA1097-5) was issued.

Furthermore, the scope of appraisal also includes the intangible assets with no book entry.

The objects and scopes of this appraisal are consistent with those confirmed in the entrustment.

(ii) An asset or asset portfolio which has a greater impact on corporate value

Accounts receivable, prepayment, inventory, long-term equity investment and fixed asset have a higher proportion in the assets of Beijing Tianhai Industry Co., Ltd.

1. Accounts receivable is mainly the trade receivable;
2. Prepayment are mainly the payment in advance and project fee;
3. Inventories are mainly the raw materials, finished goods and goods in progress.

4. Long-term investments are mainly the investments in Tianjin Tianhai high pressure vessels Co., Ltd, Beijing Tianhai Cryogenic Equipment Co., Ltd, Shanghai Tianhai DeKun composite cylinders Co., Ltd, America Fortune Company, Beijing Panni Gaokong Equipment Co., Ltd, Langfang Tianhai High Pressure Cylinder Co., Ltd. and BTIC Westport Inc. Details are as follow:

No.	Investees	Date of investment	Investment ratio (%)	Book value
1	Tianjin Tianhai high pressure vessels Co., Ltd	2003/6	30%	102,693,100.00
2	Beijing Tianhai Cryogenic Equipment Co., Ltd	2008/5	75%	30,000,000.00
3	Shanghai Tianhai DeKun composite cylinders Co., Ltd	2009/12	89.32%	17,176,284.97
4	America Fortune Company	2010/8	51%	18,361,890.00
5	Beijing Panni Gaokong Equipment Co., Ltd	2010/12	100%	20,234,235.97
6	Langfang Tianhai High Pressure Cylinder Co., Ltd.	2011/12	70%	54,873,773.29
7	BTIC Westport Inc.	2007/6	50%	553,710.82
Total				<u>243,892,995.05</u>

5. Fixed assets are mainly the property assets and equipment assets.

The buildings of the Beijing Tianhai Industry Co., Ltd are located in No. 9 Tianying North Road, Chaoyang District and No.25 Hua Wei Xi Li, Chaoyang District, Beijing, and are mainly the large bottle production workshop and 02# factory. The buildings were completed and put into use in 1991, which are mainly the reinforced concrete buildings and mixed construction buildings with well-equipped water, air conditioning and power facilities. The major renovation items include tile floor, drywall, plastered and white-washed interior walls, aluminum windows and steel windows. The water, air conditioning, power and hygiene facilities are in place and available for use.

The facilities include machineries, vehicles and electronic equipment.

Machinery and equipment mainly include large scale pipe cutting machine, band saw, trimming cut machine, necking-in machines, large scale roller-hearth furnace, large scale modulating line, outer wall shot blasting machine, ultrasonic detection equipment, hardness machine, bottle processing machine, outer wall shot blasting machine for self-designed hydraulic test, gas cylinder coating line, hydraulic pendulum plate shears, four rollers board machine, longitudinal seam welding machine, X-ray detection machine, leak detector, circular seam welding equipment, bottle polishing equipment, vacuum equipment, gas leakage test machine, pneumatic bagging machine, auto paint line, bottle computer numerical control processing machine, internal cleaning machine, winding machine and curing oven etc.. All the machines are installed in the factories and workshops and managed and maintained by the professionals. Those machines are mainly purchased during 2005 to 2009 in order to meet the production capacity requirements. Transport vehicles are used for daily transportation. The office equipment in the finance department and each of the workshops mainly include calculator, duplicator, printer and air condition machine etc., most of them were purchased during 2006 to 2009.

(iii) The intangible assets with no enterprise book entry

The intangible assets without enterprise book entry mainly include 1 invention patent, 5 utility model patents, 3 trademarks and 6 proprietary technologies.

IV. Type of value and its definition

The type of value for the object of appraisal is defined as market value based on the business activity and purpose of this appraisal, Its definition is as follows: under the situation that the buyer and the vendor are acting voluntarily, reasonably and without any coercion, the estimated amount is the value of fair and normal transaction carried out by the object of appraisal on the benchmark date of appraisal.

V. Benchmark date of appraisal

The benchmark date of appraisal of this project is 31 March 2012.

The benchmark date of appraisal was selected by the entrusting party taking account into factors including the end of the reporting period and facilitation for such business activity etc.

VI. References of appraisal**(i) Business activity basis**

1. Jing Ji Dong (Que) (2012) No. 10 “Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) (2012) No. 14-01 “Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) (2012) No. 14-02 “Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

(ii) Laws and regulations basis

1. “Company Law of People’s Republic of China” (amended in the 18th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 27 October 2005);
2. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises”(Order of the President No.5 in 2008);
3. “The Law of Land Administration of the People’s Republic of China” (amended in the 11th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 28 August 2004);

4. “Law of the People’s Republic of China on Urban Real Estate Administration” (Order of the President of the People’s Republic of China No.72 as amended in the 29th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 30 August 2007);
5. “Rules of Administration on Appraisal of State-Owned Assets” (Order 91, issued by the State Council in 1991);
6. “Detailed Implementation Rules of Administration on Appraisal of State-Owned Assets” (Guo Zi Ban Fa [1992] No.36);
7. “Provisional Rules on Supervision and Administration of Enterprises’ State-Owned Assets” (Order 378, issued by the State Council in 2003);
8. “Provisional Rules of Administration on Transferring Enterprises’ State-Owned Properties” (Order 3 issued by the State-Owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance in 2003);
9. “Provisional Rules of Administration on Appraisal of Enterprises’ State-Owned Assets” (Order 12 issued by the State-Owned Assets Supervision and Administration Commission of the State Council in 2005);
10. “Notice on Issues in relation to Strengthening Administration on Appraisal of Enterprises’ State-Owned Assets” (Guo Zi Wei Chanquan [2006] No.274 issued by the State-Owned Assets Supervision and Administration Commission of the State Council);
11. “Provisional Measures for the Administration of Appraisal of State-owned assets of Enterprises in Beijing” (Jing Guo Zi Fa [2008] No.5);
12. Other laws, regulations and rules relevant to the appraisal.

(iii) Basis of appraisal standards

1. “Assets Appraisal Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
2. “Assets Appraisal Professional Ethics Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
3. “Assets Appraisal Standards-Appraisal Reports” (Zhong Ping Xie [2007] No. 189);
4. “Assets Appraisal Standards-Appraisal Formulae” (Zhong Ping Xie [2007] No. 189);
5. “Assets Appraisal Standards-Machineries and Equipment” (Zhong Ping Xie [2007] No. 189);
6. “Assets Appraisal Standards-Real Estates” (Zhong Ping Xie [2007] No. 189);

7. “Assets Appraisal Standards – Intangible Assets” (Zhong Ping Xie [2008] No. 217);
8. “Guide on Enterprise State-Owned Assets Appraisal Report” (Zhong Ping Xie [2008] No. 218);
9. “Assets Appraisal Standards – Guiding Opinions on Appraisal of Patent Assets” (Zhong Ping Xie [2008] No. 217);
10. “Guidelines for Certified Public Appraisers Concerning Legal Ownership of Appraisal Object” (Zhong Zhu Xie Hui Xie [2003] No. 18);
11. “Assets Appraisal Standards – Enterprise Values” (Zhong Ping Xie [2011] No. 227);
12. “Guidelines on Type of Values in Assets Appraisal” (Zhong Ping Xie [2007] No. 189);
13. “Accounting Standards for Enterprises – Basic Standards” (order 33 issued by the Ministry of Finance);
14. 38 specific standards listed in “Accounting Standards for Enterprises No.1 – Inventories” (Cai Hui [2006] No. 3 issued by the Ministry of Finance);
15. “Accounting Standards for Enterprises – Guidelines on Application” (Cai Hui [2006] No. 18 issued by the Ministry of Finance);
16. “Standards on Valuation of Estate” (GB/T50291-1999);
17. “Regulations for Valuation on Urban Land” (GB/T18508-2001);
18. “Regulations for Classification on Urban Land” (GB/T18507-2001).

(iv) Asset title basis

1. “Registration Certificate of Property Rights on State-owned Assets”;
2. House Ownership Certificate;
3. Utilisation Permit of State-owned Land;
4. Vehicle Travel License;
5. Contract or receipt of purchase of material assets;
6. Other documentary proof of property ownership.

(v) Price determination basis

1. Notice of “Requirements of Financial Management of Infrastructure” (Cai Jian [2002] No. 394 issued by the Ministry of Finance);

2. “Rules on Administration of Engineering Investigation and Design Charges” (Ji Jia Ge [2002] No. 10) issued by the State Planning Commission and the Ministry of Housing and Urban-Rural Development;
3. “Rules on Construction Supervision and Related Services Charges” (Fa Gai Jia Ge [2007] No. 670) issued by the National Development and Reform Commission and Ministry of Construction;
4. “Notice on Related Issues of Regulating Fee Collection of Environmental Consultancy” (Ji Jia Ge [2002] No. 125) by the State Planning Commission and the Ministry of Environmental Protection of China);
5. Order No.3 of the State Development Planning Commission in 2000, “Provisional Measures on Fee Collection of Tendering Agency Services” (Ji Jia Ge [2002] No. 1980), “Notice Regarding the Issues of Fee Collection of Tendering Agency Services” (Fa Gai Ban Jia Ge [2003] No. 857) promulgated by the General Office of National Development and Reform Commission;
6. Notice of publishing ‘the details implemented by Beijing of “Management Approach on the collection of special fund for new wall materials” by the Ministry of Finance and National Development and Reform Commission’ (Jing Cai Jing Er [2003] No. 802);
7. ‘Notice on Publishing “The Provisional Approach for Collecting Urban Infrastructure Construction Fee of Beijing”’(Jing Ji Tou Zi Zi [2002] No. 1792);
8. “Provisional Regulations of the People’s Republic of China on Vehicle Acquisition Tax” (Order No. 294 of the Central People’s Government of the People’s Republic of China on 22 October 2000);
9. “The Standard of Vehicles Scrappage” (published by the original State Economic and Trade Commission [1997] No. 456);
10. “The Notice of Regulating the Vehicles Scrappages Standard” (published by the original State Economic and Trade Commission [2000] No. 1202);
11. “List of lending rates of the People’s Bank of China” (effective from 7 July 2011);
12. Forex rates by State Administration of Foreign Exchange on 31 March 2012;
13. “Quota of Construction Budget of Beijing (2001)”;
14. “Quota of Construction Fee of Beijing (2001)”;
15. “Beijing construction costs information” (issued by Department of Construction Costs Beijing in March 2012);
16. “Standardised National Quota of Construction and Installation Duration” (issued by Ministry of Construction, Jian Biao [2000] No. 38);
17. “Handbook of Mechanical and Electrical Products Pricing” (issued by Mechanical Industry Research Institution in 2012);

18. “Price Information for Imported and Foreign Mechanical and Electrical Products in China” (issued by Mechanical Industry Research Institution in 2012);
19. Advertising and market information in March 2012 from Hui Chung’s Website (www.hc360.com);
20. “(2006-2007) Assets Appraisal Data & Parameters Handbook” (issued by Economic Science Press);
21. Construction budget and accounts and other relevant information provided by the appraised entity;
22. List of assets and other relevant information provided by the appraised entity;
23. Financial, accounting and operational information provided by the appraised entity;
24. Market information, industrial economic and macro-economic information provided by the appraised entity;
25. Information obtained via on-site survey and investigation by the appraisal personnel;
26. Wind Capital Information Terminal;
27. Relevant technical information for construction and geological exploration information;
28. Other reference materials.

VII. Appraisal Methodology

According to “Assets Appraisal Standards – Corporate Valuation”, appraisal approaches mainly include asset-based approach, income approach and market approach. Asset-based approach and income approach were used herein with reference to relevant conditions including the purpose of appraisal, object of appraisal, type of value and availability of information.

Asset-based approach refers to the concept of determining value of appraised object basing on rational appraisal of all assets and liability within or out of the balance sheet of the appraised enterprise on the benchmark date of appraisal.

Basic Formulae of asset-based approach:

Value of the entire shareholders equity = sum of the appraisal value of each asset – sum of the appraisal value of each liability

The appraised entity hereof assumes continued operation with core assets including physical assets such as land, plants and equipment. By asset-based approach, all economic technical parameters involved during the course of the appraisal of the assets are based on sufficient data. Thus asset-based approach is a feasible way for appraisal.

Income approach refers to the approach of valuating the appraised object by capitalising or realising the expected income.

The appraised entity hereof possess the basis and condition of continued operation with a relatively stable correlation between operation and income, and its income and risks can be estimated and quantified. Thus income approach is a feasible way for appraisal.

Market approach means to compare the appraised entity with similar listed companies or comparable cases to evaluate the value of the appraised object.

Two common ways of market approach are the listed company comparison approach and transaction case comparison approach.

As the appraised company is not listed, it would differ relatively large from listed companies in the same industries in various aspects such as the business structure, operation approach, company size, assets allocation and utilisation, stage of operation of the company, growth, operating risks and financial risks. Furthermore, it would be difficult to obtain the data of transaction, acquisition and merging cases of comparable Chinese entities in the same industry on the benchmark date of appraisal. Thus market approach was not used in this appraisal.

(i) Asset-based approach

1. Current assets

Current assets include currency fund, bill receivable, accounts receivable, advance payment, dividends receivable, other receivables and inventories.

- (1) Currency fund: include cash, bank deposits and other currency fund. The appraisal personnel adopted the approach of inspection stocking to conduct on-site stocktaking for cash. They performed a reasonable deduction calculation based on the cash daily log. After the deduction calculation, they appraised the cash balance of the benchmark date of appraisal, which was verified against the cash log. The verified book value was used as an appraisal value. On bank saving accounts, after verifying internal records, completing bank statement reconciliation, and checking the status of the company's correspondence with the bank, a trial balance on the bank saving amount was conducted. After verifying that there was no error, the verified book value was used as an appraisal value. For foreign currency bank accounts, the verified amount of foreign currencies was multiplied by the exchange rate on the benchmark date of appraisal to confirm the appraisal value. The book balance of other currency fund was inspected and verified and for which a confirmation from the company was requested. The verified book balance was used to confirm the appraisal value.
- (2) Bill receivable: the appraisal personnel first verified the accounts, breakdowns of accounts, accounting statements and appraisal on the breakdowns of accounts, and then applied inspection stocking of the bills to verify the relevant content in the bill receivable record. Then, the staff investigated the future acceptance and endorsement transfer of the bills to confirm the truthfulness of the business activities involved in the bills and the accuracy of the amount. Due to the short time and high realization ability of bill receivable and the credit of the note drawing entity, the verified book value was taken as the appraisal value.
- (3) Accounts receivable: include accounts receivable and other receivables. The appraisal personnel provide confirmation on large amounts and have conducted a specific analysis of the amount of receivables, time overdue

and reasons for default, recovery status, debtors' availability of funds, credibility and management situation on the basis of business content and aging analysis by reviewing books and statements. Upon such specific analysis, possibilities of recovering each of the accounts receivables were determined. By individual identification approach and aging analysis approach, an integrated analysis of the recoverable amount was obtained to evaluate the appraisal value of the accounts receivable. According to the relevant appraisal, the provision for bad debt of the accounts receivable was zero.

- (4) Dividends receivable: the appraisal personnel verified the book records, checked relevant information such as the investment agreement and Board resolution, verified the truthfulness, business content and amount of the transaction items, and the consistency among the amount stated on accounts, statements and invoices. The verified book value was taken as the appraisal value.
- (5) Advance payment: the appraisal personnel verified the book records, checked relevant information such as the original voucher and business contracts, verified the truthfulness, aging business content and amount of the transaction items, and the consistency among the amount stated on accounts, statements and invoices. The advance payment was used to confirm the appraisal value based on the relevant assets or entitlement arised.
- (6) Inventories

Inventories include raw materials, finished products (commodity stocks) and work in progress.

For appraisal of inventories, the appraisal personnel first verified the progress of inventory control to understand the system for the in and out of the inventories and the management and accounting system, and verified the financial records, statistics statements and on-site inspection of the enterprise. They also undertake sampling inspection on the receive and dispatch and carry-over of inventories and the maintained invoices and records, as well as reviewed the relevant book records and original vouchers, in order to confirm the truthfulness and title status of the inventories.

Then, the appraisal personnel inspected the pricing and audit approach of the inventories. Value of the inventories is calculated based on the actual costs.

The appraisal of each inventory items is made based on the following approach:

1) Raw materials

Upon verification, the book value of the raw material is composed of purchase price and reasonable expense. Since the turnover of most raw materials is fast, and the unit price of book value is close to the market price of benchmark date, the assessed value is confirmed by actual quantity multiplying the book unit price.

2) Work in progress

Work in progress means the products under production progress. According to the reported product breakdowns provided by the appraised entity, the appraisal personnel undergo screening of the original invoices, vouchers, and account breakdowns, sampling inspection on their production and dispatching business, and investigation on the composition of the value of the work in progress. Upon verification, it was concluded that the carry-over of cost of the work-in-progress was timely and complete. Its amount was accurate and production cycle was short. The work-in-progress took the verified book value as its appraisal value.

3) Finished products

Finished products are products of all specifications and types produced for sale by the appraised entity. Through the sales department, its sales situation was understood. Sales cycle was half year. All of which were products for normal sales.

For confirming the appraisal value of products for normal sales, selling prices net of tax was deducted by the sales expenses, all taxes and appropriate amount of net profit after tax. Sales tax and expenses include sales expenses and the relevant tax liabilities. Sales expenses was calculated based on the average sales expense rates in recent years. The relevant tax liabilities was calculated taking into account the actual tax liabilities situation of the company, which includes sales tax and surcharges and income tax. The appropriate net profit after tax was confirmed by 50% of the profit after tax.

Calculation formula:

$$\text{Appraisal value of finished products} = A \times \{1 - r_1 - r_2 - r_3 [T + r_4 (1 - T)]\}$$

Where A : price of products net of sales tax

r_1 : sales expense rate of the products

r_2 : Sales tax and surcharge rates of the products

r_3 : Sales margin of products

r_4 : Deducted rate of net profit after tax

T : Income tax rate

2. *Non-current assets*

Non-current assets include long-term investments, fixed assets, intangible assets and deferred assets etc.

(1) Long-term equity investments

- 1 Overall appraisal was done on wholly owned and long-term investments of shareholdings. The value of the entire shareholders' equity was obtained by evaluating the overall value of the company, which was then multiplied by the proportion of interests held to obtain to value of the equities under appraisal.

Appraisal value of long-term investment = value of equities of the investee $\times$ proportion of interests held

- 2 For companies with short investment period and small investment amounts, without basic physical assets and with future income under significant uncertainty due to the "dual anti" case in US or under business suspension on the benchmark date of appraisal, the value of the appraised equities would be calculated by multiplying the audited net carrying assets by the proportion of interests held by shareholders.

If the appraisal value of the entire shareholders' equity of the investee was negative, the appraisal value of such long-term investment would be deemed as zero.

(2) Appraisal of fixed assets

1) Estate assets

Estate assets were appraised using replacement cost approach and market approach.

① Cost approach

Buildings for production used adopted a principle to appraise the real estate and the land separately by cost approach. Cost approach refers to calculating the necessary investment for replacement of the same type of building (known as replacement price) based on the market condition and the structural characteristics of the appraised building during the appraisal time, and multiply this replacement price by the integrated depreciation rate of the building to determine the value of the appraised real estate.

Appraisal value = replacement price $\times$ integrated depreciation rate

Replacement price = construction and installation cost + preliminary expense and other charges + capital cost

Integrated depreciation rate = theoretical depreciation rate $\times$ weight + surveyed depreciation rate $\times$ weight

A. Determination of replacement price

a. Estimation of construction and installation cost

According to the actual condition of the assessed housing construction, the housing construction was divided into 2 types of structures. The appraisal personnel systematically classified the construction under appraisal based on the type of structures, functionality and geographical distribution, to group structurally equal or similar buildings. From different structures, typical construction works would be selected. The appraisal institution then collected the completion information such as the financial account budget/settlement and completion drawings and verified the construction amount. With reference to “Quota of Construction Budget of Beijing (2001)”, “Budget quota for construction and renovation of Beijing (2001)”, the March 2012 issue of the Beijing construction costs information monthly etc., the cost of construction work was calculated. The construction and installation cost of other housing with the same kind of structures was calculated with differential adjustment approach for typical construction works. Factors affecting construction installation cost of housing mainly include the number of floors, height of each floor, appearance, floor plan layout, width, open area, construction materials, renovation standards, equipment and facilities and level of difficulty during construction. The appraisal object and typical construction works were compared so as to obtain an integrated adjustment figure. The construction and installation cost of the appraisal object equaled to the construction and installation cost of typical construction works multiplied by integrated adjustment coefficient.

For estimation of the replacement unit price of small buildings, calculation was done by the difference adjustment on the price of similar structured buildings in the area on the benchmark date of appraisal.

b. Preliminary expense and other charges

According to the local government requirement and industry standards, the standards for collecting preliminary expense and other charges are:

Sequence No.	Name of expense	Basis for expense calculation	Expense rate	Reference for expense calculation
1	Construction design and surveying fee	Construction and installation cost	2.62%	Notice on “Regulations on Management on Surveying and Design Charges of Construction” issued by State Planning Committee and Ministry of Construction (Ji Jia Ge (2002) No. 10)
2	Management fee of the construction entity	Construction and installation cost	0.88%	Notice on “Regulations on Financial Management of Infrastructure” (Cai Jian [2002] No. 394)
3	Construction supervision fee	Construction and installation cost	1.76%	“Regulations on Fee Management of Construction Supervision and Relevant Service” (Fa Gai Jia Ge [2007] No. 670)
4	Environmental impact assessment fee	Construction and installation cost	0.04%	Notice on Regulating Consultation Fee Notification on the Relevant Issues on the Environmental Impact by the State Planning Commission and Ministry of Environmental (Ji Jia Ge [2002] No. 125)
5	Bidding agency service charge	Construction and installation cost	0.11%	Order No. 3 of the State Development and Planning Commission, Provisional Method for Managing Bidding Agency Service Charges (Ji Jia Ge [2002] No. 1980), Notice on the Issues Regarding Bidding Agency Service Charge Issued by the General Office of National Development and Reform Commission (Fa Gai Ban Jia Ge [2003] No. 857)

Sequence No.	Name of expense	Basis for expense calculation	Expense rate	Reference for expense calculation
6	Special fund for new wall materials	Floor area	10.00 (RMB/m ²)	Jing Cai Jing Er [2003] No.802
7	Construction fee for urban infrastructure	Floor area	200.00 (RMB/m ²)	Jing Ji Tou Zi Zi [2002] No. 1792

c. Capital cost

According to the company's scale of construction and original information, the terms of construction of the project was determined by the national construction term quota. Assuming a normal construction term and all construction capital would be injected evenly during the construction period, the capital cost was calculated based on the loan interest rate on the benchmark date of appraisal.

Capital cost = (construction and installation cost + preliminary expense and other charges) × construction period × interest rate × 1/2

Replacement price = Construction and installation cost + preliminary expense and other charges + capital cost

B. Setting the integrated depreciation rate

The approach of combining theoretical depreciation rate and surveyed depreciation rate was used to set the integrated depreciation rate of the construction.

a. Calculation of the theoretical depreciation rate

Theoretical depreciation rate = (Economic useful life – used life) / Economic useful life × 100%

Or:

Theoretical depreciation rate = residual useful life / (used life + residual useful life) × 100%

b. Determination of the surveyed depreciation rate

Firstly, the main factors affecting the surveyed depreciation rate was classified according to structures (basic, walls, load, façades), decoration (floor, interior and exterior, doors and windows, ceilings), equipment and facilities (water and hygiene, air conditioning, power and lightings). With reference to the requirements under “Appraisal standard for the damage condition of houses”

issued by the Ministry of Construction, combined with the items confirmed during on-site surveying, the sound value was appraised, and by which the surveyed depreciation rate was arrived based on its weight.

Surveyed depreciation rate = scores for structural parts $\times$ weight + scores for decoration parts $\times$ weight + scores for installation parts $\times$ weight

c. Integrated depreciation rate

Integrated depreciation rate was calculated taking a weight value of 40% from theoretical depreciation rate, and a weight value of 60% from surveyed depreciation rate.

Integrated depreciation rate = theoretical depreciation rate $\times$ 0.4 + surveyed depreciation rate $\times$ 0.6

C. Determination of appraisal value

Appraisal value = Replacement price $\times$ Integrated depreciation rate

② Market approach

The book values of the commodity housing obtained by procurement within the scope of appraisal include the value of their land use rights. With transaction cases of the same type of housing in the same district, this appraisal would adopt a principle combining the housing and land to obtain the appraisal value of the real estate (including the land value).

Market comparison approach means an approach to obtain the appraisal value of real estates by comparing the appraised real estate with similar real estates within the same demand circle which has been transacted near the benchmark date of appraisal. By adjustments on various factors on the prices of these transacted real estates, the price of the appraised real estate could be arrived.

By market comparison approach, the formula for calculating the appraisal value of the real estates is:

Appraisal value of the real estate to be appraised = transaction prices of the real estates with transaction cases $\times$ modification factor of the transaction $\times$ modification factor of the transaction date $\times$ modification factor of the region $\times$ modification factor of individual factors

2) Equipment assets

Equipment for normal production and operation and comparable with same type of new equipment in the market were mainly appraised using replacement cost approach for the purpose of this appraisal, according to

the principle of continuous use, taking market price as a reference, while considering equipment characteristics and the details of the data collected. For those with longer duration of use for which no market price of the same type of new equipment with active secondary market could be obtained (e.g. general motor and electronic office equipment) was appraised by market approach.

① Replacement cost approach

Appraisal value = replacement price × integrated depreciation rate

A. Determination of total replacement cost

a. Machinery equipment

For equipment made in China, the reference of the replacement price was mainly the current marketing price of same-model or same-type equipment in the China market. It was determined after considering other factors such as necessary transportation and miscellaneous fees, installation and adjustment fee, basic and other charges and capital cost.

For imported equipment, the replacement price were mainly based on the CIF price or FOB of the recent equipment of the same type with reference to the foreign transportation insurance premium, foreign trading administration fee, commodity inspection fee, customs duty, value added tax etc. The calculation approach of the domestic transportation and miscellaneous fee, equipment installation and adjustment fee, basic charge, other charges and capital cost was the same as that of equipment made in China.

Replacement price = equipment procurement fee net of tax + transportation and miscellaneous fee + installation and adjustment fee + basic charge + other charges + capital cost – value added tax of transportation fee

a) Procurement price

This was determined mainly by inquiring pricing from manufacturing factories, trading market and trading companies or pricing information with reference from “2012 Handbook of Mechanical and Electrical Products Pricing”, while also taking reference from recent contract price of same-type equipment.

b) Transportation and miscellaneous fees

Taking the procurement price as a basis, factors such as the distance between the location of the production plant and the equipment and the weight, shape and size of the equipment were used as a reference to make calculations based on different transportation and miscellaneous fees.

c) Installation and adjustment fee

According to the characteristics, weight, ease of installation, the procurement price of the equipment was used as a calculation basis to make calculations based on different installation rates.

Small equipment without the need of installation were not considered to have installation and adjustment fees.

d) Basic charge

Based on the characteristics of the equipment, with reference to “The Arrangement Method and Various Standards for Budget Estimation of Machinery Industry Construction Projects”, the procurement price was used as a basis. Basic charge was calculated based on different basic rates.

e) Other charges

Other charges include management fee, feasibility research report and appraisal fee, designation fee, construction supervision fee etc, which was calculated based on the standard of other charges of the construction work at such location of the equipment combined with the characteristics of the equipment. It was calculated based on the sum of the procurement price, transportation and miscellaneous fees, basic charges and installation and adjustment fee.

f) Capital cost

According to the reasonable construction period of the project, and based on the applicable loan interest rate on the benchmark date of appraisal, capital cost was calculated based on even injection.

Capital cost = (procurement price + transportation and miscellaneous fees + installation and adjustment fees + basic charge + other charges) × loan interest rate × construction period × 1/2

b. Electronic equipment

For electronic equipment with the same type of products available for sales in the market and procured in the same town, the transportation and called-on installation and adjustment services are included during purchasing. Generally no other charges are included on top of the procurement price.

Replacement price = procurement price

c. Vehicles

Replacement price of vehicles consists of 3 parts: the procurement price, vehicle purchase tax, and other charges (e.g. vehicle inspection fees, license fees, administration fees etc.).

B. Determination of the integrated depreciation rate

a. Machinery

Integrated depreciation rate = Surveyed depreciation rate $\times$ weight + theoretical depreciation rate $\times$ weight

a) Surveyed depreciation rate

Determination of surveyed depreciation rate was mainly focused on the actual situation of the equipment of the company, based on the technical status, working environment, maintenance condition of the equipment while taking reference to the scores of individual parts of the equipment during on-site surveying.

b) Theoretical depreciation rate

Theoretical depreciation rate was determined by the economic useful life and used life.

Theoretical depreciation rate = (economic useful life – used life) / economic useful life $\times$ 100%

Or:

Theoretical depreciation rate = residual life / (used life – residual life) $\times$ 100%

c) Weight

For structurally complicated and large equipment, the depreciation rate was determined with useful life approach and surveyed depreciation rate, taking a weight value of 40% from useful life approach, and a weight value of 60% from surveyed depreciation rate approach.

For light, simple equipment under normal using condition, the depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

b. Electronic equipment

The depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

c. Vehicles

Pursuant to the current standard for mandatory vehicles scrappage, the theoretical depreciation rate was determined by both the mileage driven by the vehicle and the residual life. Then, the integrated rate was determined by combining the above with the surveyed depreciation rate obtained by on-site surveying.

C. Determination of appraisal value

Appraisal value = Replacement price × integrated depreciation rate

② Market Approach

A. Vehicles

A vehicle transaction case with more correlation and replacement which fell into the same scope of demand and supply in recent secondary market for vehicles was selected. By comparing the object under appraisal and this comparable case, with comparative analysis and modification on factors affecting the price of vehicles in secondary markets such as residual rate, remaining mileage available and transaction date, the market price of the object under appraisal was estimated by the following formulae:

Market comparison approach value = price of comparable case × modification factor of the mileage driven × modification factor of residual useful life × modification factor of the vehicle condition × modification factor of the transaction date of the vehicle × modification factor of the transaction condition of the vehicle

Market comparison approach value = (case A + case B + case C) / 3

Appraisal value of vehicles by market approach = market comparison approach value

B. Electronic office equipment

By selecting not less than 3 market transaction cases of the same or similar type, at the same transaction time or similar market with the equipment to be appraised, the average value was taken as the appraisal result for the equipment.

(3) Construction in progress

Construction in progress was appraised by replacement cost approach. For construction in progress with normal procedures, shorter construction duration and less changes in price of construction materials, the company paid construction fee according to the progress and contract requirements. Based on the investigation and verification of the progress of construction image, subject to a reasonable construction budget confirmed, the appraisal value was taken as the verified book value. For those with larger sum of paid amount and construction duration of over half year, the appraisal value was determined upon considering the appropriate capital cost.

(4) Intangible assets

Intangible assets include land use rights and other intangible assets.

1) Land use rights

Upon integrated analysis and comparison of the information provided by the appraised entity and the relevant information obtained by the surveying and investigation of the appraisal personnel, the land use rights were appraised by the benchmark land value modification factor approach.

Benchmark land value modification factor approach

A. Basic principles

The benchmark land value modification factor approach is an appraisal based on the benchmark value of urban land and the table of modification factors for benchmark land value according to the principle of substitution. The influence on the land value by the regional factors and individual factors of land pieces is determined by comparing the standard condition of such regional factors and individual factors stated in the table of modification factors for benchmark land value. Then, modification was done after obtaining the modification factors affecting the land value. Finally, modification for the date and residual useful life is made respectively according to the benchmark date of appraisal for benchmark land value and useful life, in order to determine the value of the land on the benchmark date of appraisal.

B. Basic formula:

The formula is as follow:

$$\text{Value of the land piece} = \text{Applicable benchmark land value} \times K_1 \times K_2 \times K_3 \times K_4 \times (1 + \sum K)$$

where: K_1 – date modification factor

K_2 – duration modification factor

K_3 – progress of development modification factor

K_4 – floor area ratio modification factor

$\sum K$ – sum of various modification factors affecting the land value

2) Other intangible assets

Other intangible assets are registered trademarks rights, patent rights and proprietary technologies, to be appraised by current income value approach, which refers to appraisal by first estimating the expected excess income arising in the future, which is then discounted according to a certain discount rate to current value which is taken as the value of the appraised asset. Its formula is as follow:

Specific appraisal model:

$$P = \sum_{t=1}^n k F_t / (1 + i)^t$$

$$k = R \times (1 - T)$$

where: P – appraisal value of intangible assets

F_t – the income of the respective product in the t^{th} year

k – income sharing ratio (net of tax)

R – income sharing ratio (with tax)

T – enterprise income tax rate

i – discount rate

n – economic useful life

t – discount period

(5) Deferred income tax assets

Deferred income tax assets are the income tax assets deferred due to the temporary difference in preparing the bad debt provision for assets by the company. The appraisal personnel determined the appraisal value of deferred income tax assets by the difference between the appraisal value of the impairment provision for assets and the book value.

3. Liabilities

To verify the actual debtors and debt amount of various liabilities upon realization of the appraisal purpose, so as to use the liability items and amount that the appraised entity would have to actually undertake upon realization of the appraisal purpose in order to confirm the appraisal value.

(ii) Income approach

1. Definition and principles of income approach

Income approach of enterprise value appraisal refers to the appraisal direction where the value of the appraisal object was appraised on the basis of capitalizing or realizing the expected revenue of the enterprise being appraised.

2. Conditions for applying income approach

The following conditions should be met for appraising the value of shareholders' equity by income approach:

- (1) The appraised company should be capable of continued operation with significant economic residual life;
- (2) Be able to and should determine the future income of the appraised object in monetary terms;
- (3) Be able to determine the future risk exposed to the appraised object in monetary terms;
- (4) The appraised object should be able to fulfill the operational income expectation of the asset owners.

3. Appraisal model

Combining its purpose and object, discounted cash flow(DCF) was used in this appraisal, in which expected future income of the company adopted enterprise cash flow, and the discount rate adopted the capital weighted average rate of return by the following formula:

$$E = B - D$$

where: E – value of the entire shareholders' equity of the appraised entity

B – overall enterprise value of the appraised entity

D – value of the interest-bearing liabilities of the appraised entity

The formula for calculating B, the overall enterprise value of the appraised entity, is:

$$B = P + \sum C_i$$

where: P – value of the operational assets of the appraised entity

$\sum C_i$ – the existing non-operational and surplus assets value and long-term equity investments value of the appraised entity on the benchmark date

(1) The formula for calculating P, value of the operational assets of the appraised entity, is:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{i+1}}{r(1+r)^i}$$

where: R_i – the expected future income of the appraised entity on the i th year (enterprise free cash flow)

r – discount rate

n – future continued operating duration of the appraised entity

1) Determination of the discount rate r

The discount rate is determined by capital weighted average rate of return based on the weighted average cost of capital model (WACC) by the following formulae:

$$r = r_d \times w_d + r_e \times w_e$$

where:

r_d – interest rate of the long term interest-paying liabilities after income tax;

$$r_d = r_0 \times (1-t)$$

r_0 – interest rate of the long term interest-paying liabilities before income tax;

t – applicable income tax rate;

w_d – gearing ratio of the appraised entity

$$w_d = \frac{D}{(E + D)}$$

w_e – equity ratio of the appraised entity

$$w_e = \frac{E}{(E + D)}$$

r_e – cost of equity capital determined by the Capital Asset Pricing Model (CAPM)

$$r_e = r_f + \beta \times (r_m - r_f) + \varepsilon$$

where:

r_e – return rate of equity capital;

r_f – risk-free rate of return;

r_m – expected market rate of return;

β – expected market risk coefficient of the equity capital of the appraised entity

ε – Special risk adjustment coefficient of the appraised entity

2) Determination of the period of prediction n

This appraisal by income approach was based on the condition that the enterprise is under continued operation. According to information such as the operational history of the enterprise and the development in its industry, a two-stage model was adopted, which made reasonable prediction towards the enterprise income, cost expenses and profits 5 years after the benchmark date of appraisal according to the actual situation and policies of the enterprise, and taking the prediction data for the 6th year and thereafter as the same as that of the 5th year.

- (2) The non-operational and surplus assets of the appraised entity existed on the benchmark date (ΣC_i) was calculated by the following formula:

$$\Sigma C_i = C_1 + C_2 + C_3$$

where: C_1 – value of the cash assets of the appraised entity existed on the benchmark date

C_2 – other surplus and non-operational assets of the appraised entity existed on the benchmark date

C_3 – value of the long-term equity investments

Operational cash flows do not arise from non-operational and surplus assets. Thus discounted cash flow was not suitable for calculation using the appraisal value by cost addition approach.

For value of long-term equity investments, an overall appraisal to wholly owned and shareholdings subsidiaries was done. The result of appraisal value of the shareholders' equity of the wholly owned and shareholdings subsidiaries was multiplied by the appraisal value of the equity investments of the parent company towards its proportion of shares. For companies with short investment period and small investment amounts, located in foreign market and under

business suspension on the benchmark date of appraisal, the value of the appraised equities would be calculated by multiplying the audited carrying net assets by the proportion of interests held by shareholders.

VIII. Implementation process and details of appraisal procedures

China Faith Appraisers Co., Ltd. accepted the entrustment from Beijing Jingcheng Machinery Electric Holdings Co., Ltd and Beiren Printing Machinery Holdings Limited and has conducted an appraisal on the entire shareholders' equity in Beijing Tianhai Industry Co., Ltd. involved in the intended material asset reorganisation of Beiren Printing Machinery Holdings Limited. The benchmark date of appraisal was agreed to be 31 March 2012. China Faith Appraisers Co., Ltd. on 14 April 2012 drafted the appraisal plan and confirmed the appraisal proposal. The appraisal work started officially on 15 April 2012 and completed on-site on 11 May 2012. On 17 August 2012, an official report was released. Major appraisal work processes were as follows:

(I) Preparation stage before the appraisal

1. On 30 April 2012, the appraisal institution negotiated and agreed with the entrusting party and the appraised entity on basic issues including the appraisal purpose, scope of appraisal and benchmark date of the appraisal of this appraisal. A "Business Engagement Letter" was signed with the entrusting party, and a work plan was formulated;
2. The appraisal institution coordinated with the appraised entity to complete tasks such as conducting asset inventory inspection and filling in the "Asset Appraisal Details Form". Appraisal team staff paid on-site visit to have an initial understanding on the entrusted assets and assisted the enterprise to conduct the asset report work for conducting asset appraisal, and to collect documents and information as required by the asset appraisal.

(II) On-site Verification and Appraisal Stage

1. To listen to the relevant staff from the entrusting party and appraised entity to give an introduction to the general enterprise status and the history and current condition of the appraised assets, to understand the financial system, business status, fixed asset technology and other information of the enterprise;
2. To verify the "Asset Appraisal Details Form" and relevant financial records and data as provided by the appraised entity, and to coordinate with the appraised entity to make adjustments when problems are found;
3. To conduct verification on every single item of intangible assets listed on the "Asset Appraisal Details Form" based on the requirements of the asset appraisal standard and appraisal system, and to conduct sampling inspection on inventory physical assets under current assets;
4. To review and collect property certification documents of the appraised assets;
5. To confirm the specific appraisal methods according to the actual situation and characteristics of the appraised assets;
6. To review and collect technical information and acceptance information of the relevant assets; to collect price information through conducting market research and surveying on relevant information;

7. To make an initial appraisal and calculation of the assets and liabilities within the scope of appraisal.

(III) Appraisal Summary Stage

To compile an initial analysis and summary of various types of assets, to make necessary adjustments, amendments and improves on the appraisal results.

(IV) Preparation and Submission Stage of the Appraisal Report

To compile asset appraisal report, and to exchange opinions on the appraisal draft with the entrusting party. After making comprehensive consideration of relevant opinions, amendments and corrections were made to the appraisal report according to the internal three-tier audit system and procedures of the appraisal authority, and to provide the official asset appraisal report.

IX. APPRAISAL HYPOTHESIS

- (1) Hypothesis on transaction;
- (2) Hypothesis on open market;
- (3) Hypothesis on continuous use of assets;
- (4) Hypothesis on continuous operation of the enterprise;
- (5) The existing macro economy of the State would have no substantial changes;
- (6) The social economic environment where the company is in, and policies such as tax and tax rate would have no substantial changes;
- (7) The future management team of the company fulfill their duties and the company keeps operating with the current management approach, so that the operation plans after the benchmark date could be implemented smoothly;
- (8) For the current management approach and standard, assume that the scope and approach of operation will be in line with the current direction;
- (9) This appraisal did not consider influence from the factor of inflation;
- (10) This appraisal did not consider the effect of premiums and discounts of controlling interests and non-controlling interests.

The appraisal personnel determined that these hypothesis were tenable on the benchmark date of appraisal pursuant to the requirement of asset appraisal. Should there be any material changes in the future economic environment or any changes in the pre-conditions, the appraisal personnel would not be liable for the difference in appraisal results arising from any changes in pre-conditions.

X. APPRAISAL CONCLUSION

This appraisal adopted the asset-based approach to conduct appraisal and calculations.

(1) Asset-based approach

Under the pre-condition of continued operation, as at the benchmark date of appraisal 31 March 2012, the book value of the entire shareholders' equity (net assets) of Beijing Tianhai Industry Co., Ltd. within the scope of appraisal amounted to RMB377.5756 million, with appraisal value as RMB659.5301 million, appreciation value as RMB281.9545 million and appreciation rate as 74.67%. The appraisal results for each type of assets and liabilities are listed below:

Summary of the assets appraisal results

Price unit: RMB'0,000

Item	Book Value	Appraisal value	Appreciation/Depreciation	Appreciation rate % D=C/A ×100%
	A	B	C=B-A	
1 Current assets	75,123.46	75,582.39	458.93	0.61
2 Non-current assets	47,590.13	75,326.65	27,736.52	58.28
3 Including: Long-term receivables	—	—	—	—
4 Long-term equity investments	24,389.30	28,394.86	4,005.56	16.42
5 Fixed assets	22,095.18	32,289.85	10,194.67	46.14
6 Construction in progress	176.08	184.27	8.19	4.65
7 Construction materials	—	—	—	—
8 Intangible assets	883.48	14,411.58	13,528.10	1,531.23
9 Development expenses	—	—	—	—
10 Deferred income tax assets	46.09	46.09	—	—
11 Total assets	122,713.59	150,909.04	28,195.45	22.98
12 Current liabilities	84,686.03	84,686.03	—	—
13 Non-current liabilities	270.00	270.00	—	—
14 Total liabilities	84,956.03	84,956.03	—	—
15 Net assets (owner's equity)	37,757.56	65,953.01	28,195.45	74.67

(2) Income approach

As at the benchmark date of appraisal, the book value of the owner's interests (net assets) of Beijing Tianhai Industry Co., Ltd. amounted to RMB377.5756 million, with appraisal value as RMB556.57 million, appreciation value as RMB178.9944 million and appreciation rate as 47.41%.

(3) Determination of appraisal conclusion

Due to the uncertainties in future income and the purpose of this appraisal, the appraisal personnel took the conclusion obtained by asset-based approach as the final conclusion for this appraisal, i.e. the market value of the entire shareholders' equity of Beijing Tianhai Industry Co. Ltd. on 31 March 2012 amounted to RMB659.5301 million.

XI. EXPLANATORY NOTES ON SPECIAL ISSUES

(I) Title defect

1. No building ownership certificate (or certificate of real estate) was registered for a housing item with floor area of 214.60 m². The appraised entity has provided the respective payment voucher and other documents, and guaranteed to remove the property before 31 December 2012. The housing item without building ownership certificate is as follow:

Sequence Number	Name of property	Completion date	Construction structure	Floor area (m ²)	Original book value (RMB)	Net book value (RMB)
1	Office building for sales	2002/12/31	Brick and concrete mixed	214.60	505,141.98	293,285.41
	Total			214.60	505,141.98	293,285.41

2. Long-term equity investment unit – No building ownership certificate (or certificate of real estate) was registered for 3 housing items of Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. (上海天海德坤複合氣瓶有限公司) with floor area of 2,579.20m². The appraised entity has provided the respective payment voucher and other documents, and provided a non-defective title which guaranteed the ownership of Shanghai Tianhai Dekun Composite Cylinder Co., Ltd. The appraisal was done based on the pre-condition that the above assets were an asset of the company, and that the company was requested to address such issue as early as possible. The housing items without building ownership certificate are as follow:

Sequence Number	Name of building	Structure	Completion date	Unit	Floor area (m ²)
1	Plant	Steel structure	2008/08	m ²	2,072.50
2	Auxiliary building	Frame	2008/11	m ²	438.70
3	Security room	Frame	2008/08		68.00
	Total				2,579.20

3. Long-term equity investments unit– as stated on the license HF6470A of the Ruifeng (瑞風) business Auto/JAC (江淮) of Shanghai Tianhai Dekun Composite Cylinder Co., Ltd., the rights holder was Zhang Qingsheng. The company has issued an explanation on the ownership of the vehicles, and Zhang Qingsheng has provided a proof on Shanghai Tianhai Dekun Composite Cylinder Co., Ltd.’s ownership on the vehicles. The details of the vehicles are as follows:

Sequence Number	License no. of vehicles	Name and specification of vehicles	Manufacturer	Unit	Number	Procurement date	Book value Original value	Net value
1	滬DH2132	Ruifeng business auto	JAC	Number of vehicles	1	2003/09	285,513.00	28,551.30

- (II) Pursuant to “The official reply for the change of English name and operating period and increase the total investment and registered capital of Tianjin Tianhai High Pressure Container Co., Ltd.” (Jin Bao Guan Qi Pi (2011) No. 218), Tianjin Tianhai

High Pressure Container Co., Ltd. increased its registered capital by RMB140.0784 million, where RMB77.0431 million was subscribed by Beijing Tianhai and RMB63.0353 million was contributed by TPCO Investment Co. Ltd. by physical assets. As at the benchmark date of this appraisal, Beijing Tianhai Industry Co. Ltd. has fully paid the subscribed capital and completed the capital verification but not yet amended the business registration. TPCO Investment Co. Ltd. has not paid for its contribution.

As per the above, for the purpose of this appraisal, the proportion of long-term equity investment shareholdings of Beijing Tianhai Industry Co. Ltd. in Tianjin Tianhai High Pressure Container Co., Ltd. was determined to be 30% as stated in the company's memorandum and articles of association before capital injection. The appraising approach of such long-term equity investment was as follows: an overall appraisal was done on Tianjin Tianhai High Pressure Container Co., Ltd. to obtain the appraisal value of the net assets on the benchmark date of appraisal net of the RMB77.0431 million contribution from Tianhai Industrial, which was then multiplied by 30% as the proportion of shareholdings and added with RMB77.0431 million so as to obtain the appraisal value of the 30% of long-term equity investment of Beijing Tianhai Industry Co. Ltd. in Tianjin Tianhai High Pressure Container Co., Ltd.

- (III) The appraiser has not conducted detection of technical parameters and performance of all kinds of equipment on the benchmark date of appraisal. The appraiser makes judgments through field survey with the assumption that the relevant technical data and operating records provided by the appraised entity is true and effective without the help of any testing instruments. The appraiser have not made any technical test to the underground construction work and the interior structure (which are not directly visible) of the buildings in this appraisal, and have only made judgments through on-site inspections without using any testing equipment on the assumption that the related work information provided by appraised entity are true and valid.
- (IV) The appraiser has conducted due diligence survey and did not, from the benchmark date of appraisal to the date of appraisal report, find any major events that may have any influence on the appraisal conclusion. After the benchmark date of appraisal, within the validity period of the appraisal conclusion, if the asset quantity and appraisal standard have any changes, they should be handled according to the following principles:
1. When there is a change in asset quantity, the original appraisal method should be adopted to make corresponding adjustments to the asset amount;
 2. When there is a change in asset appraisal standards and has brought significant influence to the asset appraisal, the entrusting party should promptly deploy a qualified appraisal institution to reconfirm the appraised value;
 3. On changes to asset quantity and appraisal standards after the benchmark date of appraisal, the entrusting party should give full consideration when making an actual appraisal for the assets and should make adjustments accordingly.
- (V) In the appraisal of long-term equity investments, the certified asset appraiser understood the liquidity of asset may have significant influence on value of the object of appraisal. Due to the lack of analysis basis for asset liquidity, such as information on industry and property exchange of relevant assets, the appraisal does not consider the impact of lack of market mobility on value of the object of appraisal.

- (VI) In the appraisal of long-term equity investments, the certified asset appraiser understood value of part of the shareholders' equity does not always equal to total value of shareholders' equity multiplying percentage of equity. Due to lack of information on industry and exchange of relevant equity, the appraisal does not consider depreciation of the object of appraisal as non-controlling equity.
- (VII) After the benchmark date of appraisal, the People's Bank of China has downward adjustments of the benchmark interest rate for RMB loans and deposits of financial institutions on 8 June 2012 and 6 July 2012 respectively. The factor such as change of interest rates is not included in the impact to the value of the object of appraisal.
- (VIII) After the benchmark date of appraisal, the litigation between Shanghai Tianhai Dekun Composite Cylinder Co., Ltd and Baoheng International Enterprise Group Co., Ltd. (寶亨國際企業集團有限公司) was mediated by the People's Court of Songjiang District in Shanghai on 1 June 2012. All parties involved had reached an agreement as follow: Shanghai Tianhai Dekun Composite Cylinder Co., Ltd has to pay RMB4,229,868.83 as a property transfer fee to Baoheng International Enterprise Group Co., Ltd. (寶亨國際企業集團有限公司) by 25 June 2012. The properties which have legal restrictions will be released after the benchmark date.
- (IX) In terms of defects which existed in the enterprise that are likely to affect value of assets, the appraiser institution and the appraisal personnel shall not assume relevant responsibilities if the enterprise did not provide any special explanations when performing entrusting and the said faulty matters could not be clarified after evaluators had gone through the appraisal procedures.

The appraiser would like to draw special attention from all report users to the above special issues.

XII. EXPLANATIONS ON THE LIMITATIONS OF THE APPRAISAL REPORT

- (1) This appraisal report should only be used for the appraisal purpose and use specified in this appraisal report, and it should not be used in any other purposes or use. Any consequences due to inappropriate use shall not be liable to the signed assets appraiser and the affiliated appraisal body;
- (2) This appraisal report should only be used by the appraisal report users specified in the Business Engagement Letter on Asset Appraisal signed between China Faith Appraisers Co, Ltd. and the entrusting party, as well as report users stipulated by national laws and regulations;
- (3) The appraisal report has not been verified or kept as a back-up copy. The appraisal conclusion should not be used;
- (4) Without consent from the appraisal body, no party should copy, quote or disclose all or part of the content of the appraisal report to the mass media;
- (5) From the benchmark date of appraisal, unless there is substantial change to market conditions or asset status, the validity of the appraisal conclusion in this appraisal report is one year from the benchmark date of appraisal, i.e. from the date of asset appraisal, 31 March 2012 to 30 March 2013;
- (6) When policy adjustments have a substantial influence on the appraisal conclusion, the benchmark date of appraisal should be reconfirmed to conduct appraisal.

XIII. DATE OF APPRAISAL REPORT

This appraisal report is dated 17 August 2012.

China Faith Appraisers Co., Ltd.

Legal representative: Chen Dongmei

Certified asset appraiser: Yang Yang Yu Hongtao

17 August 2012

The following is the full text of the Valuation Report of Jingcheng Compressor, formerly known as Jingcheng Environmental Protection Development Co., Ltd.. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

Statements of certified asset appraiser

In the preparation of this report, the appraisal personnel have provided earnest verification and applied necessary formula for appraisal assumptions on all assets and liabilities included in the scope of appraisal. We hereby make the following statement with regard to this appraisal report:

1. During the appraisal hereof, the certified asset appraiser has complied with relevant laws and regulations and assets appraisal standards and adhered to the principles of independence, objectivity and impartiality in performing the assets appraisal services. According to the materials collected by us during the appraisal process, the contents of this assets appraisal report are objective and we will assume corresponding legal liabilities for the justification of the conclusion of appraisal.
2. The list of assets and liabilities related to the object of appraisal is declared and signed/sealed for confirmation by the entrusting party and appraised entity. The entrusting party and the relevant parties are responsible for the authenticity, legality and completeness of the materials provided by them as well as the proper use of this Report.
3. The certified asset appraiser has no existing or potential interest in the object of appraisal under this appraisal report, and we have no existing or potential interest in or bias against the entrusting party and relevant parties.
4. The certified asset appraiser and other appraisal personnels have conducted on-site inspection of the object of appraisal under this appraisal report and the related assets. We have paid due attention to the legal titles of the object of appraisal and the related assets, verified the materials related to such legal titles, made truthful disclosures of the problems we have discovered and requested the entrusting party and the relevant parties to improve the title issues to meet the requirements for purposes of this appraisal report. However, no guarantee in any form could be provided towards the truthfulness of the legal titles of the object of appraisal.
5. The analysis, judgments and conclusions made in this appraisal report are subject to the assumptions and restrictive conditions herein. Users of this appraisal report are required to take into full consideration the assumptions, restrictive conditions and explanatory notes on special issues specified herein as well as their impact on the conclusion of appraisal.
6. This appraisal report and its disclosed conclusion were subject to the purpose set out herein and usage within the valid period in the conclusion. The appraisal company and the certified asset appraiser would not be responsible for any consequences arising from the improper use of this appraisal report.

**Summary of Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and
acquisition of interests in Beijing Jingcheng Environmental Protection Development
Co., Ltd.**

China Faith Appraisal Report Ref (2012) No. 273A

Important

This content of this summary is extracted from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

China Faith Appraisers Co., Ltd. was appointed by Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited to make an appraisal on the entire equities in Beijing Jingcheng Environmental Protection Development Co., Ltd. involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited in accordance with the relevant national laws and regulations and principles of independence, objectivity and impartiality.

The Object of appraisal was the entire shareholders' equity in Beijing Jingcheng Environmental Protection Development Co., Ltd.. The scope would cover the entire assets and relevant liabilities upon spinoff of environmental protection business) of Jingcheng Environmental Protection Development Co., Ltd.. The original major business scope of Jingcheng Environment covers compressor business and environmental protection business. The assets under valuation have excluded the environmental protection business of Jingcheng Environment and the shareholding of Beijing Jingcheng Tianyi Environment Technology Co., Ltd. (北京京城天義環保科技有限公司) it held. Upon spinoff, the major business is compressor business. Market value is used in appraisal on the benchmark date of appraisal on 31 March 2012.

The appraiser performed all necessary procedures for appraisal, to make appraisal by asset-based approach and income approach on the assumptions of the continued use of assets and an open market. Upon integrated analysis, the appraisal result arrived by asset-based approach was taken as the final conclusion.

On the benchmark date of appraisal, the appraisal result of Beijing Jingcheng Environmental Protection Development Co., Ltd. was RMB224.9325 million.

Table of summary of the assets appraisal

Price unit: RMB'0,000

Items		Book value	Appraisal	Difference in value	[%] Difference in value D=C/A ×100%
		A	B	C=B-A	
1	Current assets	16,367.16	17,120.73	753.57	4.60
2	Non-current assets	10,707.38	17,832.24	7,124.86	66.54
3	Included: Long-term receivables	—	—	—	
	Long-term equity				
4	investment	6,586.80	7,791.50	1,204.70	18.29
5	Fixed assets	2,741.83	3,313.22	571.39	20.84
6	Construction in progress	41.80	41.80	—	—
7	Construction materials	—	—	—	—
8	Intangible assets	956.59	6,305.36	5,348.77	59.15
9	Long-term deferred cost	—	—	—	—
10	Deferred income tax assets	380.36	380.36	—	—
11	Total assets	27,074.54	34,952.97	7,878.43	29.10
12	Current liabilities	12,411.08	12,411.08	—	—
13	Non-current liabilities	48.64	48.64	—	—
14	Total liabilities	12,459.72	12,459.72	—	—
15	Net assets (owners' equity)	14,614.82	22,493.25	7,878.43	53.91

Report users should note that title defects during the appraisal process were explained as special issues in the appraisal report.

The effective period of the conclusion of this appraisal report is one calendar year, from the benchmark date of appraisal of 31 March 2012 till 30 March 2013.

The date of this report is 5 September 2012.

The above content is extracted from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

Full Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and acquisition of interests in
Beijing Jingcheng Environmental Protection Development Co., Ltd.

China Faith Appraisal Report Ref (2012) No. 273A

To Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holding Limited,

China Faith Asset Appraisal Company Limited was appointed by the Company to make an appraisal on the market value of entire shareholders' equity in Beijing Jingcheng Environmental Protection Development Co., Ltd. involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited on 31 March 2012 in accordance with the relevant national laws and regulations and principles and standards of assets appraisal by asset-based approach and income approach via necessary procedures for appraisal. We hereby report the appraisal as follows.

I. Entrusting party, appraised entity and other users of the appraisal report

The entrusting party of this project is Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holding Limited. The appraised entity is Beijing Jingcheng Environmental Protection Development Co., Ltd. The user of the report is the entrusting party, relevant parties in the business aspect, the state-owned assets supervision and administration authority and the securities regulatory authority.

(i) Summary of the entrusting party

Name of entity	:	Beijing Jingcheng Machinery Electric Holding Co. Ltd. (named hereafter Jingcheng Holding)
Address	:	18/F, No. 59, East Third Ring Middle Road, Chaoyang District, Beijing
Legal representative	:	Ren Yaguang
Registered capital	:	RMB1,634.5455 million
Nature of business	:	Limited liability company (wholly state-owned)
Scope of business	:	General operations: operation and management of the state-owned assets according to the given authority; investments and investment management; property development and sales of commodity housing; leasing of properties; property management; technology transference, training, consultancy and service; sales of machinery and electric (EM) equipment ex. Auto.
Licensed management	:	Service dispatching.

(ii) Summary of the entrusting party

Name of entity	:	Beiren Printing Machinery Holdings Limited (named hereafter Beiren Holdings)
Registered capital	:	RMB422.00 million
Legal Representative	:	Zhang Peiwu
Registered address	:	No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing
Type of company	:	Stock limited company (listed, state controlled)
Scope of business	:	Authorised scope of operation: production of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; general logistics.
General scope of operation	:	Development, design and sales, maintenance and installation of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; technical consultancy, technical support, technical training for printing equipment and printing skills; management of the export of own enterprises' and member enterprises' self-produced products and technology; the import of own enterprises and member enterprises production of the required auxiliary materials, instruments and meters, parts and components of machines and technology (apart from those products restricted by the State from import and export); processing on customer-supplied materials and "processing raw materials on clients demands, assembling parts for clients and processing according to clients' samples or compensation trade"; the rental of office space, machineries and equipment; sales of printing machines.
Registered no.	:	110000005015956

(iii) Summary of the appraised entity

1. Summary

Name of entity	:	Beijing Jingcheng Environmental Protection Development Co., Ltd. (named hereafter Jingcheng Environment)
Address	:	1008 Kangxi Road, Badaling Economic Development Zone
Legal representative	:	Kang Yi Qing
Registered capital	:	RMB109.2815 million
Nature of business	:	Other limited liability company
Scope of business	:	Licensed operation: ordinary shipment (carried by branches only).
General operation	:	Import and export of goods, import and export of technology, import and export agency; professional contracting; could not operate those items prohibited by laws, administrative regulations and decisions of the State Council; operating those items to be licensed by laws, administrative regulations and decisions of the State Council are subject to the approval from the relevant approval authorities and registration with the relevant industrial and commercial administrative authorities; for those items which do not required license by laws, administrative regulations and decisions of the State Council, they could be freely selected and commence operation.

2. History

Beijing Jingcheng Environmental Protection Development Co., Ltd. was established on 6 August 2002 with registered capital of RMB61.00 million, jointly contributed by Jingcheng Holding Machinery Electric Holding Co., Ltd., Beijing State-owned Assets Management Co. Ltd. and Beiren Group. The contributions and proportion of interests of various shareholders are as follows:

Name of shareholder	Contribution (RMB'0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	2,100.00	34.42%
Beiren Group	2,000.00	32.79%
Beijing State-owned Assets Management Co. Ltd.	2,000.00	32.79%
Total	6,100.00	100%

On 11 June 2004, pursuant to the resolution of the general meeting of Jingcheng Environment, it was resolved that Jingcheng Holding Machinery Electric Holding Co., Ltd. and Beiren Group would contribute to Jingcheng Environment to process the capital increment, upon which the registered capital amounted to RMB95.0041 million. Shareholding structure upon capital increment is as follows:

Name of shareholder	Contribution (RMB'0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	3,800.52	40%
Beiren Group	3,699.89	38.95%
Beijing State-owned Assets Management Co. Ltd.	2,000.00	21.05%
Total	9,500.41	100%

On 5 January 2005, pursuant to the resolution of the general meeting of Jingcheng Environment, Beijing State-owned Assets Management Co. Ltd. would contribute additional RMB6 million to Jingcheng Environment, upon which the registered capital amounted to RMB101.0014 million. Shareholding structure upon capital increment is as follows:

Name of shareholder	Contribution (RMB'0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	3,800.52	37.63%
Beiren Group	3,699.89	36.63%
Beijing State-owned Assets Management Co. Ltd.	2,600.00	25.74%
Total	10,100.41	100%

On 20 June 2005, pursuant to the resolution of the general meeting of Jingcheng Environment, Beijing State-owned Assets Management Co. Ltd. would transfer 25.74% equity interests it held in Jingcheng Environment to Beijing Industrial Developing Investment Management Co., Ltd. Shareholding structure upon equity transfer is as follows:

Name of shareholder	Contribution (RMB '0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	3,800.52	37.63%
Beiren Group	3,699.89	36.63%
Beijing State-owned Assets Management Co. Ltd.	2,600.00	25.74%
Total	10,100.41	100%

On 28 April 2008, pursuant to the resolution of the general meeting of Jingcheng Environment, the registered capital of Jingcheng Environment changed from RMB101.0014 million to RMB109.2815 million, the increase of registered capital of RMB8.2774 million was contributed by Jingcheng Holding Machinery Electric Holding Co., Ltd. in cash. Shareholding structure of Jingcheng Environment upon this capital increment is as follows:

Name of shareholder	Contribution (RMB '0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	4,628.26	42.35%
Beiren Group	3,699.89	33.86%
Beijing State-owned Assets Management Co. Ltd.	2,600	23.79%
Total	10,928.15	100%

In 2008, Beiren Group and Jingcheng Holding Machinery Electric Holding Co., Ltd. entered into an Agreement for Gratuitous Transfers of State-owned Property Rights held by Enterprise, pursuant to which 33.86% equity interests of Jingcheng Environment held by Beiren Group would be gratuitously transferred to Jingcheng Holding Machinery Electric Holding Co., Ltd.. Shareholding structure of Jingcheng Environment upon gratuitous transfer is as follows:

Name of shareholder	Contribution (RMB '0,000)	Proportion of contribution (%)
Jingcheng Holding Machinery Electric Holding Co., Ltd.	8,328.15	76.21%
Beiren Group		
Beijing State-owned Assets Management Co. Ltd.	2,600.00	23.79%
Total	10,928.15	100%

As at the benchmark date of appraisal, there is no change in the shareholders and shareholding proportion of Jingcheng Environment.

3. *The Company's balance sheet and operation results in the recent 3 years and on the benchmark date of appraisal*

The balance sheets as of 31 December 2009, 2010 and 2011 and 31 March 2012 and that as of the benchmark date of appraisal (as audited by Shinewing Certified Public Accountants. Audit report number is XYZH/2011TJA1097-4) are summarised as follows:

Price unit: RMB'0,000

Items	31 March 2012	31 December 2011	31 December 2010	31 December 2009
Current assets	16,367.16	14,777.79	13,328.76	11,893.69
Non-current assets	10,707.38	10,465.19	9,648.05	9,184.56
Including: Long-term				
receivables	—	—	—	—
Long-term equity				
investments	6,586.80	6,369.79	5,385.24	4,638.50
Fixed assets	2,741.83	2,765.59	2,939.17	3,178.94
Construction in				
progress	41.80	18.80	—	—
Construction				
materials	—	—	—	—
Intangible assets	956.59	965.19	982.82	1,014.06
Long-term deferred				
expenses	—	—	2.44	9.21
Deferred income tax				
assets	380.36	345.81	338.39	343.85
Total assets	27,074.54	25,242.97	22,976.81	21,078.25
Current liabilities	12,411.08	10,416.89	9,665.14	8,838.66
Non-current liabilities	48.64	47.19	41.41	35.64
Total liabilities	12,459.72	10,464.08	9,706.55	8,874.30
Total shareholders' equity	14,614.82	14,778.89	13,270.26	12,203.95

The statements of income for 2009, 2010, 2011 and from January to March 2012 are as follows:

Price unit: RMB'0,000

Items	Jan-Mar 2012	2011	2010	2009
Operating income	868.83	12,479.74	9,327.71	9,455.09
Less: Operating costs	639.93	9,223.72	7,157.01	6,282.81
Business taxes and surcharges	5.07	46.64	59.38	66.76
Sales expenses	205.16	1,012.45	720.23	836.33
Managing costs	478.53	2,510.41	2,148.83	1,753.64
Financing costs	39.58	102.44	110.20	122.28
Asset impairment loss	139.38	-173.46	-502.86	620.22
Add: Gain from the change in fair value (loss is marked with "-")	-	-	-	-
Investment income (loss marked "-")	217.01	1,801.07	1,448.20	1,164.86
Of which: Operating income from associates and joint ventures (loss is marked with "-")	-	-	-	-
Operating profits (loss is marked with "-")	-421.81	1,558.62	1,083.11	937.91
Add: Non-operating revenue	41.89	36.55	47.33	94.11
Less: Non-operating expenses	21.92	109.88	16.44	9.95
Of which: Loss from disposal of non-current assets	-	-	-	-
Total profit (loss is marked with "-")	-401.83	1,485.29	1,114.00	1,022.07
Less: Income tax expenses	-34.55	-7.42	35.23	-70.13
Net profit (net loss is marked with "-")	-367.28	1,492.71	1,078.77	1,092.20

The data for such period of three years was audited by Shinewing Certified Public Accountants, for which an unqualified-opinion audit report (No. XYZH/2011TJA1097-4) was issued.

4. Relationship between the entrusting party and the appraised entity

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd holds 100% shareholdings of Beiren Group Corporation. Beiren Group Corporation holds 47.78% shareholdings of the entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd.

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd. owns 76.21% interests in Beijing Jingcheng Environmental Protection Development Co., Ltd., the appraised entity.

II. Purpose of appraisal

According to the development strategies and marketing positioning of the Beijing Jingcheng Machinery Electric Holding Co. Ltd and in order to achieve rapid development of Beiren Printing Machinery Holdings Limited, Beiren Printing Machinery Holdings Limited plan to use its entire assets and liabilities to carry out a material assets reorganisation with the gas storage and transportation equipment business owned by Jingcheng Holdings, which is involving 71.56% equity of Tianhai Industrial, 100% equity of Jingcheng HK and 100% equity of Jingcheng Environment after spinning out environmental business.

The purpose of this appraisal is to appraise the entire shareholders' equity of Beijing Jingcheng Environmental Protection Development Co., Ltd., the acquisition target, so as to provide its market value on the benchmark date of appraisal for reference of such business action.

The business action documents involved in this appraisal include:

1. Jing Ji Dong (Que) (2012) No. 10 "Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) (2012) No. 14-01 "Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) (2012) No. 14-02 "Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

III. Object and scope of appraisal

(i) Object and scope of appraisal

The object of appraisal of this project was the entire shareholders' equity of Beijing Tianhai Industry Co. Ltd. The scope of appraisal covers the entire assets and relevant liabilities of Beijing Jingcheng Environmental Protection Development Co., Ltd. (upon spinoff of environmental protection business).

Total assets amount to RMB270,745,456.76, Including:

Current assets	:	Carrying amount	RMB163,671,586.49
Non-current assets	:	Carrying amount	RMB107,073,870.27
Long-term investments	:	Carrying amount	RMB65,868,026.93
Fixed assets	:	Carrying amount	RMB27,418,270.91
Construction in progress	:	Carrying amount	RMB418,000.00
Intangible assets	:	Carrying amount	RMB9,565,942.82
Deferred assets	:	Carrying amount	RMB3,803,629.61

Total liabilities amount to RMB124,597,190.97.

Current liability	:	Carrying amount	RMB124,110,818.40
Non-current liability	:	Carrying amount	RMB486,372.57

The above data was audited by Shinewing Certified Public Accountants and a specified audit report was issued.

Furthermore, the scope of appraisal also includes the intangible assets (patent and trademark) with no book entry.

In addition to the above matters, the objects and scopes of this appraisal are consistent with those confirmed in the entrustment.

(ii) An asset or asset portfolio which has a greater impact on corporate value

Accounts receivable, fixed asset, long-term equity investment and inventory have a higher proportion in the assets of Beijing Jingcheng Environmental Protection Development Co., Ltd.

1. Accounts receivable is mainly the trade receivable;
2. Inventories are mainly the raw materials, goods in progress and finished goods;
3. Long-term investment is mainly the investment in Beijing Fusheng Machine Co., Ltd. (北京復盛機械有限公司), representing 30% of the shareholdings. Details are as follow:

Investees	Date of investment	Investment period of the agreement	Investment ratio (%)	Book value
Beijing Fusheng Machine Co., Ltd. (北京復盛機械有限公司)	1993/12/23	2043/12/22	30%	65,868,026.93

4. Fixed assets are mainly the property assets and equipment assets.

Buildings are located in the industrial development zone of Kangzhuang Town, Yanqing County, Beijing. Most of the buildings are large workshop (machinery and assembly workshop), base structural parts workshop and base assembly workshop etc, which are mainly the mixed construction buildings and brick and wood buildings. The buildings were completed and put into use from 1975 to 2007. The major renovation items include marble floor, exterior and interior wall paint. Water, air conditioning, power and hygiene facilities are in place and available for use.

The major equipment of Beijing Jingcheng Environmental Protection Development Co., Ltd. are bench drill, bender, ac arc welder, beam drill, universal tool grinder, grinding mill, plate shearing machine, common lathe, three roller coiling machine, slotting machine, vertical axle plane grinder (立軸圓台平磨床), vertical milling machine, universal milling machine, bending machine, horizontal boring machine, outer grinder (外園磨床), plane miller, single shaper and vertical lathe etc. Those machines are mainly purchased during 2004 to 2005 in order to meet the production capacity requirements. Transport vehicles are

used for daily transportation. The office equipment in the finance department and each of the workshops mainly the electronic equipment including calculator, duplicator, printer and air conditioner etc., most of them were purchased during 2009 to 2011.

(iii) The intangible assets of the enterprise

1. The intangible assets with enterprise book entry include 2 state-owned land use rights and 3 office software.
2. The intangible assets without enterprise book entry include 1 patent, 5 copyrights and 7 trademarks.

IV. Type of value and its definition

The type of value for the object of appraisal is defined as market value based on the business activity and purpose of this appraisal, Its definition is as follows: under the situation that the buyer and the vendor are acting voluntarily, reasonably and without any coercion, the estimated amount is the value of fair and normal transaction carried out by the object of appraisal on the benchmark date of appraisal.

V. Benchmark date of appraisal

The benchmark date of appraisal of this project is 31 March 2012.

The benchmark date of appraisal was selected by the entrusting party taking account into factors including the end of the reporting period and facilitation for such business activity etc.

VI. References of appraisal

(i) Business activity basis

1. Jing Ji Dong (Que) [2012] No. 10 “Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) [2012] No. 14-01 “Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) [2012] No. 14-02 “Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

(ii) Laws and regulations basis

1. “Company Law of People’s Republic of China” (amended in the 18th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 27 October 2005);
2. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises”(Order of the President No. 5 in 2008);

3. “The Law of Land Administration of the People’s Republic of China”(amended in the 11th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 28 August 2004);
4. “Law of the People’s Republic of China on Urban Real Estate Administration” (Order of the President of the People’s Republic of China No.72 as amended in the 29th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 30 August 2007);
5. “Rules of Administration on Appraisal of State-Owned Assets” (Order 91, issued by the State Council in 1991);
6. “Detailed Implementation Rules of Administration on Appraisal of State-Owned Assets” (Guo Zi Ban Fa [1992] No. 36);
7. “Provisional Rules on Supervision and Administration of Enterprises’ State-Owned Assets” (Order 378, issued by the State Council in 2003);
8. “Provisional Rules of Administration on Transferring Enterprises’ State-Owned Properties” (Order 3 issued by the State-Owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance in 2003);
9. “Provisional Rules of Administration on Appraisal of Enterprises’ State-Owned Assets” (Order 12 issued by the State-Owned Assets Supervision and Administration Commission of the State Council in 2005);
10. “Notice on Issues in relation to Strengthening Administration on Appraisal of Enterprises’ State-Owned Assets” (Guo Zi Wei Chanquan [2006] No. 274 issued by the State-Owned Assets Supervision and Administration Commission of the State Council);
11. “Provisional Measures for the Administration of Appraisal of State-owned assets of Enterprises in Beijing” (Jing Guo Zi Fa 2008 No. 5);

(iii) Basis of appraisal standards

1. “Assets Appraisal Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
2. “Assets Appraisal Professional Ethics Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
3. “Assets Appraisal Standards-Appraisal Reports” (Zhong Ping Xie [2007] No. 189);
4. “Assets Appraisal Standards-Appraisal Formulae” (Zhong Ping Xie [2007] No. 189);
5. “Assets Appraisal Standards-Machineries and Equipment” (Zhong Ping Xie [2007] No. 189);
6. “Assets Appraisal Standards-Real Estates” (Zhong Ping Xie [2007] No. 189);

7. “Assets Appraisal Standards – Intangible Assets” (Zhong Ping Xie [2008] No. 217);
8. “Guide on Enterprise State-Owned Assets Appraisal Report” (Zhong Ping Xie [2008] No. 218);
9. “Guidelines for Certified Public Appraisers Concerning Legal Ownership of Object of Appraisal” (Zhong Zhu Xie Hui Xie [2003] No. 18);
10. “Assets Appraisal Standards – Enterprise Values” (Zhong Ping Xie [2011] No. 227);
11. “Guidelines on Type of Values in Assets Appraisal” (Zhong Ping Xie [2007] No. 189);
12. “Accounting Standards for Enterprises – Basic Standards” (order 33 issued by the Ministry of Finance);
13. 38 specific standards listed in “Accounting Standards for Enterprises No. 1 – Inventories” (Cai Hui [2006] No. 3 issued by the Ministry of Finance);
14. “Accounting Standards for Enterprises – Guidelines on Application” (Cai Hui [2006] No. 18 issued by the Ministry of Finance);
15. “Standards on Valuation of Estate” (GB/T50291-1999);
16. “Regulations for Valuation on Urban Land” (GB/T18508-2001);
17. “Regulations for Classification on Urban Land” (GB/T18507-2001).

(iv) Asset title basis

1. “Registration Certificate of Property Rights on State-owned Assets”;
2. House Ownership Certificate;
3. Utilisation Permit of State-owned Land;
4. Vehicle Travel License;
5. Contract or receipt of purchase of material assets;
6. Other documentary proof of property ownership.

(v) Price determination basis

1. Notice of “Requirements of Financial Management of Infrastructure” (Cai Jian [2002] No. 394 issued by the Ministry of Finance);
2. “Rules on Administration of Engineering Investigation and Design Charges” (Ji Jia Ge [2002] No. 10) issued by the State Planning Commission and the Ministry of Housing and Urban-Rural Development;

3. “Rules on Construction Supervision and Related Services Charges” (Fa Gai Jia Ge [2007] No. 670);
4. “Notice on Related Issues of Regulating Fee Collection of Environmental Consultancy” (Ji Jia Ge [2002] No. 125) by the State Planning Commission and the Ministry of Environmental Protection of China);
5. Order No.3 of the State Development Planning Commission in 2000, “Provisional Measures on Fee Collection of Tendering Agency Services” (Ji Jia Ge [2002] No. 1980), “Notice Regarding the Issues of Fee Collection of Tendering Agency Services” (Fa Gai Ban Jia Ge [2003] No. 857) promulgated by the General Office of National Development and Reform Commission;
6. Notice of publishing ‘the details implemented by Beijing of “Management Approach on the collection of special fund for new wall materials” by the Ministry of Finance and National Development and Reform Commission’ (Jing Cai Jing Er [2003] No. 802);
7. ‘Notice on Publishing “The Provisional Approach for Collecting Urban Infrastructure Construction Fee of Beijing”’(Jing Ji Tou Zi Zi [2002] No. 1792);
8. “Provisional Regulations of the People’s Republic of China on Vehicle Acquisition Tax” (Order No. 294 of the Central People’s Government of the People’s Republic of China on 22 October 2000);
9. “The Standard of Vehicles Scrappage” (published by the original State Economic and Trade Commission Jing [1997] No. 456);
10. “The Notice of Regulating the Vehicles Scrappages Standard” (published by the original State Economic and Trade Commission Ziyuan [2000] No. 1202);
11. “List of lending rates of the People’s Bank of China” (effective from 7 July 2012);
12. Forex rates by State Administration of Foreign Exchange on 31 March 2012;
13. “Quota of Construction Budget of Beijing (2001)”;
14. “Quota of Fitting up Budget of Beijing”;
15. “Beijing construction costs information” (issued by Department of Construction Costs Beijing in March 2012);
16. “Standardised National Quota of Construction and Installation Duration” (issued by Ministry of Construction, Jian Biao [2000] No. 38);
17. “Handbook of Mechanical and Electrical Products Pricing” (issued by Mechanical Industry Research Institution in 2012);
18. Advertising and market information in March 2012 from Hui Chung’s Website (www.hc360.com);
19. Various Estimated Calculation Standards and Estimated Calculation Methods for Machinery Industry Construction;

20. “(2006-2007) Assets Appraisal Data & Parameters Handbook” (issued by Economic Science Press);
21. Construction budget and accounts and other relevant information provided by the appraised entity;
22. List of assets and other relevant information provided by the appraised entity;
23. Financial, accounting and operational information provided by the appraised entity;
24. Market information, industrial economic and macro-economic information provided by the appraised entity;
25. Information obtained via on-site survey and investigation by the appraisal personnel;
26. Wind Capital Information Terminal;
27. Relevant technical information for construction and geological exploration information;
28. Other reference materials.

VII. Appraisal Methodology

Pursuant to Assets Evaluation Standards – Value of Enterprise, appraisal approaches mainly include asset-based approach, income approach and market approach. With reference to relevant conditions, including purpose of appraisal, object of appraisal, type of value and information collected, asset-based approach and income approach were used herein.

Asset-based approach refers to the concept of determining value of appraised object basing on rational appraisal of all assets and liability within or out of the balance sheet of the appraised enterprise on the benchmark date of appraisal.

Basic Formulae of asset-based approach:

Value of the entire shareholders equity = sum of the appraisal value of each asset – sum of the appraisal value of each liability

The appraised entity hereof assumes continued operation with core assets including physical assets such as land, plants and equipment. Various assets within the scope of appraisal can be identified and can be individually appraised with appropriate appraisal methodology. If there is no asset or liability that is difficult to identify and will cause material impact to the value of appraisal object, asset-based approach can be used.

Income approach refers to the approach of valuating the appraised object by capitalising or realising the expected income.

The appraised entity hereof possess the basis and condition of continued operation with a relatively stable correlation between operation and income, and its income and risks can be estimated and quantified. Thus income approach is a feasible way for appraisal.

Market approach means to compare the appraised entity with similar listed companies or comparable cases to evaluate the value of the appraised object.

Two common ways of market approach are the listed company comparison approach and transaction case comparison approach.

As the appraised company is not listed, it would differ relatively large from listed companies in the same industries in various aspects such as the business structure, operation approach, company size, assets allocation and utilisation, stage of operation of the company, growth, operating risks and financial risks. Furthermore, it would be difficult to obtain the data of transaction, acquisition and merging cases of comparable Chinese entities in the same industry on the benchmark date of appraisal. Thus market approach was not used in this appraisal.

(i) Asset-based approach

1. Current assets

Current assets include currency fund, bill receivable, accounts receivable, advance payment, other receivables and inventories.

- (1) Currency fund: include cash, bank deposits and other currency fund. The appraisal personnel adopted the approach of inspection stocking to conduct on-site stocktaking for cash. They performed a reasonable deduction calculation based on the cash daily log. After the deduction calculation, they appraised the cash balance of the benchmark date of appraisal, which was verified against the cash log. The verified book value was used as an appraisal value. On bank saving accounts, after verifying internals records, completing bank statement reconciliation, and checking the status of the company's correspondence with the bank, a trial balance on the bank saving amount was conducted. After verifying that there was no error, the verified book value was used as an appraisal value. For other currency fund, the appraisal personnel reviewed the relevant book record and verified the statement and issued a verification letter for the balance at the end of period. It was verified that the amount and balance of other currency fund is consistent. The verified book value of other currency fund was used as an appraisal value.
- (2) Bill receivable: the appraisal personnel first verified the accounts, breakdowns of accounts, accounting statements and appraisal on the breakdowns of accounts, and then applied inspection stocking of the bills to verify the relevant content in the bill receivable record. Then, the staff investigated the future acceptance and endorsement transfer of the bills to confirm the truthfulness of the business activities involved in the bills and the accuracy of the amount. Due to the short time and high realization ability of bill receivable and the credit of the note drawing entity, the verified book value was taken as the appraisal value.
- (3) Accounts receivable: include accounts receivable and other receivables. The appraisal personnel provide confirmation on large amounts and have conducted a specific analysis of the amount of receivables, time overdue and reasons for default, recovery status, debtors' availability of funds, credibility and management situation on the basis of business content and aging analysis by reviewing books and statements. Upon such specific analysis, possibilities of recovering each of the accounts receivables were

determined. By individual identification approach and aging analysis approach, an integrated analysis of the recoverable amount was obtained to evaluate the appraisal value of the accounts receivable. The provision for bad debt of the accounts receivable was zero.

- (4) Advance payment: the appraisal personnel verified the book records, checked relevant information such as the original voucher and business contracts, verified the truthfulness, aging business content and amount of the transaction items, and the consistency among the amount stated on accounts, statements and invoices.

The advance payment was recovered in form of relevant goods and was used to confirm the appraisal value based on the relevant assets or entitlement arised.

(5) Inventories

Inventories include goods in transit, raw materials, finished products (commodity stocks) and work in progress.

For appraisal of inventories, the appraisal personnel first verified the progress of inventory control to understand the system for the in and out of the inventories and the management and accounting system, and verified the financial records, statistics statements and on-site inspection of the enterprise. They also undertake sampling inspection on the receive and dispatch and carry-over of inventories and the maintained invoices and records, as well as reviewed the relevant book records and original vouchers, in order to confirm the truthfulness and title status of the inventories.

Then, the appraisal personnel inspected the pricing and audit approach of the inventories. Value of the inventories is calculated based on the actual costs.

The appraisal of each inventory items is made based on the following approach:

1) Goods in transit

The appraisal personnel made efforts to know that most of the goods in transit within the valuation scope are around the valuation date, and that their book unit prices are basically equal to their market price on the valuation date. Therefore, the appraisal personnel, on the basis of their account-account and account-statement verification, determined the appraisal value as actual purchasing cost.

2) Raw materials

- A. The appraisal personnel made efforts to know that most of the raw materials within the valuation scope are around the valuation date, and that their book unit prices are basically equal to their market price on the valuation date. Therefore, the appraisal personnel, on the basis of their account-account and account-statement verification, determined the appraisal value as actual purchasing cost.

- B. For raw materials purchased for a long time with no value in use, the appraisal value was determined as net realizing value.

3) Work in progress

Work-in-progress means the products under production progress. According to the reported product breakdowns provided by the appraised entity, the appraisal personnel undergo screening of the original invoices, vouchers, and account breakdowns, sampling inspection on their production and dispatching business, and investigation on the composition of the value of the work-in-progress. Upon verification, it was concluded that the carry-over of cost of the work-in-progress was timely and complete. Its amount was accurate and production cycle was short. The work-in-progress took the verified book value as its appraisal value.

4) Finished products

Finished products are products of all specifications and types produced for sale by the appraised entity. Through the sales department, its sales situation was understood. Sales cycle was half year. All of which were products for normal sales.

Selling prices net of tax was deducted by the sales expenses and all taxes. Sales tax and expenses include sales expenses and the relevant tax liabilities. Sales expenses was calculated based on the average sales expense rates in recent years. The relevant tax liabilities was calculated taking into account the actual tax liabilities situation of the company, which includes sales tax and surcharges and income tax. The appropriate net profit after tax was confirmed by 50% of the profit after tax.

Calculation formula:

$$\text{Appraisal value of finished products} = A \times \{1 - r_1 - r_2 - r_3 [T + r_4 (1 - T)]\}$$

Where A: price of products net of sales tax

r_1 : sales expense rate of the products

r_2 : Sales tax and surcharge rate of the products

r_3 : Sales margin of products

r_4 : Deducted rate of net profit after tax

T : Income tax rate

2. *Non-current assets*

Non-current assets include long-term investments, fixed assets, intangible assets and deferred assets etc.

(1) Long-term equity investments

The appraisal personnel has carried out overall assessment of investee of the Company. The valuation principles have complied with, the valuation approaches adopted, and the valuation procedures in which their assets and liabilities are assessed, are the same as the ones for the Company (i.e. the same standards and scale).

Appraisal value of the long-term equity investments held = Appraisal value of the total equity of the investee $\times$ the proportion of investment.

If the appraisal value of the entire shareholders' equity of the investee was negative, the appraisal value of such long-term investment would be deemed as zero.

(2) Appraisal of fixed assets

1) Estate assets

Estate assets were appraised using replacement cost approach.

① Replacement cost approach

Buildings for production used adopted a principle to appraise the real estate and the land separately by replacement cost approach.

Replacement cost approach refers to calculating the necessary investment for replacement of the same type of building (known as replacement price) based on the market condition and the structural characteristics of the appraised building during the appraisal time, and multiply this replacement price by the integrated depreciation rate of the building to determine the value of the appraised real estate.

Appraisal value = replacement price $\times$ integrated depreciation rate

Replacement price = construction and installation cost + preliminary expense and other charges + capital cost

Integrated depreciation rate = theoretical depreciation rate $\times$ weight + surveyed depreciation rate $\times$ weight

A. Determination of replacement price

a. Estimation of construction and installation cost

According to the actual condition of the assessed housing construction, the housing construction was divided into 3 types of structures. The appraisal personnel

systematically classified the construction under appraisal based on the type of structures, functionality and geographical distribution, to group structurally equal or similar buildings. From different structures, typical construction works would be selected. The appraisal institution then collected the completion information such as the financial account budget/settlement and completion drawings and verified the construction amount. With reference to “Quota of Construction Budget of Beijing (2001)”, “Budget quota for construction and renovation of Beijing (2001)”, the March 2012 issue of the Beijing construction costs information monthly etc., the cost of construction work was calculated. The construction and installation cost of other housing with the same kind of structures was calculated with differential adjustment approach for typical construction works. Factors affecting construction installation cost of housing mainly include the number of floors, height of each floor, appearance, floor plan layout, width, open area, construction materials, renovation standards, equipment and facilities and level of difficulty during construction. The appraisal object and typical construction works were compared so as to obtain an integrated adjustment figure. The construction and installation cost of the appraisal object equaled to the construction and installation cost of typical construction works multiplied by integrated adjustment coefficient.

For estimation of the replacement unit price of small buildings, calculation was done by the difference adjustment on the price of similar structured buildings in the area on the benchmark date of appraisal.

b. Preliminary expense and other charges

According to the local government requirement and industry standards, the standards for collecting preliminary expense and other charges are:

Sequence No.	Name of expense	Basis for expense calculation	Expense rate	Reference for expense calculation
1	Construction design and surveying fee	Construction and installation cost	3.21%	Notice on “Regulations on Management on Surveying and Design Charges of Construction” issued by State Planning Committee and Ministry of Construction (Ji Jia Ge (2002) No. 10)
2	Management fee of the construction entity	Construction and installation cost	1.22%	Notice on “Regulations on Financial Management of Infrastructure” (Cai Jian [2002] No. 394)

Sequence No.	Name of expense	Basis for expense calculation	Expense rate	Reference for expense calculation
3	Project supervision fees	Construction and installation cost	2.36%	Administrative Regulations on Construction Projects Supervision and Related Service Charge Fa Gai Jia Ge [2007] No. 670
4	Environmental impact assessment fee	Construction and installation cost	0.15%	Notice on Regulating Consultation Fee Notification on the Relevant Issues on the Environmental Impact by the State Planning Commission and Ministry of Environmental (Ji Jia Ge [2002] No. 125)
5	Bidding agency service charge	Construction and installation cost	0.38%	Order No.3 of the State Development and Planning Commission, Provisional Method for Managing Bidding Agency Service Charges (Ji Jia Ge [2002] No. 1980), Notice on the Issues Regarding Bidding Agency Service Charge Issued by the General Office of National Development and Reform Commission (Fa Gai Ban Jia Ge [2003] No. 857)
6	Special fund for new wall materials	Floor area	8.00 (RMB/m ²)	Jing Cai Jing Er [2003] No. 802
7	Construction fee for urban infrastructure	Floor area	200.00 (RMB/m ²)	Jing Ji Tou Zi Zi [2002] No. 1792

c. Capital cost

According to the company's scale of construction and original information, the terms of construction of the project was determined by the national construction term quota. Assuming a normal construction term and all construction capital would be injected evenly during the construction period, the capital cost was calculated based on the RMB loan interest rate on the benchmark date of appraisal.

Loan interest rates published by financial institutions on 7 July 2011

Term of loan	Annual interest rate (%)
1. Short-term loan	
Six months (including)	6.10%
Six months to one year (including)	6.56%
2. Long-term to middle-term loan	
One year to three years (including)	6.65%
Three years to five years (including)	6.90%
Five years or above	7.05%
3. Discount	Determined with reference to the floor of rediscount rate

Capital cost = (construction and installation cost + preliminary expense and other charges) × construction period × interest rate × 1/2

Replacement price = Construction and installation cost + preliminary expense and other charges + capital cost

B. Setting the integrated depreciation rate

The approach of combining theoretical depreciation rate and surveyed depreciation rate was used to set the integrated depreciation rate of the construction.

a. Calculation of the theoretical depreciation rate

Theoretical depreciation rate = (Economic useful life – used life) / Economic useful life × 100%

Or:

Theoretical depreciation rate = residual useful life / (used life + residual useful life) × 100%

b. Determination of the surveyed depreciation rate

Firstly, the main factors affecting the surveyed depreciation rate was classified according to structures (basic, walls, load, façades), decoration (floor, interior and exterior, doors and windows, ceilings), equipment and facilities (water and hygiene, air conditioning, power and lightings). With reference to the requirements under “Appraisal standard for the damage condition of houses” issued by the Ministry of Construction, combined with the items confirmed during on-site surveying, the sound value was appraised, and by which the surveyed depreciation rate was arrived based on its weight.

Surveyed depreciation rate = scores for structural parts × weight + scores for decoration parts × weight + scores for installation parts × weight

c. Integrated depreciation rate

Integrated depreciation rate was calculated taking a weight value of 40% from theoretical depreciation rate, and a weight value of 60% from surveyed depreciation rate.

Integrated depreciation rate = theoretical depreciation rate × 0.4 + surveyed depreciation rate × 0.6

C. Determination of appraisal value

Appraisal value = Replacement price × Integrated depreciation rate

2) Equipment assets

Equipment for normal production and operation and comparable with same type of new equipment in the market were mainly appraised using cost approach for the purpose of this appraisal, according to the principle of continuous use, taking market price as a reference, while considering equipment characteristics and the details of the data collected. For those with longer duration of use for which no market price of the same type of new equipment with active secondary market could be obtained (e.g. general motor and electronic office equipment) was appraised by market approach.

① Replacement cost approach

Appraisal value = replacement price × integrated depreciation rate

A. Determination of total replacement cost

a. Machinery equipment

For equipment made in China, the reference of the replacement price was mainly the current marketing price of same-model or same-type equipment in the China market. It was determined after considering other factors such as necessary transportation and miscellaneous fees, installation and adjustment fee, basic and other charges and capital cost.

For imported equipment, the replacement price were mainly based on the CIF price or FOB of the recent equipment of the same type with reference to the foreign transportation insurance premium, foreign trading administration fee, commodity inspection fee, customs duty, value added tax, domestic transportation and miscellaneous fee, equipment installation and adjustment fee, basic charge, other charges and capital cost.

Replacement price = equipment procurement fee net of tax + transportation and miscellaneous fee + installation and adjustment fee + basic charge + other charges + capital cost – value added tax of transportation fee

a) Procurement price

This was determined mainly by inquiring pricing from manufacturing factories, trading market and trading companies or pricing information with reference from “2012 Handbook of Mechanical and Electrical Products Pricing”, while also taking reference from recent contract price of same-type equipment.

b) Transportation and miscellaneous fees

Taking the procurement price as a basis, factors such as the distance between the location of the production plant and the equipment and the weight, shape and size of the equipment were used as a reference to make calculations based on different transportation and miscellaneous fees.

c) Installation and adjustment fee

According to the characteristics, weight, ease of installation, the procurement price of the equipment was used as a calculation basis to make calculations based on different installation rates.

Small equipment without the need of installation were not considered to have installation and adjustment fees.

d) Basic charge

Based on the characteristics of the equipment, with reference to “The Arrangement Method and Various Standards for Budget Estimation of Machinery Industry Construction Projects”, the procurement price was used as a basis. Basic charge was calculated based on different basic rates.

e) Other charges

Other charges include management fee, feasibility research report and appraisal fee, designation fee, construction supervision fee etc, which was calculated based on the standard of other charges of the construction work at such location of the equipment combined with the characteristics of the equipment. It was calculated based on the sum of the procurement price, transportation and miscellaneous fees, basic charges and installation and adjustment fee.

f) Capital cost

According to the reasonable construction period of the project, and based on the applicable loan interest rate on the benchmark date of appraisal, capital cost was calculated based on even injection.

Capital cost = (procurement price + transportation and miscellaneous fees + installation and adjustment fees + basic charge + other charges) × loan interest rate × construction period × 1/2

b. Electronic equipment

For electronic equipment with the same type of products available for sales in the market and procured in the same town, the transportation and called-on installation and adjustment services are included during purchasing. Generally no other charges are included on top of the procurement price.

Replacement price = procurement price

c. Vehicles

Replacement price of vehicles consists of 3 parts: the procurement price, vehicle purchase tax, and other charges (e.g. vehicle inspection fees, license fees, administration fees etc.).

B. Determination of the integrated depreciation rate

a. Machinery

Integrated depreciation rate = Surveyed depreciation rate $\times$ weight + theoretical depreciation rate $\times$ weight

a) Surveyed depreciation rate

Determination of surveyed depreciation rate was mainly focused on the actual situation of the equipment of the company, based on the technical status, working environment, maintenance condition of the equipment while taking reference to the scores of individual parts of the equipment during on-site surveying.

b) Theoretical depreciation rate

Theoretical depreciation rate was determined by the economic useful life and used life.

Theoretical depreciation rate = (economic useful life – used life) / economic useful life $\times$ 100%

Or:

Theoretical depreciation rate = residual life / (used life – residual life) $\times$ 100%

c) Weight

For structurally complicated and large equipment, the depreciation rate was determined with useful life approach and surveyed depreciation rate, taking a weight value of 40% from useful life approach, and a weight value of 60% from surveyed depreciation rate approach.

For light, simple equipment under normal using condition, the depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

b. Electronic equipment

The depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

c. Vehicles

Pursuant to the current standard for mandatory vehicles scrappage, the theoretical depreciation rate was determined by both the mileage driven by the vehicle and the residual life. Then, the integrated rate was determined by combining the above with the surveyed depreciation rate obtained by on-site surveying.

C. Determination of appraisal value

Appraisal value = Replacement price × integrated depreciation rate

② Market Approach

A. Vehicles

A vehicle transaction case with more correlation and replacement which fell into the same scope of demand and supply in recent secondary market for vehicles was selected. By comparing the object under appraisal and this comparable case, with comparative analysis and modification on factors affecting the price of vehicles in secondary markets such as residual rate, remaining mileage available and transaction date, the market price of the object under appraisal was estimated by the following formulae:

Market comparison approach value = price of comparable case × modification factor of the mileage driven × modification factor of residual useful life × modification factor of the vehicle condition × modification factor of the transaction date of the vehicle × modification factor of the transaction condition of the vehicle

Market comparison approach value = (case A + case B + case C) / 3

Appraisal value of vehicles by market approach = market comparison approach value

B. Electronic office equipment

By selecting not less than 3 market transaction cases of the same or similar type, at the same transaction time or similar market with the equipment to be appraised, the average value was taken as the appraisal result for the equipment.

(3) Construction in progress

The appraisal personnel collected and verified the compliance documents and studied the construction commencement time, scheduled completion time and payment installment through on-site inspection and examination of original copies of payment evidence to judge the reasonableness of its book value in general.

According to the feature of construction project, subject to a reasonable construction budget confirmed, the appraisal value was taken as the verified book value.

(4) Intangible assets

Intangible assets include land use rights and other intangible assets.

1) Land use rights

Upon integrated analysis and comparison of the information provided by the appraised entity and the relevant information obtained by the surveying and investigation of the appraisal personnel, the land use rights were appraised by cost approach method and benchmark land value modification factor approach after comprehensive analysis and comparison and finally determines the assessed value by the weightiness of the two methods.

① Cost Approach Method

A. The Theory of Cost Approach Method

Cost approach method is a valuation methodology of determining the land price through the sum of general expenses for land development combined with a certain profit, interest, taxes payable and land appreciation income.

B. The Formula of Cost Approach Method

The fundamental formula of cost approach method is as follows:

Land premium = Land acquisition fee + land development fee + taxes + interest + return on investment + land appreciation income

② Benchmark land value modification factor approach

A. Basic principles

The benchmark land value modification factor approach is an appraisal based on the benchmark value of urban land and the table of modification factors for benchmark land value according to the principle of substitution. The influence on the land value by the regional factors and individual factors of land pieces is determined by comparing the standard condition of such regional factors and individual factors stated in the table of modification factors for benchmark land value. Then, modification was done after obtaining the modification factors affecting the land value. Finally, modification for the date and residual useful life is made respectively according to the benchmark date of appraisal for benchmark land value and useful life, in order to determine the value of the land on the benchmark date of appraisal.

B. Basic formula:

The formula is as follow:

$$\text{Value of the land piece} = \text{Applicable benchmark land value} \times K_1 \times K_2 \times K_3 \times K_4 \times (1 + \sum K)$$

where: K_1 – date modification factor

K_2 – duration modification factor

K_3 – progress of development modification factor

K_4 – floor area ratio modification factor

$\sum K$ – sum of various modification factors affecting the land value

2) Other intangible assets

- A. Other intangible assets are patent and trademark, to be appraised by current income value approach, which refers to appraisal by first estimating the expected excess income of appraised patent and trademark arising in the future, which is then discounted

according to a certain discount rate to current value which is taken as the value of the appraised asset. Its formula is as follow:

$$P = \sum_{t=1}^n k F_t / (1+i)^t$$

$$k = R \times (1 - T)$$

where: P – appraisal value of intangible assets

F_t – the income of the respective product in the t^{th} year

k – income sharing ratio (net of tax)

R – income sharing ratio (with tax)

T – enterprise income tax rate

i – discount rate

n – economic useful life

t – discount period

- B. For the appraisal of other intangible assets – office software, software customised according to the Company's need and the customised software, market price of which cannot be obtained through same type of software, the appraised value was determined as the rest of amortized value upon verification. For software, market price of which can be obtained or which has same type of software in the market and its market price cannot be obtained, the appraised value was determined by combining its remaining useful life.

(5) Deferred income tax assets

Deferred income tax assets are the income tax assets deferred due to the temporary difference in preparing the bad debt provision for inventory and receivables by the company. The appraisal personnel determined the appraisal value of deferred income tax assets by the difference between the appraisal value of the impairment provision for assets and the book value.

3. *Liabilities*

To verify the actual debtors and debt amount of various liabilities upon realization of the appraisal purpose, so as to use the liability items and amount that the appraised entity would have to actually undertake upon realization of the appraisal purpose in order to confirm the appraisal value.

(ii) Income approach**1. Definition and principles of income approach**

Income approach of enterprise value appraisal refers to the appraisal direction where the value of the appraisal object was appraised on the basis of capitalizing or realizing the expected revenue of the enterprise being appraised.

2. Conditions for applying income approach

The following conditions should be met for appraising the value of shareholders' equity by income approach:

- (1) The appraised company should be capable of continued operation with significant economic residual life;
- (2) Be able to and should determine the future income of the appraised object in monetary terms;
- (3) Be able to determine the future risk exposed to the appraised object in monetary terms;
- (4) The appraised object should be able to fulfill the operational income expectation of the asset owners.

3. Appraisal model

Combining its purpose and object, discounted cash flow(DCF) was used in this appraisal, in which expected future income of the company adopted enterprise cash flow, and the discount rate adopted the capital weighted average rate of return by the following formula:

$$E = B - D$$

where: E – value of the entire shareholders' equity of the appraised entity

B – overall enterprise value of the appraised entity

D – value of the interest-bearing liabilities of the appraised entity

The formula for calculating B, the overall enterprise value of the appraised entity, is:

$$B = P + \sum C_i$$

where: P – value of the operational assets of the appraised entity

$\sum C_i$ – the existing non-operational and surplus assets value and long-term equity investments value of the appraised entity on the benchmark date

- (1) The formula for calculating P, value of the operational assets of the appraised entity, is:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{i+1}}{r(1+r)^i}$$

where: R_i – the expected future income of the appraised entity on the i th year (enterprise free cash flow)

r – discount rate

n – future continued operating duration of the appraised entity

- 1) Determination of the discount rate r

The discount rate is determined by capital weighted average rate of return based on the weighted average cost of capital model (WACC) by the following formulae:

$$r = r_d \times w_d + r_e \times w_e$$

where:

r_d : interest rate of the long term interest-paying liabilities after income tax;

$$r_d = r_0 \times (1-t)$$

r_0 : interest rate of the long term interest-paying liabilities before income tax;

t : applicable income tax rate

W_d – gearing ratio of the appraised entity

$$W_d = \frac{D}{(E + D)}$$

W_e – equity ratio of the appraised entity

$$W_e = \frac{E}{(E + D)}$$

r_e – Return rate of equity capital determined by the Capital Asset Pricing Model (CAPM)

$$r_e = r_f + \beta \times (r_m - r_f) + \varepsilon$$

where:

r_e – return rate of equity capital

r_f – risk-free rate of return

r_m – expected market rate of return

β – expected market risk coefficient of the equity capital of the appraised entity

ε – Special risk adjustment coefficient of the appraised entity

2) Determination of the period of prediction n

This appraisal by income approach was based on the condition that the enterprise is under continued operation. According to information such as the operational history of the enterprise and the development in its industry, a two-stage model was adopted, which made reasonable prediction towards the enterprise income, cost expenses and profits 5 years after the benchmark date of appraisal according to the actual situation and policies of the enterprise, and taking the prediction data for the 6th year and thereafter as the same as that of the 5th year.

- (2) The non-operational and surplus assets of the appraised entity existed on the benchmark date (ΣC_i) was calculated by the following formula:

$$\Sigma C_i = C_1 + C_2 + C_3$$

where: C_1 – value of the cash assets of the appraised entity existed on the benchmark date

C_2 – other surplus and non-operational assets of the appraised entity existed on the benchmark date

C_3 – value of the long-term equity investments

Operational cash flows do not arise from non-operational and surplus assets. Thus discounted cash flow was not suitable for calculation using the appraisal value by cost addition approach.

For value of long-term equity investments, firstly an overall appraisal was done. The result of appraisal value of the shareholders' equity of the long-term investee companies was multiplied by the appraisal value of the equity investments of the parent company towards its proportion of shares.

VIII. Implementation process and details of appraisal procedures

China Faith Appraisers Co., Ltd. accepted the entrustment from Jingcheng Holding Machinery Electric Holding Co., Ltd. and Beiren Printing Machinery Holdings Ltd. has conducted an appraisal on the entire shareholders' equity in Beijing Jingcheng Environmental Protection Development Co., Ltd. held by Jingcheng Holding Machinery Electric Holding Co., Ltd.. The benchmark date of appraisal was agreed to be 31 March 2012. China Faith Appraisers Co., Ltd. on 10 May 2012 drafted the appraisal plan and confirmed the appraisal proposal. The appraisal work started officially on 15 May 2012 and completed on-site on 1 June 2012. On 5 September 2012, an official report was released. Major appraisal work processes were as follows:

(I) Preparation stage before the appraisal

1. On 30 April 2012, the appraisal institution negotiated and agreed with the entrusting party and the appraised entity on basic issues including the appraisal purpose, scope of appraisal and benchmark date of the appraisal of this appraisal. A "Business Engagement Letter" was signed with the entrusting party, and a work plan was formulated;
2. The appraisal institution coordinated with the appraised entity to complete tasks such as conducting asset inventory inspection and filling in the "Asset Appraisal Details Form". Appraisal team staff paid on-site visit to have an initial understanding on the entrusted assets and assisted the enterprise to conduct the asset report work for conducting asset appraisal, and to collect documents and information as required by the asset appraisal.

(II) On-site Verification and Appraisal Stage

1. To listen to the relevant staff from the entrusting party and appraised entity to give an introduction to the general enterprise status and the history and current of the appraised assets, to understand the financial system, business status, fixed asset technology and other information of the enterprise;
2. To verify the "Asset Appraisal Details Form" and relevant financial records and data as provided by the appraised entity, and to coordinate with the appraised entity to make adjustments when problems are found;
3. To conduct verification on every single item of intangible assets listed on the "Asset Appraisal Details Form" based on the requirements of the asset appraisal standard and appraisal system, and to conduct sampling inspection on inventory physical assets under current assets;
4. To review and collect property certification documents of the appraised assets;
5. To confirm the specific appraisal methods according to the actual situation and characteristics of the appraised assets;
6. To review and collect technical information and acceptance information of the relevant assets; to collect price information through conducting market research and surveying on relevant information;
7. To make an initial appraisal and calculation of the assets and liabilities within the scope of appraisal.

(III) Appraisal Summary Stage

To compile an initial analysis and summary of various types of assets, to make necessary adjustments, amendments and improves on the appraisal results.

(IV) Preparation and Submission Stage of the Appraisal Report

To compile asset appraisal report, and to exchange opinions on the appraisal draft with the entrusting party. After make comprehensive consideration of relevant opinions, amendments and corrections were made to the appraisal report according to the internal three-tier audit system and procedures of the appraisal authority, and to provide the official asset appraisal report.

IX. APPRAISAL HYPOTHESIS

- (1) Hypothesis on transaction;
- (2) Hypothesis on open market;
- (3) Hypothesis on continuous use of assets;
- (4) Hypothesis on continuous operation of the enterprise;
- (5) The existing macro economy of the State would have no substantial changes;
- (6) The social economic environment where the company is in, and policies such as tax and tax rate would have no substantial changes;
- (7) The future management team of the company fulfill their duties and the company keeps operating with the current management approach, so that the operation plans after the benchmark date could be implemented smoothly;
- (8) For the current management approach and standard, assume that the scope and approach of operation will be in line with the current direction;
- (9) This appraisal did not consider influence from the factor of inflation;
- (10) This appraisal assumed no premiums and discounts of controlling interests and non-controlling interests would arise;
- (11) It is assumed that upon the expiration of certificate of high and new technology enterprise, the enterprise can renew the application for a high and new technology enterprise and is entitled to the tax rate of 15% available to state's high and new technology enterprise.

The appraisal personnel determined that these hypothesis were tenable on the benchmark date of appraisal pursuant to the requirement of asset appraisal. Should there be any material changes in the future economic environment or any changes in the pre-conditions, the appraisal personnel would not be liable for the difference in appraisal results arising from any changed pre-conditions.

X. APPRAISAL CONCLUSION

This appraisal adopted the asset-based approach to conduct appraisal and calculations.

(1) Asset-based approach*1. Appraisal Results*

Under the pre-condition of continued operation, as at the benchmark date of appraisal 31 March 2012, the book value of the entire shareholders' equity (net assets) of Beijing Jingcheng Environmental Protection Development Co., Ltd. within the scope of appraisal amounted to RMB146.1482 million, with appraisal value as RMB224.9325 million, appraised appreciation value as RMB78.7843 million and appreciation rate as 53.91%. The appraisal results for each type of assets and liabilities are listed below:

Summary of the assets appraisal results

Price unit: RMB'0,000

Item		Book Value	Appraisal value	Appreciation/Depreciation	Appreciation rate % D=C/A ×100%
		A	B	C=B-A	
1	Current assets	16,367.16	17,120.73	753.57	4.60
2	Non-current assets	10,707.38	17,832.24	7,124.86	66.54
3	Including: Long-term account receivables	—	—	—	
4	Long-term equity investments	6,586.80	7,791.50	1,204.70	18.29
5	Fixed assets	2,741.83	3,313.22	571.39	20.84
6	Construction in progress	41.80	41.80	—	—
7	Construction materials	—	—	—	
8	Intangible assets	956.59	6,305.36	5,348.77	559.15
9	Long-term deferred cost	—	—	—	
10	Deferred income tax assets	380.36	380.36	—	—
11	Total assets	27,074.54	34,952.97	7,878.43	29.10
12	Current liabilities	12,411.08	12,411.08	—	—
13	Non-current liabilities	48.64	48.64	—	—
14	Total liabilities	12,459.72	12,459.72	—	—
15	Net assets (owners equity)	14,614.82	22,493.25	7,878.43	53.91

(2) Income approach

As at the benchmark date of appraisal, the book value of the owner's interests (net assets) of Beijing Jingcheng Environmental Protection Development Co., Ltd. amounted to RMB146.1482 million, with appraisal value as RMB109.9164 million, depreciation value as RMB36.2318 million and depreciation rate as 24.79%.

(3) Determination of appraisal results

Due to the uncertainties in future income and the purpose of this appraisal, the appraisal personnel took the conclusion obtained by asset-based approach as the final conclusion for this appraisal, i.e. the market value of the entire shareholders' equity of Beijing Jingcheng Environmental Protection Development Co., Ltd. on 31 March 2012 amounted to RMB224.9325 million.

XI. EXPLANATION FOR SPECIAL MATTERS

- (I) As of the benchmark date of appraisal, there were in total 5 buildings of the appraised entity that have not obtained their title certificates. The appraised entity has provided the corresponding applications for construction, part of the reporting procedures and undertakings on titles. The appraisal conclusions are drawn assuming that there are complete titles to the appraised entity, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The final determination of the gross floor area of and title to the buildings shall depend on the title certificates issued by the local real estate management authorities upon surveying and mapping. The appraised value did not taken into account the impact of difference in floor area after the survey of qualified professional surveying institution and the floor area used in appraisal.

The details of the buildings without title certificates are as follows:

Name of building	Structure	Completion	Floor area (m^2)	Original book value (RMB)	Net value
Base Structural Parts Workshop	Steel	2005/3	2,947.00	3,892,483.74	3,314,693.49
Base Training Centre	Mixed	2005/1	1,200.00	2,545,000.52	2,169,673.94
Base Office	Mixed	2004/11	1,998.00	2,533,877.00	2,157,755.00
Base Power Distribution House	Mixed	2003/11	267.75	431,625.00	367,555.50
Base Assembly Workshop	Steel	2005/3	2,981.40	4,630,457.22	3,956,855.20
	Total		9,394.15	14,033,443.48	11,966,533.13

- (II) Conditions for appraisal procedures under restrictions

The appraiser has not conducted detection of technical parameters and performance of all kinds of equipment on the benchmark date of appraisal. The appraiser makes judgments through field survey with the assumption that the relevant technical data and operating records provided by the appraised entity is true and effective without the help of any testing instruments. The appraiser have not made any technical test to the underground construction work and the interior structure (which are not directly visible) of the buildings in this appraisal, and have only made judgments through on-site inspections without using any testing equipment on the assumption that the related work information provided by valued entity are true and valid.

- (III) The appraiser has conducted due diligence survey and did not, from the benchmark date of appraisal to the date of appraisal report, find any major events that may have any influence on the appraisal conclusion. After the benchmark date of appraisal, within the validity period of the appraisal conclusion, if the asset quantity and appraisal standard have any changes, they should be handled according to the following principles:
1. When there is a change in asset quantity, the original appraisal method should be adopted to make corresponding adjustments to the asset amount;
 2. When there is a change in asset appraisal standards and has brought significant influence to the asset appraisal, the entrusting party should promptly deploy a qualified appraisal institution to reconfirm the appraised value;
 3. On changes to asset quantity and appraisal standards after the benchmark date of appraisal, the entrusting party should give full consideration when making an actual appraisal for the assets and should make adjustments accordingly.
- (IV) In accordance with the equity transfer agreement entered into by Beijing Industrial Developing Investment Management Co., Ltd. on 8 June 2012 and the Confirmation on Transfer of State-owned Equity (T3-1200222) issued by the Beijing Equity Exchange, Beijing Industrial Developing Investment Management Co., Ltd. will transfer 23.79% equity interests in Beijing Jingcheng Environmental Protection Development Co., Ltd. to Jingcheng Holding Machinery Electric Holding Co., Ltd., thus Beijing Jingcheng Environmental Protection Development Co., Ltd. becomes a wholly-owned subsidiary of Jingcheng Holding Machinery Electric Holding Co., Ltd. after the benchmark date.
- (V) In the appraisal of long-term equity investments, the certified asset appraiser understood the liquidity of asset may have significant influence on value of appraisal objects. Due to the lack of analysis base for asset liquidity, such as information on industry and property exchange of relevant assets, the appraisal does not consider the impact of lack of market mobility on value of appraised objects.
- (VI) In the appraisal of long-term equity investments, the certified asset appraiser understood value of part of shareholder equity does not always equal to total value of shareholder equity multiply percentage of equity. Due to lack of information on industry and exchange of relevant equity, the appraisal does not consider depreciation of appraised objects as non-controlling equity.
- (VII) After the benchmark date of appraisal, the People's Bank of China has downward adjustments of the benchmark interest rate for RMB loans and deposits of financial institutions in 8 June 2012 and 6 July 2012 respectively. The factor such as change of interest rates is not included in the impact to the value of appraised object.
- (VIII) In terms of defects which existed in the enterprise that are likely to affect value of assets, the appraiser institution and the appraisal personnel shall not assume relevant responsibilities if the enterprise did not provide any special explanations when performing entrusting and the said faulty matters could not be clarified after evaluators had gone through the appraisal procedures.

The appraiser would like to draw special attention from all report users to the above special issues.

XII. EXPLANATIONS ON THE LIMITATIONS OF THE APPRAISAL REPORT

- (1) This appraisal report should only be used for the appraisal purpose and use specified in this appraisal report, and it should not be used in any other purposes or use. Any consequences due to inappropriate use shall not be liable to the signed assets appraiser and the affiliated appraisal body;
- (2) This appraisal report should only be used by the appraisal report users specified in the Business Engagement Letter on Asset Appraisal signed between China Faith Appraisers Co, Ltd. and the entrusting party, as well as report users stipulated by national laws and regulations;
- (3) The appraisal report has not been verified or kept as a back-up copy. The appraisal conclusion should not be used;
- (4) Without consent from the appraisal body, no party should copy, quote or disclose all or part of the content of the appraisal report to the mass media;
- (5) From the benchmark date of appraisal, unless there is substantial change to market conditions or asset status, the validity of the appraisal conclusion in this appraisal report is one year from the benchmark date of appraisal, i.e. from the date of asset appraisal, 31 March 2012 to 30 March 2013;
- (6) When policy adjustments have a substantial influence on the appraisal conclusion, the benchmark date of appraisal should be reconfirmed to conduct appraisal.

XIII. DATE OF APPRAISAL REPORT

This appraisal report is dated 5 September 2012.

China Faith Appraisers Co., Ltd.

Legal representative: Chen Dongmei

Certified asset appraiser: Yang Yang Yu Hongtao

5 September 2012

The following is the full text of the Valuation Report of Jingcheng HK. This report is prepared in Chinese, and the English version is a translation. If there are any discrepancies, the Chinese version shall prevail.

Statements of certified asset appraiser

In the preparation of this report, the appraisal personnel have provided earnest verification and applied necessary formula for appraisal assumptions on all assets and liabilities included in the scope of appraisal. We hereby make the following statement with regard to this appraisal report:

1. During the appraisal hereof, the certified asset appraiser has complied with relevant laws and regulations and assets appraisal standards and adhered to the principles of independence, objectivity and impartiality in performing the assets appraisal services. According to the materials collected by us during the appraisal process, the contents of this assets appraisal report are objective and we will assume corresponding legal liabilities for the justification of the conclusion of appraisal.
2. The list of assets and liabilities related to the object of appraisal is declared and signed/sealed for confirmation by the entrusting party and appraised party. The entrusting party and the relevant parties are responsible for the authenticity, legality and completeness of the materials provided by them as well as the proper use of this Report.
3. The certified asset appraiser has no existing or potential interest in the object of appraisal under this appraisal report, and we have no existing or potential interest in or bias against the entrusting party and relevant parties.
4. The certified asset appraiser and other appraisal personnels have conducted on-site inspection of the object of appraisal under this appraisal report and the related assets. We have paid due attention to the legal titles of the object of appraisal and the related assets, verified the materials related to such legal titles, made truthful disclosures of the problems we have discovered and requested the entrusting party and the relevant parties to improve the title issues to meet the requirements for purposes of this appraisal report. However, no guarantee in any form could be provided towards the truthfulness of the legal titles of the object of appraisal.
5. The analysis, judgments and conclusions made in this appraisal report are subject to the assumptions and restrictive conditions herein. Users of this appraisal report are required to take into full consideration the assumptions, restrictive conditions and explanatory notes on special issues specified herein as well as their impact on the conclusion of appraisal.
6. This appraisal report and its disclosed conclusion were subject to the purpose set out herein and usage within the valid period in the conclusion. The appraisal company and the certified asset appraiser would not be responsible for any consequences arising from the improper use of this appraisal report.

Summary of Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and
acquisition of interests in Jingcheng Holding (Hong Kong) Company Limited
China Faith Appraisal Report Ref (2012) No. 239A

Important

This content of this summary is selected from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

China Faith Appraisers Co., Ltd. was appointed by Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited to make a appraisal on the entire shareholders' equity in Jingcheng Holding (Hong Kong) Company Limited involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited in accordance with the relevant national laws and regulations and the principles of independence, objectivity and impartiality.

The Object of appraisal was the entire shareholders' equity in Jingcheng Holding (Hong Kong) Company Limited. The scope would cover the entire assets and relevant liabilities of Jingcheng Holding (Hong Kong) Company Limited, with appraisal made on market value used in appraisal on the benchmark date of appraisal on 31 March 2012.

The appraiser performed all necessary procedures for appraisal, to make appraisal by asset-based approach on the assumptions of the continued use of assets and an open market.

On the benchmark date of appraisal, the appraisal result of Jingcheng Holding (Hong Kong) Company Limited was RMB222.4645 million.

Table of summary of the assets appraisal of Jingcheng Holding (Hong Kong) Company Limited

Price unit: RMB'0,000

		Book	Appraisal	Difference	%
Items		value	value	in value	Difference
		A	B	C=B-A	in value D=C/A ×100%
1	Current assets	166.27	166.27	—	—
2	Non-current assets	13,501.16	22,205.41	8,704.25	64.47
3	Including: Long-term receivables	—	—	—	—
4	Long-term equity investment	13,501.16	22,205.41	8,704.25	64.47
5	Fixed assets	—	—	—	—
6	Construction in progress	—	—	—	—
7	Intangible assets	—	—	—	—
8	Deferred income tax assets	—	—	—	—
9	Total assets	13,667.43	22,371.68	8,704.25	63.69
10	Current liabilities	125.23	125.23	—	—
11	Non-current liabilities	—	—	—	—
12	Total liabilities	125.23	125.23	—	—
13	Net assets (owners' equity)	13,542.20	22,246.45	8,704.25	64.28

Report users should note that defects during the appraisal process were explained as special issues in the appraisal report.

The effective period of the conclusion of this appraisal report is one calendar year, from the benchmark date of appraisal of 31 March 2012 till 30 March 2013.

The date of this report is 17 August 2012.

The above content is extracted from the full appraisal report. You should read the full report carefully for details hereof and reasonable understanding of the conclusion of appraisal.

Full Asset Appraisal Report
for
the proposed material asset reorganisation of
Beiren Printing Machinery Holdings Limited and
acquisition of interests in Jingcheng Holding (Hong Kong) Company Limited
China Faith Appraisal Report Ref (2012) No. 239A

To Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited,

China Faith Asset Appraisal Company Limited was appointed by the Company to make an appraisal on the market value of entire shareholders' equity in Jingcheng Holding (Hong Kong) Company Limited involved in the proposed material asset reorganisation of Beiren Printing Machinery Holdings Limited on 31 March 2012 in accordance with the relevant national laws and regulations and principles and standards of assets appraisal by asset-based approach via necessary procedures for appraisal. We hereby report the appraisal as follows.

I. Entrusting party, appraised entity and other users of the appraisal report

The entrusting party of this project is Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Printing Machinery Holdings Limited. The appraised entity is Jingcheng Holding (Hong Kong) Company Limited. The user of the report is the entrusting party, relevant parties in the business aspect, the state-owned assets supervision and administration authority and the securities regulatory authority.

(i) Summary of the entrusting party

Name of entity	:	Beijing Jingcheng Machinery Electric Holding Co. Ltd. (named hereafter Jingcheng Holdings)
Address	:	18/F, No.59, East Third Ring Middle Road, Chaoyang District, Beijing
Legal representative	:	Ren Yaguang
Registered capital	:	RMB1,634.5455 million
Nature of business	:	Limited liability company (wholly state-owned)
Scope of business	:	General operations: operation and management of the state-owned assets according to the given authority; investments and investment management; property development and sales of commodity housing; leasing of properties; property management; technology transference, training, consultancy and service; sales of machinery and electric (EM) equipment ex. Auto.
Licensed management	:	Service dispatching.

(ii) Summary of the entrusting party

Name of entity	:	Beiren Printing Machinery Holdings Limited (named hereafter Beiren Holdings)
Registered capital	:	RMB422.00 million
Legal Representative	:	Zhang Peiwu

Registered address	:	No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing
Type of company	:	stock limited company (listed, state controlled)
Scope of business	:	Authorised scope of operation: production of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; general logistics.
General scope of operation	:	development, design and sales, maintenance and installation of printing machines, press equipment, packing machines and parts and components for the aforesaid machines; technical consultancy, technical support, technical training for printing equipment and printing skills; management of the export of own enterprises' and member enterprises' self-produced products and technology; the import of own enterprises and member enterprises production of the required auxiliary materials, instruments and meters, parts and components of machines and technology (apart from those products restricted by the State from import and export); processing on customer-supplied materials and "processing raw materials on clients demands, assembling parts for clients and processing according to clients' samples or compensation trade"; the rental of office space, machineries and equipment; sales of printing machines.
Registered no.	:	110000005015956

(iii) Summary of the appraised entity

1. Industrial and commercial registration

Name of entity	:	Jingcheng Holding (Hong Kong) Company Limited (named hereafter Jingcheng HK)
Registered capital	:	HK\$1,000
Certificate of Incorporation No.	:	1013872
Registered address	:	16-19th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong
Scope of business	:	Import and export trading, investment holding and advisory services, etc

2. Corporate profile

Approved by the State-owned Assets Supervision and Administration Commission of Beijing Municipal Government Jing Guo Zi Gui Hua Zi [2005] No. 43 and the Commerce Department of Beijing Jing Shang Jing Zi [2005] No. 263, Jingcheng Holding (Hong Kong) Company Limited was funded and organized by Beijing Jingcheng Machinery Electric Holding Co., Ltd., and was incorporated in Hong Kong on 15 December 2005 with registered capital of HK\$1,000.

As of the benchmark date of appraisal, there was no change in the shareholders and contribution of Jingcheng Holding (Hong Kong) Company Limited.

3. Balance sheet and operation results in the recent 3 years and benchmark date of appraisal

The balance sheets of Jingcheng Holding (Hong Kong) Company Limited as of 31 December 2009, 2010 and 2011 and that as of the benchmark date of appraisal (as audited by Shinewing Certified Public Accountants with an audit report (No. XYZH/2011TJA1097-6)) are summarised as follows:

Price unit: RMB'0,000

Items	31 March 2012	31 December 2011	31 December 2010	31 December 2009
Current assets	166.27	173.97	50.47	56.29
Non-current assets	13,501.16	13,489.53	13,164.09	12,756.97
Including: Long-term equity investments	13,501.16	13,489.53	13,164.09	12,756.97
Fixed assets	—	—	—	—
Other assets	—	—	—	—
Total assets	13,667.43	13,663.50	13,214.57	12,813.26
Current liabilities	125.23	129.24	135.84	136.64
Non-current liabilities	—	—	—	—
Total liabilities	125.23	129.24	135.84	136.64
Net assets (owners' equity)	13,542.20	13,534.27	13,078.72	12,676.62

The statements of income of Jingcheng Holding (Hong Kong) Company Limited for 2009, 2010, 2011 and from January to March 2012 are as follows:

Price unit: RMB'0,000

Items	Jan-Mar 2012	2011	2010	2009
Operating income	—	—	—	—
Operating costs	—	—	—	—
Business taxes and surcharges	—	—	—	—
Sales expenses	—	—	—	—
Managing costs	3.67	4.11	7.50	7.22
Financing costs	-0.01	0.02	0.06	-0.09
Asset impairment loss	—	—	—	—
Gain from change in fair value	—	—	—	—
Investment gains	247.45	1,243.11	554.27	908.68
Operating profits	243.79	1,238.97	546.72	901.56
Non-operating revenue	—	—	—	—
Non-operating expenses	—	—	—	—
Total profit	243.79	1,238.97	546.72	901.56
Income tax expenses	—	—	—	—
Net profit	243.79	1,238.97	546.72	901.56

The above data was audited by Shinewing Certified Public Accountants, for which an audit report (No. XYZH/2011TJA1097-6) was issued, opinion set out in which was as follows: we consider that the financial statements of Jingcheng Holding (Hong Kong) Company Limited have been prepared in accordance with corporate accounting standards in all material aspects and fairly presented the financial position of Hong Kong Company as of 31 March 2012 and 31 December 2009, 2010 and 2011 as well as the operating result and cash flow from January to March 2012 and for 2009, 2010 and 2011.

4. Relationship between the entrusting party and the appraised entity

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd holds 100% shareholdings of Beiren Group Corporation. Beiren Group Corporation holds 47.78% shareholdings of the entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd.

The entrusting party, Beijing Jingcheng Machinery Electric Holding Co. Ltd. owns 100% interests in Jingcheng Holding (Hong Kong) Company Limited, the appraised entity.

II. Purpose of appraisal

According to the development strategies and marketing positioning of the Beijing Jingcheng Machinery Electric Holding Co. Ltd and in order to achieve rapid development of Beiren Printing Machinery Holdings Limited, Beiren Printing Machinery Holdings Limited plan to use its entire assets and liabilities to carry out a material asset reorganisation with the gas storage and transportation equipment business owned by Jingcheng Holdings, which is involving 71.56% equity of Tianhai Industrial, 100% equity of Jingcheng HK and 100% equity of Jingcheng Environment after spinning out environmental business.

Beiren Printing Machinery Holdings Limited is intend to make a material asset reorganisation. The purpose of this appraisal is to appraise the entire shareholders' equity of Beijing Tianhai Industry Co. Ltd., the acquisition target, so as to provide its market value on the benchmark date of appraisal for reference of such business action.

The business action documents involved in this appraisal include:

1. Jing Ji Dong (Que) (2012) No. 10 "Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) (2012) No. 14-01 "Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) (2012) No. 14-02 "Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited" by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

III. Object and scope of appraisal**(i) Object and scope of appraisal**

The object of appraisal was the entire shareholders' equity of Jingcheng Holding (Hong Kong) Company Limited. The scope of appraisal covers the entire assets and relevant liabilities of Jingcheng Holding (Hong Kong) Company Limited.

Total assets amount to RMB136,674,268.06, Including:

Current assets	:	Carrying amount	RMB1,662,690.47
Non-current assets	:	Carrying amount	RMB135,011,577.59
Long-term investments	:	Carrying amount	RMB135,011,577.59

Total liabilities amount to RMB1,252,304.23 with all liabilities being current liabilities.

The objects and scopes of this appraisal are consistent with those confirmed in the entrustment.

(ii) An asset which has a greater impact on corporate value

The major asset of Jingcheng Holding (Hong Kong) Company Limited is long-term equity investment. Details are as follow:

No.	Investees	Date of investment	Investment ratio (%)	Book value
1	Beijing Tianhai Industry Co., Ltd	2007/4	28.44	115,876,624.19
2	Tianjin Tianhai High Pressure Containers Co., Ltd. (天津天海高壓容器有限責任公司)	2007/9	25	19,134,953.40
	Total			135,011,577.59

IV. Type of value and its definition

The type of value for the object of appraisal is defined as market value based on the business activity and purpose of this appraisal, Its definition is as follows: under the situation that the buyer and the vendor are acting voluntarily, reasonably and without any coercion, the estimated amount is the value of fair and normal transaction carried out by the object of appraisal on the benchmark date of appraisal.

V. Benchmark date of appraisal

The benchmark date of appraisal of this project is 31 March 2012.

The benchmark date of appraisal was selected by the entrusting party taking account into factors including the end of the reporting period and facilitation for such business activity etc.

VI. References of appraisal**(i) Business activity basis**

1. Jing Ji Dong (Que) [2012] No. 10 “Resolution on approval regarding the material asset reorganisation of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
2. Jing Ji Dong (Que) [2012] No. 14-01 “Resolution on audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.
3. Jing Ji Dong (Que) [2012] No. 14-02 “Resolution on approving the audit and appraisal regarding the material asset reorganisation and assets disposal of Beiren Printing Machinery Holdings Limited” by the Board of Beijing Jingcheng Machinery Electric Holdings Co., Ltd.

(ii) Laws and regulations basis

1. “Company Law of People’s Republic of China” (amended in the 18th Meeting of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China on 27 October 2005);
2. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises”(Order of the President No. 5 in 2008);
3. “Rules of Administration on Appraisal of State-Owned Assets” (Order 91, issued by the State Council in 1991);
4. “Detailed Implementation Rules of Administration on Appraisal of State-Owned Assets” (Guo Zi Ban Fa [1992] No. 36);
5. “Provisional Rules on Supervision and Administration of Enterprises’ State-Owned Assets” (Order 378, issued by the State Council in 2003);
6. “Provisional Rules of Administration on Transferring Enterprises’ State-Owned Properties” (Order 3 issued by the State-Owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance in 2003);
7. “Provisional Rules of Administration on Appraisal of Enterprises’ State-Owned Assets” (Order 12 issued by the State-Owned Assets Supervision and Administration Commission of the State Council in 2005);
8. “Notice on Issues in relation to Strengthening Administration on Appraisal of Enterprises’ State-Owned Assets” (Guo Zi Wei Chanquan [2006] No. 274 issued by the State-Owned Assets Supervision and Administration Commission of the State Council);
9. “Provisional Measures for the Administration of Appraisal of State-owned assets of Enterprises in Beijing” (Jing Guo Zi Fa [2008] No. 5);
10. Other laws, regulations and rules relevant to the appraisal.

(iii) Basis of appraisal standards

1. “Assets Appraisal Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
2. “Assets Appraisal Professional Ethics Standards-Basic Standards” (Cai Qi [2004] No. 20) issued by the Ministry of Finance);
3. “Assets Appraisal Standards-Appraisal Reports” (Zhong Ping Xie [2007] No. 189);
4. “Assets Appraisal Standards-Appraisal Formulae” (Zhong Ping Xie [2007] No. 189);
5. “Guide on Enterprise State-Owned Assets Appraisal Report” (Zhong Ping Xie [2008] No. 218);
6. “Guidelines for Certified Public Appraisers Concerning Legal Ownership of Appraisal Object” (Zhong Zhu Xie Hui Xie [2003] No. 18);
7. “Assets Appraisal Standards – Enterprise Values” (Zhong Ping Xie [2011] No. 227);
8. “Guidelines on Type of Values in Assets Appraisal” (Zhong Ping Xie [2007] No. 189);
9. “Accounting Standards for Enterprises – Basic Standards” (order 33 issued by the Ministry of Finance);
10. “Accounting Standards for Enterprises – Guidelines on Application” (Cai Hui [2006] No. 18 issued by the Ministry of Finance);

(iv) Asset title basis

1. Investment agreement and capital verification report;
2. Other documentary proof of property ownership.

(v) Price determination basis

1. Forex rates by State Administration of Foreign Exchange on 31 March 2012;
2. List of assets and other relevant information provided by the appraised entity;
3. Financial, accounting and operational information provided by the appraised entity;
4. Market information, industrial economic and macro-economic information provided by the appraised entity;
5. Information obtained via on-site survey and investigation by the appraisal personnel;
6. Wind Capital Information Terminal;

7. Other reference materials.

VII. Appraisal Methodology

According to “Assets Appraisal Standards – Corporate Valuation”, Appraisal approaches mainly include asset-based approach, income approach and market approach with reference to relevant conditions including the purpose of appraisal, object of appraisal, type of value and availability of information. Asset-based approach was used herein.

Asset-based approach refers to the concept of determining value of appraised object basing on rational appraisal of all assets and liability within or out of the balance sheet of the appraised enterprise on the benchmark date of appraisal.

Basic Formulae of asset-based approach:

Value of the entire shareholders’ equity = sum of the appraisal value of each asset – sum of the appraisal value of each liability

The appraised entity hereof assumes continued operation with core assets including physical assets such as land, plants and equipment. By asset-based approach, all economic technical parameters involved during the course of the appraisal of the assets are based on sufficient data. Thus asset-based approach is a feasible way for appraisal.

Income approach refers to the approach of valuating the appraised object by capitalising or realising the expected income.

The appraised entity is principally engaged in investment holding. As the future income and risks are difficult to measure and predict, income approach was not adopted for valuation.

Market approach means to compare the appraised entity with similar listed companies or comparable cases to evaluate the value of the appraised object.

Two common ways of market approach are the listed company comparison approach and transaction case comparison approach.

As the appraised company is not listed, it would differ relatively large from listed companies in the same industries in various aspects such as the business structure, operation approach, company size, assets allocation and utilisation, stage of operation of the company, growth, operating risks and financial risks. Furthermore, it would be difficult to obtain the data of transaction, acquisition and merging cases of comparable Chinese entities in the same industry on the benchmark date of appraisal. Thus market approach was not used in this appraisal.

(i) Asset-based approach**1. Current assets**

Current assets include currency fund and dividends receivable.

- (1) Currency fund: include bank deposits. On bank saving accounts, after verifying internal records, completing bank statement reconciliation, and checking the status of the company’s correspondence with the bank, a trial balance on the bank saving amount was conducted. After verifying that

there was no error, for foreign currency bank accounts, the verified amount of foreign currencies was multiplied by the exchange rate on the benchmark date of appraisal to confirm the appraisal value.

- (2) Dividends receivable: the appraisal personnel verified the book records, checked relevant information such as the investment agreement and Board resolution, verified the truthfulness, business content and amount of the transaction items, and the consistency among the amount stated on accounts, statements and invoices. The verified book value was taken as the appraisal value.

2. *Non-current assets – long-term equity investments*

Overall appraisal was done on wholly owned and long-term investments of shareholdings. The value of the entire shareholders' equity was obtained by evaluating the overall value of the company, which was then multiplied by the proportion of interests held to obtain to value of the equities under appraisal.

Appraisal value of long-term investment = value of equities of the investee × proportion of interests held.

3. *Liabilities*

To verify the actual debtors and debt amount of various liabilities upon realization of the appraisal purpose, so as to use the liability items and amount that the appraised entity would have to actually undertake upon realization of the appraisal purpose in order to confirm the appraisal value.

VIII. Implementation process and details of appraisal procedures

China Faith Appraisers Co., Ltd. accepted the entrustment from Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Printing Machinery Holdings Ltd. has conducted an appraisal on the entire shareholders' equity in Beijing Tianhai Industry Co. Ltd. involved in the intended material asset reorganisation of Beiren Printing Machinery Holdings Limited. The benchmark date of appraisal was agreed to be 31 March 2012. China Faith Appraisers Co., Ltd. on 16 April 2012 drafted the appraisal plan and confirmed the appraisal proposal. The appraisal work started officially on 15 April 2012 and completed on-site on 11 May 2012. On 17 August 2012, an official report was released. Major appraisal work processes were as follows:

(I) Preparation stage before the appraisal

1. On 30 April 2012, the appraisal institution negotiated and agreed with the entrusting party and the appraised entity on basic issues including the appraisal purpose, scope of appraisal and benchmark date of the appraisal of this appraisal. A "Business Engagement Letter" was signed with the entrusting party, and a work plan was formulated;
2. The appraisal institution coordinated with the appraised entity to complete tasks such as conducting asset inventory inspection and filling in the "Asset Appraisal Details Form". Appraisal team staff paid on-site visit to have an initial understanding on the entrusted assets and assisted the enterprise to conduct the asset report work for conducting asset appraisal, and to collect documents and information as required by the asset appraisal.

(II) On-site Verification and Appraisal Stage

1. To listen to the relevant staff from the entrusting party and appraised entity to give an introduction to the general enterprise status and the history and current of the appraised assets, to understand the financial system, business status, fixed asset technology and other information of the enterprise;
2. To verify the “Asset Appraisal Details Form” and relevant financial records and data as provided by the appraised entity, and to coordinate with the appraised entity to make adjustments when problems are found;
3. To review and collect property certification documents of the appraised assets;
4. To confirm the actual appraisal methods according to the actual situation and characteristics of the appraised assets;
5. To review and collect technical information and collection information of the relevant assets; to conduct market research, survey and collect relevant information and price information;
6. To make an initial appraisal and calculation of the assets and liabilities within the scope of appraisal.

(III) Appraisal Summary Stage

To compile an initial analysis and summary of various types of assets, to make necessary adjustments, amendments and improves on the appraisal results.

(IV) Preparation and Submission Stage of the Appraisal Report

To compile asset appraisal report, and to exchange opinions on the appraisal draft with the entrusting party. After make comprehensive consideration of relevant opinions, amendments and corrections were made to the appraisal report according to the internal three-tier audit system and procedures of the appraisal authority, and to provide the official asset appraisal report.

IX. APPRAISAL HYPOTHESIS

- (1) Hypothesis on transaction;
- (2) Hypothesis on open market;
- (3) Hypothesis on continuous use of assets;
- (4) Hypothesis on continuous operation of the enterprise;
- (5) The existing macro economy of the State would have no substantial changes;
- (6) The social economic environment where the company is in, and policies such as tax and tax rate would have no substantial changes;
- (7) The future management team of the company fulfill their duties and the company keeps operating with the current management approach, so that the operation plans after the economic date could be implemented smoothly;

- (8) For the current management approach and standard, assume that the scope and approach of operation will be in line with the current direction;
- (9) This appraisal did not consider influence from the factor of inflation;
- (10) This appraisal did not consider the effect of premiums and discounts of controlling interests and non-controlling interests.

The appraisal personnel determined that these hypothesis were tenable on the benchmark date of appraisal pursuant to the requirement of asset appraisal. Should there be any material changes in the future economic environment or any changes in the pre-conditions, the appraisal personnel would not be liable for the difference in appraisal results arising from any changed pre-conditions.

X. APPRAISAL CONCLUSION

Under the pre-condition of continued operation, as at the benchmark date of appraisal 31 March 2012, the book value of the entire shareholders' equity (net assets) of Jingcheng Holding (Hong Kong) Company Limited within the scope of appraisal amounted to RMB135.422 million, with appraisal value as RMB222.4645 million, appraised appreciation value as RMB87.0425 million and appreciation rate as 64.28%. The appraisal results for each type of assets and liabilities are listed below:

Summary of the assets appraisal results

Price unit: RMB'0,000

Item	Book Value	Appraisal value	Appreciation/Depreciation	Appreciation rate % D=C/A ×100%
	A	B	C=B-A	
1 Current assets	166.27	166.27	—	—
2 Non-current assets	13,501.16	22,205.41	8,704.25	64.47
3 Including: Long-term receivables	—	—	—	—
4 Long-term equity investments	13,501.16	22,205.41	8,704.25	64.47
5 Fixed assets	—	—	—	—
6 Construction in progress	—	—	—	—
7 Intangible assets	—	—	—	—
8 Deferred income tax assets	—	—	—	—
9 Total assets	13,667.43	22,371.68	8,704.25	63.69
10 Current liabilities	125.23	125.23	—	—
11 Non-current liabilities	—	—	—	—
12 Total liabilities	125.23	125.23	—	—
13 Net assets (owners equity)	13,542.20	22,246.45	8,704.25	64.28

XI. EXPLANATORY NOTES ON SPECIAL ISSUES

- (I) The appraiser has conducted due diligence survey and did not, from the benchmark date of appraisal to the date of appraisal report, find any major events that may have any influence on the appraisal conclusion. After the benchmark date of appraisal, within the validity period of the appraisal conclusion, if the asset quantity and appraisal standard have any changes, they should be handled according to the following principles:
1. When there is a change in asset quantity, the original appraisal method should be adopted to make corresponding adjustments to the asset amount;
 2. When there is a change in asset appraisal standards and has brought significant influence to the asset appraisal, the entrusting party should promptly deploy a qualified appraisal institution to reconfirm the appraised value;
 3. On changes to asset quantity and appraisal standards after the benchmark date of appraisal, the entrusting party should give full consideration when making an actual appraisal for the assets and should make adjustments accordingly.

- (II) Pursuant to “The official reply for the change of English name and operating period and increase the total investment and registered capital of Tianjin Tianhai High Pressure Container Co., Ltd.” (Jin Bao Guan Qi Pi (2011) No.218), Tianjin Tianhai High Pressure Container Co., Ltd. increased its registered capital by RMB140.0784 million, where RMB77.0431 million was subscribed by Tianhai Industrial and RMB63.0353 million was contributed by TPCO Investment Co. Ltd. by physical assets. As at the benchmark date of this appraisal, Beijing Tianhai Industry Co. Ltd. has fully paid the subscribed capital and completed the capital verification but not yet amended the business registration. TPCO Investment Co. Ltd. has not paid for its contribution.

As per the above, for the purpose of this appraisal, the proportion of long-term equity investment shareholdings of Jingcheng Holding (Hong Kong) Company Limited in Tianjin Tianhai High Pressure Container Co., Ltd. was determined to be 25% as stated in the company’s memorandum and articles of association before the capital injection. The appraising approach of such long-term equity investment was as follows: an overall appraisal was done on Tianjin Tianhai High Pressure Container Co., Ltd. to obtain the appraisal value of the net assets on the benchmark date of appraisal net of the RMB77.0431 million contribution from Beijing Tianhai Industry Co. Ltd., which was then multiplied by 25% as the proportion of shareholdings so as to obtain the appraisal value of the 25% of long-term equity investment of Jingcheng Holding (Hong Kong) Company Limited in Tianjin Tianhai High Pressure Container Co., Ltd.

- (III) In the appraisal of long-term equity investments, the certified asset appraiser understood the liquidity of asset may have significant influence on value of appraisal objects. Due to the lack of analysis base for asset liquidity, such as information on industry and property exchange of relevant assets, the appraisal does not consider the impact of lack of market mobility on value of appraised objects.
- (IV) In the appraisal of long-term equity investments, the certified asset appraiser understood value of part of shareholder equity does not always equal to total value of shareholder equity multiply percentage of equity. Due to lack of information on industry and exchange of relevant equity, the appraisal does not consider depreciation of appraised objects as non-controlling equity.

- (V) After the benchmark date of appraisal, the People's Bank of China has downward adjustments of the benchmark interest rate for RMB loans and deposits of financial institutions in 8 June 2012 and 6 July 2012 respectively. The factor such as change of interest rates is not included in the impact to the value of appraised object.
- (VI) In terms of defects which existed in the enterprise that are likely to affect value of assets, the appraiser institution and the appraisal personnel shall not assume relevant responsibilities if the enterprise did not provide any special explanations when performing entrusting and the said faulty matters could not be clarified after evaluators had gone through the appraisal procedures

The appraiser would like to draw special attention from all report users to the above special issues.

XII. EXPLANATIONS ON THE LIMITATIONS OF THE APPRAISAL REPORT

- (1) This appraisal report should only be used for the appraisal purpose and use specified in this appraisal report, and it should not be used in any other purposes or use. Any consequences due to inappropriate use shall not be liable to the signed assets appraiser and the affiliated appraisal body;
- (2) This appraisal report should only be used by the appraisal report users specified in the Business Engagement Letter on Asset Appraisal signed between China Faith Appraisers Co, Ltd. and the entrusting party, as well as report users stipulated by national laws and regulations;
- (3) The appraisal report has not been verified or kept as a back-up copy. The appraisal conclusion should not be used;
- (4) Without consent from the appraisal body, no party should copy, quote or disclose all or part of the content of the appraisal report to the mass media;
- (5) From the benchmark date of appraisal, unless there is substantial change to market conditions or asset status, the validity of the appraisal conclusion in this appraisal report is one year from the benchmark date of appraisal, i.e. from the date of asset appraisal, 31 March 2012 to 30 March 2013;
- (6) When policy adjustments have a substantial influence on the appraisal conclusion, the benchmark date of appraisal should be reconfirmed to conduct appraisal.

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XIII. DATE OF APPRAISAL REPORT

This appraisal report is dated 17 August 2012.

China Faith Appraisers Co., Ltd.

Legal representative: Chen Dongmei

Certified asset appraiser: Yang Yang

Yu Hongtao

17 August 2012

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuations as of 31 October 2012 of the properties held by the Group.



The Directors
Beiren Printing Machinery Holdings Limited
No. 6 Rongchangdong Street
Economic and Technological Development Zone
Beijing
The People's Republic of China

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

3 December 2012

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the "PRC") in which Beiren Printing Machinery Holdings Limited (the "Company" and together with its subsidiaries, the "Group") has direct interests in and which shall be transferred by the Company to Beiren Group Corporation pursuant to the Reorganisation (as defined in this circular), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 October 2012 ("date of valuation") for public circular purpose.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing Property Nos. 1 and 2, which are held for owner occupation in the PRC, due to the specific purpose for which the buildings and structures of the properties have been constructed, there are no readily available market comparables. Thus the buildings and structures cannot be valued on the basis of direct comparison approach. They have therefore been valued

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

on the basis of their depreciated replacement cost (“DRC”). DRC is based on an estimate of the market value for the existing use of the land plus the gross replacement costs of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The DRC generally provides the most reliable indication of value for property in the absence of a known market based on market sales. The DRC is subject to the adequate potential profitability of the business.

In valuing Property Nos. 3, 4 and 7 and the land parcel of Property No. 6, which are mainly held for owner occupation in the PRC, we have adopted the direct comparison approach by making reference to the comparable market transactions assuming sale with the benefit of vacant possession.

In valuing Property No. 5 and the buildings and structures of Property No. 6, we have attributed no commercial value to these properties due to its existing title defects.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not searched the original documents to ascertain the existence of any amendments which may not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and its PRC legal adviser, Beijing Kangda Law Firm, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to our valuation. We have also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, where possible the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The site inspection was carried out on 28 August 2012 by our professional valuers and some other assistants.

Our valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated are in Renminbi (“RMB”).

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

Our summary of values and valuation certificates are attached.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MHKIS MRICS RPS(GP)
Director

Note: Mr Anthony C K Lau is a qualified surveyor and has over 19 years' post-qualification experience in the valuation of properties in Hong Kong and the PRC.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 31 October 2012 (RMB)
1.	An industrial complex located at No. 6 Rongchang East Street, Economic and Technological Development Zone, Daxing District, Beijing, PRC	RMB374,100,000
2.	An industrial complex located at No. 25 Keyuan Road, Daxing Industrial Development Zone, Daxing District, Beijing, PRC	RMB96,800,000
3.	Two residential units of Building No. 15, Fuyuan Community, Huangcun Town, Daxing District, Beijing, PRC	RMB21,200,000
4.	Various residential units of Building Nos.1, 2 and 11 located at No. 2 Xinhai East Road, Tongzhou District, Beijing, PRC	RMB49,400,000
5.	Various buildings and structures located at No. 12 Xinhua Avenue, Tong County, Beijing, PRC	No commercial value
6.	An industrial complex located at No. 1 Nanhuan Road, Yinhai Industrial Zone, Daxing District, Beijing, PRC	RMB50,200,000
7.	Eight residential units of Buildings Nos. 31 and 73 located at Shishan Road, Haimen Town, Haimen, Jiangsu Province, PRC	RMB3,600,000
Grand Total:		RMB595,300,000

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
1.	An industrial complex located at No. 6 Rongchang East Street, Economic and Technological Development Zone, Daxing District, Beijing, PRC	The property comprises a parcel of land with a site area of approximately 130,469.70 sq.m. (1,404,376 sq.ft.) on which three workshops and an office building completed in 2003 were erected. The total gross floor area of the buildings is approximately 95,356.88 sq.m. (1,062,421 sq.ft.). The land use rights of the property have been granted with a term expiring on 25 December 2050 for industrial use.	The property is occupied by the Group for industrial, office and ancillary uses.	RMB374,100,000

Notes:

- Pursuant to the State-owned Land Use Certificate – Kai Gu Fen Guo Yong (2009) Di No. 72, the land use rights of a parcel of land with a site area of 130,469.70 sq.m. have been granted to Beiren Printing Machinery Holdings Limited (北人印刷機械股份有限公司) (the “Company”) for the term expiring on 25 December 2050 for industrial use.
- Pursuant to the Building Ownership Certificate – Jing Fang Quan Zheng Kai Gu Zi Di No. 00155, the building ownership rights of various buildings with a total gross floor area of approximately 98,579.18 sq.m. are vested in the Company for industrial use.

As advised by the Group, the property comprises portions of the buildings as mentioned in the aforesaid Building Ownership Certificate.
- We have been provided with a legal opinion on the title to the property issued by the Company’s PRC legal advisers, which contains, inter-alia, the following information:
 - the land use rights and building ownership rights of the property are valid and effective;
 - the property is not subject to any mortgages or third party rights; and
 - there is no legal impediment for the property to be disposed of by the Company.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
2.	An industrial complex located at No. 25 Keyuan Road, Daxing Industrial Development Zone, Daxing District, Beijing, PRC	The property comprises two parcels of land with a total site area of approximately 43,333.38 sq.m. (466,441 sq.ft.) on which five workshops, an office building and an ancillary building completed in between 2000 and 2002 were erected. The total gross floor area of the buildings is approximately 27,389.13 sq.m. (294,817 sq.ft.). The land use rights of the property have been granted for two concurrent terms expiring on 14 April 2049 and 11 March 2051 respectively for industrial use.	The property is occupied by the Group for industrial, office and ancillary uses.	RMB96,800,000

Notes:

1. Pursuant to two State-owned Land Use Certificates – Jing Xing Guo Yong (2001 Chu) Zi Di Nos. 152 and 073, the land use rights of two parcels of land with a total site area of 43,333.38 sq.m. have been granted to the Company for two concurrent terms expiring on 14 April 2049 and 11 March 2051 respectively for industrial use.
2. Pursuant to two Building Ownership Certificates – Jing Fang Quan Zheng Kai Gu Zi Di Nos. 00001901 and 00002975, the building ownership rights of the property with a total gross floor area of approximately 27,389.13 sq.m. are vested in the Company for industrial and transportation uses.
3. We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - i. the land use rights and building ownership rights of the property are valid and effective;
 - ii. the property is not subject to any mortgages or third party rights; and
 - iii. there is no legal impediment for the property to be disposed of by the Company.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
3.	Two residential units of Building No. 15, Fuyuan Community, Huangcun Town, Daxing District, Beijing, PRC	The property comprises two residential units of a 6-storey domestic building completed in 2000. The total gross floor area of the property is approximately 1,629.00 sq.m. (17,535 sq.ft.).	The property is occupied by the Group for dormitory use.	RMB21,200,000

Notes:

1. Pursuant to the Building Ownership Certificate – Jing Fang Quan Zheng Kai Gu Zi Di No. 00001902, the building ownership rights of the property with a gross floor area of approximately 1,629.00 sq.m. are vested in the Company for residential use.
2. We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - i. the building ownership rights of the property are valid and effective;
 - ii. the property is not subject to any mortgages or third party rights; and
 - iii. there is no legal impediment for the property to be disposed of by the Company.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
4.	Various residential units of Building Nos. 1, 2 and 11 located at No. 2 Xinhai East Road, Tongzhou District, Beijing, PRC	The property comprises 40 residential units of three 6-storey domestic buildings completed in 2004. The total gross floor area of the property is approximately 3,745.95 sq.m. (40,321 sq.ft.).	The property is occupied by the Group for dormitory use.	RMB49,400,000

Notes:

1. Pursuant to forty Building Ownership Certificates – Jing Fang Quan Zheng Tong Gu Zi Di Nos. 0422255 to 0422294, the building ownership rights of the property with a total gross floor area of approximately 3,745.95 sq. m. are vested in the Company.
2. We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - i. the building ownership rights of the property are valid and effective;
 - ii. the property is not subject to any mortgages or third party rights; and
 - iii. there is no legal impediment for the property to be disposed of by the Company.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
5.	Various buildings and structures located at No. 12 Xinhua Avenue, Tong County, Beijing, PRC	The property comprises various workshops, office and ancillary buildings and various structures completed in between 1965 and 2009. The total gross floor area of the buildings is approximately 40,637.19 sq.m. (437,419 sq.ft.).	The property is occupied by the Group for industrial, office and ancillary uses.	No commercial value (refer to Note 3)

Notes:

- Pursuant to the Building Ownership Certificate – Tong Quan Zi No. 03104, the building ownership rights of the various buildings with a total gross floor area of approximately 44,119.50 sq.m. are vested in the Company.

As advised by the Group, the property comprises portions of the buildings as mentioned in the aforesaid Building Ownership Certificate.
- We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - the building ownership rights of the property are valid and effective;
 - the buildings are not subject to any mortgages or third party rights; and
 - there is no legal impediment for the buildings to be disposed of by the Company.
- In the course of our valuation, we have ascribed no commercial value to the property as there is no legal valid title document for the land use rights of the property. For indicative purpose, the depreciated replacement cost of the existing buildings and structures of the property was in the sum of RMB23,940,000 as at the date of valuation.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
6.	An industrial complex located at No. 1 Nanhuan Road, Yinhai Industrial Zone, Daxing District, Beijing, PRC	The property comprises a parcel of land with a site area of approximately 61,417.12 sq.m. (661,094 sq.ft.) on which nine workshops and an office building and various structures completed in 2005 were erected. The total gross floor area of the buildings is approximately 20,783.05 sq.m. (223,709 sq.ft.). The land use rights of the property have been agreed to be transferred to the Company for a term of 50 years commencing on the date that the State-owned Land Use Certificate has been issued.	The property is occupied by the Group for industrial, office and ancillary uses.	RMB50,200,000 (refer to Note 3)

Notes:

1. Pursuant to the Contract for Transfer of Land Use Rights dated 6 April 2004, the land use rights of a parcel of land with a site area of approximately 92.126 mu (61,417.12 sq.m.) have been agreed to be transferred to the Company for a term of 50 years commencing on the date that the State-owned Land Use Certificate has been issued.
2. We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - i. the relevant legal formalities have to be fulfilled for the aforesaid buildings which have no Building Ownership Certificate; and
 - ii. there is no legal impediment for the land use rights to be disposed of by the Company.
3. The valuation figure only represents the market value of the land parcel of the property. However, in the course of our valuation, we have ascribed no commercial value to the buildings and structures of the property as there is no legal valid title document for these portions. For indicative purpose, the depreciated replacement cost of the existing buildings and structures of the property was in the sum of RMB43,700,000 as at the date of valuation.

APPENDIX IX PROPERTY VALUATION ON THE DISPOSAL PROPERTIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2012
7.	Eight residential units of Building Nos. 31 and 73 located at Shishan Road, Haimen Town, Jiangsu Province, PRC	The property comprises 8 residential units of two 5-storey domestic buildings completed in 1997. The total gross floor area of the property is approximately 603.44 sq.m. (6,495 sq.ft.). The land use rights of the property have been granted for a term expiring on 5 December 2045 for residential use.	The property is occupied by the Group for dormitory use.	RMB3,600,000

Notes:

1. Pursuant to eight Building Ownership Certificates – Hai Zheng Fang Quan Zheng Zi Di Nos. 20155994 to 20155999, 20156017 and 20156018, the building ownership rights of the property with a total gross floor area of approximately 603.44 sq. m. are vested in the Company.
2. We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal advisers, which contains, inter-alia, the following information:
 - i. the building ownership rights of the property are valid and effective;
 - ii. the property is not subject to any mortgages or third party rights; and
 - iii. there is no legal impediment for the property to be disposed of by the Company.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in this circular, the omission of which would make any statement herein or this circular misleading.

I. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation of the Company

The Company was incorporated in the PRC as a joint stock limited liability company on 13 July 1993 under the name of 北人印刷機械股份有限公司 (Beiren Printing Machinery Holdings Limited). The Company has established a place of business at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong and has been registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance since 18 November 1993. In connection with such registration, Mr. Lo Tai On has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is formed in the PRC, it is subject to the PRC Company Law and to its constitution which comprises its articles of association.

2. Changes in share capital of the Company

There has been no alteration in the share capital of the Company within the two years preceding the date of this document.

3. Corporate reorganisation of the Target Group

In order to (i) sell 100% equity interest in Jingcheng Compressor to the Company and (ii) avoid competition between the Reorganised Group and other subsidiaries of Jingcheng Holding which are engaged in environmental protection business, the Target Group has undergone the following corporate reorganisation:

- (a) on 8 June 2012, Beijing Industrial Development Investment Management Co., Ltd. (北京工業發展投資管理有限公司) (“**Beijing Industrial**”) and Jingcheng Holding entered into a rights transaction contract (產權交易合同) pursuant to which Beijing Industrial transferred its 23.79% equity interest in Jingcheng Compressor to Jingcheng Holding at the consideration of RMB52,110,000;
- (b) on 27 September 2012, Jingcheng Compressor and Beijing Xihai Gongmou Company (北京西海工貿公司) (“**Beijing Xihai**”) entered into nil-consideration transfer agreement pursuant to which Jingcheng Compressor has transferred its 80% equity interest in 北京京城天義環保科技有限公司 (Beijing Jingcheng Tianyi Environmental Technology Co., Ltd.) (“**Jingcheng Tianyi**”), a subsidiary of Jingcheng Compressor then principally engaged in environmental protection business, to Beijing Xihai at nil consideration; and

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

- (c) on 27 September 2012, Jingcheng Compressor and Beijing Xihai entered into a state-own rights nil-consideration transfer agreement pursuant to which Jingcheng Compressor has transferred all its assets (including long-term equity investments and intangible assets such as trademarks and patents) relating to its environmental protection business to Beijing Xihai at nil consideration.

4. Changes in the share capital of the Target Group

Members of the Target Group are referred to in the audit reports of each of the Target Companies, the text of which is set out in Appendices IV(1), (2) and (3) to this circular.

The following alterations in the share capital of members of the Target Group have taken place within the two years preceding the date of this circular:

(a) *Panni Gaokong*

In June 2011, the registered capital of Panni Gaokong was increased from RMB2,730,800 to RMB20,000,000.

(b) *Shanghai Tianhai*

In June 2011, the registered capital of Shanghai Tianhai was increased from US\$1,000,000 to US\$3,017,400.

(c) *Tianjin Tianhai*

In July 2011, the registered capital of Tianjin Tianhai was increased from RMB85,500,000 to RMB225,578,400.

(d) *Jingcheng Compressor*

In September 2012, the registered capital of Jingcheng Compressor was increased from RMB109,281,500 to RMB139,271,500.

Save as aforesaid, there has been no alternation in the share capital of the members of the Target Group within the two years preceding the date of this circular.

5. Share capital of the Company

Authorised share capital

Number of Shares	Description of Shares	Authorised share capital (RMB)
322,000,000	Domestic shares	322,000,000
<u>100,000,000</u>	H shares	<u>100,000,000</u>
<u>422,000,000</u>		<u>422,000,000</u>

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

As at the Latest Practicable Date, the registered share capital of the Company is RMB422,000,000, divided into 422,000,000 Shares with a nominal value of RMB1.00 each.

Number of Shares	Description of Shares	Approximate percentage to total share capital
322,000,000	Domestic shares	76.3%
100,000,000	H shares	23.7%
<u>422,000,000</u>		<u>100%</u>

The Company's Shares

The Company's A Shares and H Shares are both ordinary shares in the share capital of the Company. H Shares may only be subscribed for and traded in Hong Kong dollars. A Shares, on the other hand, may only be subscribed for and traded in Renminbi. The Company will pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of A Shares in Renminbi within two months after the profit distribution plan has been resolved at the general meeting.

The Company's A Shares and H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this circular. However, the transfer of A Shares is subject to such restrictions as PRC law may impose from time to time.

Under the Company's Articles of Association, shares of the same class shall carry the same rights. Rights conferred on any class of shareholders may not be varied or abrogated save with the approval of a special resolution at a general meeting and by holders of shares of that affected class at a separate meeting.

6. Substantial shareholders of the Company

As at the Latest Practicable Date, so far as is known to any Director or the chief executive of the Company, the persons, other than a Director or chief executive of the Company, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Reorganised Group are as follows:

Interests in the Company

Name of shareholder	Type of interest	Class	Number of Shares in class (Approximate percentage shareholding in class)	Approximate percentage of shareholding in the entire share capital of the Company (A Shares and H Shares)
Beiren Group	Beneficial owner	A Shares	201,620,000 (62.61%)	47.78%
Pictet & CIE	Beneficial owner	H Shares	5,978,000 (5.98%)	1.42%
788 China Fund Ltd.	Beneficial owner	H Shares	5,124,000 (5.12%)	1.21%

Interests in other members of the Reorganised Group

Name of member of the Reorganised Group	Name of person	Approximate percentage of interest
America Fortune	鄭國祥 (ZhengGuoxiang)	24.50%
	郭志紅 (Guo Zhihong)	24.50%
Shanghai Tianhai	吳壽宗 (Wu Shouzhong)	12.16%
Tianjin Tianhai	天津大無縫投資有限公司 (Tianjin Dawufeng Investment Co., Ltd.)	45.00%
Tianhai Cryogenic	北京科瑞尼克科貿有限公司 (Beijing Kerui Nike Science Trading Co., Ltd.)	25.00%
Langfang Tianhai	吳壽宗 (Wu Shouzhong)	30.00%
Tianhai Xigang	加拿大西港能源公司 (Canada Xigang Energy Co, Ltd.)	50.00%
Fusheng Machine	香港廣盛股份有限公司 (Hong Kong Guangsheng Holdings Co., Ltd.)	70.00%

Saved as disclosed herein, so far as the Directors are aware, as at the Latest Practicable Date, there are no other persons who will have interests or short positions in the Shares, underlying Shares of the Company which will fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO once the Shares are listed

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Reorganised Group.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF THE REORGANISED GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business of the Reorganised Group) have been entered into by members of the Reorganised Group within the two years preceding the date of this circular and are or may be material:

- (a) the equity interest transfer agreement dated 20 October 2011 between 北京京城機電控股有限責任有限公司 (Beijing Jingcheng Electric Holding Co., Ltd.) (“**Beijing Electric**”) and Tianhai Industrial, pursuant to which Beijing Electric agreed to sell and Tianhai Industrial agreed to purchase 70% equity interest in Langfang Tianhai at the consideration of RMB68,808,180;
- (b) the asset transfer agreement dated 23 March 2012 between Tianhai Industrial and 北京京城機電資產管理有限責任公司 (Beijing Jingcheng Electric Management Co., Ltd.) (“**Beijing Management**”), pursuant to which Tianhai Industrial agreed to sell and Beijing Management agreed to purchase certain structures buildings or structures constructed by Tianhai Industrial at the consideration of RMB6,100,000;
- (c) the Reorganisation Framework Agreement;
- (d) an equity transfer agreement dated 27 September 2012 between Jingcheng Compressor and Beijing Xihai entered into a nil-consideration transfer agreement pursuant to which Jingcheng Compressor has agreed to transfer its 80% equity interest in Jingcheng Tianyi, then a subsidiary of Jingcheng Compressor principally engaged in environmental protection business, to Beijing Xihai at nil consideration;
- (e) on 27 September 2012, Jingcheng Compressor and Beijing Xihai entered into an asset transfer agreement pursuant to which Jingcheng Compressor has agreed to transfer all its assets (including long-term equity investments and intangible assets such as trademarks and patents) relating to its environmental protection business to Beijing Xihai at nil consideration;
- (f) the Material Asset Reorganisation Agreement; and
- (g) the supplemental agreement dated 29 November 2012 entered into between Jingcheng Holding, Beiren Group and the Company pursuant to which the parties have agreed to amend certain terms of the Material Reorganisation Agreement.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

2. Intellectual property rights of the Reorganised Group

(a) Trademarks

As at the Latest Practicable Date, the Reorganised Group was the registered proprietor and beneficial owner of the following trademarks which, in the opinion of the Directors, are material to the New Business:

Trademark	Place of registration	Class	Registration number	Expiry date of registration
	PRC	6	5616201	6 July 2019
	PRC	6	1055481	13 July 2017
	PRC	6	6971660	6 June 2020
北一通	PRC	37	6340522	27 March 2020
北一通	PRC	35	6340523	27 June 2020
北一通	PRC	7	6340524	27 February 2020
	PRC	37	6340519	13 June 2020
	PRC	7	6340520	27 March 2020
	PRC	7	204733	27 February 2014
	PRC	7	713019	27 October 2014

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

(b) Patents

As at the Latest Practicable Date, the Reorganised Group had registered the following patents which, in the opinion of the Directors, are material to the New Business:

Patent	Place of registration	Type	Registration number	Period of validity
車載液化天然氣儲罐 (Liquefied natural gas storage tanks for vehicles)	PRC	Utility Model	ZL200720175479.8	10 years from 29 August 2007
一種用消石灰製備的乙炔瓶無石棉矽酸鈣填料及製備方法 (Acetylene bottles of non-asbestos calcium silicate filler prepared with hydrated lime and preparation methods)	PRC	Invention Patent	ZL200710119792.4	20 years from 31 July 2007
一種9L/12L·30MPa鋁內膽碳纖維全纏繞複合氣瓶 (A kind 9L/12L 30MPa aluminum liner fully wrapped carbon fiber composite cylinders)	PRC	Utility Model	ZL201120115055.9	10 years from 19 April 2011
無縫氣瓶收口機旋壓輪及軸的錐形連接結構 (Seamless cylinder necking-in machines spinning wheel and the axis of the cone connection structure)	PRC	Utility Model	ZL201120239864.0	10 years from 8 July 2011
一種插入式軸承密封裝置 (An insert bearing seal device)	PRC	Utility Model	ZL201120239870.6	10 years from 8 July 2011
鋼質氣瓶熱旋壓收口機主軸軸承密封結構 (The hot spinning steel cylinders necking-in machines spindle bearing seal structure)	PRC	Utility Model	ZL201120239891.8	10 years from 8 July 2011
新型缸體部件 (New tank component)	PRC	Utility Model	ZL200520002120.1	10 years from 4 February 2005
一種多功能塔處理裝置 (A multifunctional tower treatment device)	PRC	Utility Model	ZL201120407637.4	10 years from 24 October 2011

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(c) Computer software copyright

As at the Latest Practicable Date, the Reorganised Group had registered the following computer software copyright which, in the opinion of the Directors, are material to the New Business:

Name of computer software	Place of registration	Registration number	First publication date (Note 1)	Scope of rights (Note 2)
Automatic material production line control software V1.0(自動分料生產綫控制軟件V1.0)	PRC	2011SRO45186	16 April 2010	All
Single compressor color touch screen monitoring software V1.0(單台壓縮機彩色觸摸屏監控軟件V1.0)	PRC	2011SR046856	23 October 2009	All
Piston compressor DCS monitoring software V1.0(活塞式壓縮機DCS監控軟件V1.0)	PRC	2011SR046645	18 June 2010	All
Single compressor touch screen (small screen) monitoring software V1.0(單台壓縮機觸摸屏(小屏)監控軟件V1.0)	PRC	2011SR046450	9 October 2008	All
Membrane type compressor DCS monitoring software V1.0(膜式壓縮機DCS監控軟件V1.0)	PRC	2011SR046646	27 February 2010	All

Notes:

1. According to the relevant laws and regulations of the PRC, the period of protection of registered computer software is 31 December of the year falling 50 years from the first publication date of the relevant computer software.
2. According to relevant laws and regulations of the PRC, the rights include publication right (發表權), signing right (署名權), amendment right (修改權), duplication right (複製權), issue right (發行權), rental right (出租權), information network distribution right (信息網絡傳播權), translation right (翻譯權) and such other rights that should be enjoyed by the copyright owner of the computer software.

(d) Domain Name

As at the Latest Practicable Date, the Reorganised Group had registered the following domain name:

Registrant	Domain Name	Expiry date
The Company	beirengf.com	12 August 2013
Tianhai Industrial	btic.cn	2 December 2013
Jingcheng Compressor	jcep.com.cn	27 August 2013

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

III. INFORMATION ABOUT THE DIRECTORS AND THE SENIOR MANAGEMENT OF THE TARGET COMPANIES

1. Directors

As at the Latest Practicable Date, the Board comprises 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

The following table sets out certain information relating to the Directors.

Name	Age	Position
Mr. Zhang Peiwu	49	Chairman, Executive Director
Mr. Chen Bangshe	45	General Manager, Executive Director
Ms. Jiang Chi	37	Chief Accountant, Executive Director
Mr. Teng Mingzhi	40	Non-executive Director
Ms. Wu Dongbo	40	Non-executive Director
Mr. Li Shenggao	36	Non-executive Director
Ms. Wei Li	50	Non-executive Director
Mr. Zhang Shuangru	69	Independent non-executive Director
Ms. Wang Hui	51	Independent non-executive Director
Mr. Xie Bingguang	57	Independent non-executive Director
Mr. Wang Deyu	37	Independent non-executive Director

Executive Directors

Mr. Zhang Peiwu

Mr. Zhang Peiwu, chairman, a postgraduate in engineering, a senior economist. Mr. Zhang taught in Xi'an University of Technology of Shaanxi Province and was the deputy general manager and legal representative of Sichuan Printing Materials Company (四川省印刷物資公司), assistant to general manager of Beiren Group Corporation and served concurrently as the general manager of Operation and Sales Company. He started working in the Company since September 2006.

Mr. Chen Bangshe

Chen Bangshe, director and general manager, bachelor degree in Mechanical Engineering and a senior engineer. Mr. Chen was the deputy plant manager of Shaanxi Printing Machinery Plant, and vice chairman and general manager of Shaanxi Huanggong Group Printing Machinery Company Limited. He has been the general manager of the Company's subsidiary, Shaanxi Beiren Printing Machinery Limited. Mr. Chen was awarded the "Labor Model of Shaanxi Province", "Outstanding Contributions Experts in Shaanxi Province", "Outstanding Modern Packaging Entrepreneur in China", "The Ninth Bisheng Printing Outstanding New Comer Award", "Top 100 Excellent Printing Entrepreneur in Modern China" as well as "Shaanxi Province Science and Technology Award".

Ms. Jiang Chi

Jiang Chi, director and chief accountant, graduated from Beijing Institute of Light Industry with a degree in Economics. Ms. Jiang is a senior account and worked in Beijing Double-Crane Pharmaceutical Co., Ltd. as accountant, China National Pharmaceutical Group Corporation as assistant to financial manager, Huayi

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

Pharmaceutical Co. Ltd. as financial manager, Jingcheng Holding as budget financial officer and Jingcheng Holding as deputy head of financial planning department. Ms. Jiang has served the Company since September 2011.

Non-executive Directors

Mr. Teng Mingzhi

Mr. Teng Mingzhi, director, obtained a research master degree in Engineering. Mr Teng was deputy head of propaganda unit of the committee of the Communist Party, officer of the Secretariat, assistant to the director of Beijing Mechanical and Electrical Institute; head of strategic planning and technology department and operation management department of Jingcheng Holding, director of strategic planning and technology of Jingcheng Holding. At present, Mr. Teng is secretary to the board, officer of the board office of Jingcheng Holding. He is also the officer of the Communist Party Committee Office. Mr. Teng has served the Company since May 2011.

Ms. Wu Dongbo

Ms. Wu Dongbo, director, graduated from Northern Jiaotong University majoring in accounting. She obtained a bachelor of economics and she is 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 Jingcheng Holding and she is now the head of the audit department of Jingcheng Holding. Ms. Wu has served the Company since May 2012.

Mr. Li Shenggao

Mr. Li Shenggao, director, graduated from Harbin University of Science and Technology with a bachelor degree in accounting. He further obtained a master degree from Peking University. Mr. Li is a certified accountant and senior accountant. He was the General Ledger Section Manager of finance department of Babcock & Wilcox Beijing Company Ltd, the general manager of Beijing Yan Long Import and Export Company and the chairman of the board of Wuxi Beiren Xiemin Printing Machinery Factory (無錫北人協民印刷機械廠) (a legal person). Since 2008, he has been the chief financial officer of Beiren Group Corporation, the general manager of Shanghai Beiren Group Integrated Commercial Buildings (上海北人集團綜合貿易商廈), the vice chairman of Beijing Beiren Gunze Machinery Co., Ltd, a director of Haimen Beiren Printing Machines Co., Ltd. (海門北人印刷機有限公司) and the person in charge of the Shenzhen branch of Beiren Group Corporation. Mr. Li has served the Company since May 2011.

Ms. Wei Li

Ms. Wei Li, director, graduated from printing mechanics of Shannxi Machinery College, graduate of EMBA of Arlington Campus, University of Texas. Ms Wei was the chief editor of Printing Technology Magazine Company and the executive deputy director of China Printing Machinery Research Institute. At present, she is the deputy general manager of Beiren Group, director of China Printing Science and Technology Research Institute, General Manager of Beijing Beiren Hotel (北京北人大酒店). Mr. Wei has served the Company since May 2011.

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Independent non-executive Directors

Mr. Zhang Shuangru

Mr. Zhang Shuangru, independent director, is a senior economist, graduated from archeology, Department of History, Peking University. Mr. Zhang has served as deputy director of personnel department 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 Standardisation of Administration of China (全國印刷標準化技術委員會) and managing vice-chairman of 中國印刷技術協會 (Printing Technology Association of China). Mr. Zhang received special subsidy from the State Council in 1994 and The Bisheng Printing Technology Award in 2009. Mr. Zhang has served the Company since May 2012.

Ms. Wang Hui

Ms. Wang Hui, independent director, obtained a postdoctoral degree of Engineering. Ms. Wang was a member of organizing committee of “Intercross-Science Forum” of Intercross-Science Research Centre for Natural Science and Social Science of Chinese Academy of Sciences; associate researcher and chief officer of the office of Technology Innovation and Development and Research Center of Economic and Management College of Tsinghua University; deputy general manager of fixed-income securities department in investment banking division of Guosen Securities Company Limited and vice-chairman and president of China Jiujiu Industrial Co., Ltd. Ms. Wang received “Beijing Science and Technology Second Honor Award” from the Beijing Municipal People’s Government. She is now researcher of Technology Innovation and Development and Research Center of Economic and Management College of Tsinghua University and chairman of the board and general manager of Zhonghai Kaitian (Beijing) Asset Management Co., Ltd. (中海凱天(北京)資產管理有限責任公司). Ms. Wang has served the Company since July 2008.

Mr. Xie Bingguang

Mr. Xie Bingguang, independent director, a solicitor. Mr. Xie is now head and a senior solicitor of Beijing Hualian Law Firm, solicitor of China Consumer’s Association; member of the Legislation Advisory Committee of All-China Federation of Returned Overseas Chinese; member of the Council of Beijing Lawyers Association, and was an assistant judge of Beijing Intermediate People’s Court; interceder of Mediation Center of China Council for the Promotion of International Trade; arbitrator of Beijing Arbitration Commission. Mr. Xie has served the Company since July 2008.

Mr. Wang Deyu

Mr. Wang Deyu, independent director, obtained a master degree in business administration, a qualified Chinese Certified Public Accountant. Mr. Wang was a loan officer of Yantai branch of Bank of China; assistant auditor of Chan Hock Seng & Co. CPA (曾福成會計公司) in Singapore; special assistant to General Manager of Yantai Wanhua Polyurethanes Co., Ltd.; and employee of advisory department of PricewaterhouseCoopers (Beijing) Company. He is currently finance director of Sichuan Lessin Department Store Ltd. Mr. Wang has served the Company since July 2008.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

Supervisors

Mr. Wang Liansheng

Mr. Wang Liansheng, Chairman of the Supervisory Committee, is a degree holder and a senior political engineer. Mr. Wang had been 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. 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 of the Company since November 2009.

Mr. Guo Xuan

Mr. Guo Xuan, supervisor, a university graduate of engineering and an engineer. Mr. Guo was Head of the Production Section of the Gear Plant of the Company, Deputy Director of Human Resources Department of the Company, Deputy General Manager of human resources department 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 the Company, Head of the Company's Human Resources Department and Assistant to General Manager. Mr. Guo is currently the Deputy General Manager of the Company. He has been appointed as the Supervisor of the Company since July 2008.

Ms. Wang Huiling

Ms. Wang Huiling, a supervisor, obtained a degree in industrial corporate administration, a degree in Economics and is a senior economist and certified internal control specialist. Ms. Wang has been the planner of the Company and the manager of its subsidiaries. She is now the Head of Strategy and Operation Management Department and the Secretary to the board of directors of Shaanxi Beiren, a subsidiary of the Company.

It is expected that the Reorganised Group will maintain the same Board composition until the Completion. After the Completion, new members of the Board will be appointed with reference to the following principles and further announcement in accordance with the requirements of the Listing Rules will be made by the Company upon such appointment:

- (a) The majority of the Directors shall be selected from the senior management team of the Target Companies.
- (b) Jingcheng Holding shall also nominate persons within Jingcheng Holding who are familiar with the New Business to the Board after the Reorganisation.

It is also expected that the total number of Directors shall remain unchanged.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

2. Existing senior management team of the Target Companies

The following table sets out the directors and supervisors of the Target Companies.

	Tianhai Industrial		Jingcheng Compressor		Jingcheng HK
	Director	Supervisor	Director	Supervisor	Director
Wang Pingsheng	✓				
Li Hui	✓				
Wu Chuanzhong	✓				
Han Bingkui	✓				
Guo Zhangli	✓				
Li Junjie			✓		
Ren Yaguang			✓		✓
Kang Yiqing			✓		
Li Wen			✓		
Ruan Aihua			✓		
Jing Jianfeng				✓	
Wang Guohua					✓
Wang Bin					✓

Directors and Supervisors of the Target Companies

Mr. Wang Pingsheng

Mr. Wang Pingsheng, aged 63, chairman of Tianhai Industrial. He is responsible for presiding board meetings and handling all related matters of Tianhai Industrial. Mr. Wang is also the director of certain subsidiaries of Tianhai Industrial. He was general manager of Tianhai Industrial and secretary of party committee of Tianhai Industrial. He has 34 years of experience in the high pressure gas cylinder industry. Prior to joining Tianhai Industrial, Mr. Wang worked at Beijing Metal Structures Factory (北京金屬結構廠) and Beijing High Pressure Gas Cylinders Factory (北京高壓氣瓶廠), and was factory director of Beijing Metal Structures Factory (北京金屬結構廠). Mr. Wang is also a senior engineer.

Mr. Li Hui

Mr. Li Hui, aged 38, was appointed as director and vice chairman of Tianhai Industrial in December 2009. He is responsible for coordinating daily operation and the work of various departments of Tianhai Industrial. Mr. Li joined Tianhai Industrial in 1997 and was deputy general manager of Tianhai Industrial. He was also the director of certain subsidiaries of Tianhai Industrial. Currently, Mr. Li is also deputy department head of the investment cooperation department of Jingcheng Holding. He obtained an executive MBA degree from China Europe International Business School in 2009.

Mr. Wu Chuanzhong

Mr. Wu Chuanzhong, aged 42, director and general manager of Tianhai Industrial. He is responsible for the planning, organising, directing and controlling of the corporate strategic operation of Tianhai Industrial. Mr. Wu is also the secretary of party committee of Tianhai Industrial from September 2010, and the director of certain subsidiaries of Tianhai Industrial. Mr. Wu was the director of technology department, research institute deputy director, deputy head of technology and quality

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

department and deputy head of equipment and energy. Mr. Wu obtained an executive MBA from the University of Texas at Arlington, US in 2005. Mr. Wu is also a senior engineer and senior professional manager.

Mr. Han Bingkui

Mr. Han Bingkui, aged 57, director, department head of finance department and chief accountant of Tianhai Industrial. He is responsible for the overall financial and accounting matters of Tianhai Industrial. Mr. Han is also the director of certain subsidiaries of Tianhai Industrial. Prior to Mr. Han joining Tianhai Industrial, he was with Beijing High Pressure Gas Cylinder Factory (北京高壓氣瓶廠) responsible for accounting and was the chief of its finance division. Mr. Han obtained a bachelor degree in industrial accounting from Shenyang University of Technology in 1987, completed economic management courses at Beijing Municipal Party School and postgraduate course in economic management at Capital University of Economics and Business in 1999 and 2001 respectively. Subsequently, Mr. Han was awarded CFO certificate by the China Association of Chief Financial Officers in 2010. Mr. Han is also a senior accountant.

Mr. Guo Zhangli

Mr. Guo Zhangli, aged 63, was appointed as external director of Tianhai Industrial in March 2009. Prior to joining Tianhai Industrial, Mr. Guo was Minister of the Beijing Ministry of Machinery Industry and was secretary of party committee and director of Beijing Beikai Electric Co., Ltd. (北京北開電氣股份有限公司). He obtained a bachelor degree in economics and management from Renmin University of China in 1989, and completed postgraduate course in labour economic specialty at the Capital University of Economics and Business in 2000. Mr. Guo is also a senior economist.

Mr. Li Junjie

Mr. Li Junjie, aged 34, was appointed as deputy secretary of party committee, secretary of discipline inspection commission and chairman of labour union of Tianhai Industrial in December 2007, as director of Jingcheng Compressor in June 2012. Mr. Li is also the supervisor of certain companies of the Tianhai group. He was the Youth League deputy secretary and deputy head of human resources department of Tianhai Industrial. Mr. Li obtained a bachelor degree in industrial economics from Taiyuan Heavy Machinery Institute in 2001 and an executive MBA degree from Peking University in 2012.

Mr. Ren Yaguang

Mr. Ren Yaguang, aged 53, chairman of Jingcheng Compressor and Jingcheng HK, is responsible for holding board meetings of Jingcheng Compressor and Jingcheng HK and handling all relating matters. Mr. Ren graduated from Beijing Steel College in 1982 and obtained an executive MBA degree from China Europe International Business School in 2006. Mr. Ren was also deputy secretary of party committee, general manager and director of Jingcheng Holding.

Mr. Kang Yiqing

Mr. Kang Yiqing, aged 53, secretary of party committee, director and general manager of Jingcheng Compressor. He is responsible for organizing the formulation of corporate strategy and full implementation of board decisions. Prior to joining

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

Jingcheng Compressor, Mr. Kang was head of manufacturing department, deputy secretary of party committee and deputy general manager (of the Chinese partner) of Babcock & Wilcox Beijing Company Ltd (北京巴威公司), and secretary of party committee, chairman and general manager of Beijing B.J. Electric Motor Co., Ltd. Mr. Kang obtained a bachelor degree in mechanical engineering from Tsinghua University in 1983 and completed executive MBA program at China Europe International Business School in 2006. Mr. Kang is also a senior engineer.

Mr. Li Wen

Mr. Li Wen, aged 46, chief financial officer and director of Jingcheng Compressor. He is responsible for assisting the general manager to formulate corporate strategy and taking charge of formulating corporate financial plan and formulating and perfecting financial management system. Prior to joining Jingcheng Compressor, Mr. Li was chief financial officer of Beijing Huade Hydraulic Industrial Group Co., Ltd. and finance manager (of the Chinese partner) of 德國瓦德里希•科堡公司 (Waldrich Coburg), Germany. Mr. Li graduated in industrial accounting from North China University of Technology, Beijing in 1988 and is a senior accountant.

Ms. Ruan Aihua

Ms. Ruan Aihua, aged 50, employee director, secretary of discipline inspection commission and chairman of labour union of Jingcheng Compressor. She is responsible for corporate culture building. Prior to joining Jingcheng Compressor, Ms. Ruan was production director and head of organisation department of Beijing First General Machinery Plant (北京第一通用機械廠). She completed the college class of economic management of Beijing Municipal Party School in 2001. Ms. Ruan is also an engineer of political work.

Mr. Jing Jianfeng

Mr. Jing Jianfeng, aged 40, supervisor of Jingcheng Compressor. Mr. Jing is also the Youth League secretary, propaganda (external) deputy head, head of propaganda unit and office director of Jingcheng Holding. Prior to joining Jingcheng Compressor in 2005, Mr. Jing was general manager of Beijing Electric Machinery Co., Ltd. (北京汽輪電機有限責任公司) (also Youth League secretary of Beijing Heavy Machinery Factory (北京重型電機廠)) and Youth League committee and secretary of Beijing Heavy Machinery Factory (北京重型電機廠). Mr. Jing graduated from mechanical engineering department II of Yanshan University with a bachelor degree in engineering in 1993, and from University of International Business and Economics with a MBA in 2001.

Mr. Wang Guohua

Mr. Wang Guohua, aged 49, director of Jingcheng HK. Mr. Wang obtained MBA of Tsinghua University in 2001, and is a senior engineer. He was chief engineer, chairman and secretary of party committee of Beiren Group; director of Beijing Printing Machinery Institute, and chief engineer, general manager and chairman of the Company. Mr. Wang is also the director and deputy general manager of Jingcheng Holding.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

Mr. Wang Bin

Mr. Wang Bin, aged 35, director of Jingcheng HK. Mr. Wang obtained a degree in accounting of Shenyang Industrial School (currently known as Shenyang Ligong University) in 2000. He was deputy head of the finance department of Beijing Second Machine Tool Plant (北京第二機床廠), head of budget management of planning and finance department of Jingcheng Holding. Mr. Wang is also head of planning and finance department of Jingcheng Holding.

Senior management of the Target Companies

Mr. Li Zhe

Mr. Li Zhe, aged 46, deputy general manager and head of production of Tianhai Industrial. He is responsible for coordinating daily operation and the work of various departments of Tianhai Industrial. Mr. Li was head of production department and assistant to general manager of Tianhai Industrial. Mr. Li obtained a bachelor degree in computer science and technology in 1991, and obtained a certificate in corporate operation and management training from Beijing Municipal Commission of Economy in 2003 and had studied at the Professional Manager Training Center of Tsinghua University. Mr. Li is also an engineer.

Mr. Yan Zhongkai

Mr. Yan Zhongkai, aged 37, deputy general manager of Tianhai Industrial and general counsel (also in charge of marketing department) and head of strategic investment department of Tianhai Industrial. He is responsible for handling legal issues of Tianhai Industrial and assisting the formulation of its investment policy. He was deputy head of international business department, head of marketing department, board secretary, office director and head of legal department of Tianhai Industrial. Mr. Yan obtained a bachelor degree in industry and foreign trade of China University of Mining and Technology in 1998 and an executive MBA degree of School of Economics and Management, Tsinghua University in 2009. Mr. Yan is also an assistant economist.

Mr. Yuan Wenping

Mr. Yuan Wenping, aged 44, deputy general manager and head of domestic sales department of Tianhai Industrial. He is responsible for coordinating daily operation and the work of various departments of Tianhai Industrial. He is also the director of certain subsidiaries of Tianhai Industrial. Mr. Yuan acted in various management positions including assistant to general manager, head of environmental technology and safety department, head of production department and equipment and energy department of Tianhai Industrial. Mr. Yuan obtained executive MBA of School of Economics and Management, Tsinghua University in 2010. Mr. Yuan is also an engineer.

Ms. Xie Yuemei

Ms. Xie Yuemei, aged 54, chief engineer and head of technology and quality department and quality assurance engineer of Tianhai Industrial. She is responsible for product development, design, review, verification etc. Ms. Xie is also the director of certain subsidiaries of Tianhai Industrial. Ms. Xie joined Tianhai Industrial as deputy chief of technology division in August 1992, and was technical director of Tianhai

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

Industrial. Ms. Xie graduated from department of mechanical engineering of Beijing University of Technology – branch campus in 1983 and completed a postgraduate program in corporate management of Capital University of Economics and Business in 2002. Ms. Xie is also a senior engineer (professor grade).

Mr. Wu Guofei

Mr. Wu Guofei, aged 41, deputy general manager of Jingcheng Compressor. He is responsible for management of environmental protection industry department and proposing operation and management measures for the company and departments. Prior to joining Jingcheng Compressor, Mr. Wu was deputy chief and workshop chief of environmental protection workshop, and deputy chief of quality inspection division of Beijing Organic Chemical Plant, and deputy director of Environmental Protection Institute, Beijing Research Institute of Mechanical and Electrical Technology. Mr. Wu obtained a bachelor of science degree in environmental chemistry of Nankai University in 1992 and completed studies in environment engineering at Beijing University of Technology in 2004 with a master degree in engineering. Mr. Wu is also a senior engineer.

Mr. Feng Qinglin

Mr. Feng Qinglin, aged 37, deputy general manager of Jingcheng Compressor in March 2010. He is responsible for management of human resources department and proposing measures for human resources planning, appointment and selection of cadres, and operation and management. Mr. Feng joined Jingcheng Compressor in 2003, and was sales company manager and head of marketing department of Jingcheng Compressor. Prior to joining Jingcheng Compressor, Mr. Feng worked in the sales office of Beijing First General Machinery Plant. Mr. Feng obtained a bachelor degree from economics department of Beijing Wuzi University in 1998. Mr. Feng is also an economist.

Mr. Kou Xuedong

Mr. Kou Xuedong, aged 48, deputy general manager of Jingcheng Compressor. He is responsible for management of frontline production departments and marketing department, proposing production, operation and management measures for the company and departments, and formulating marketing strategy. Mr. Kou was also manager of CNG department, manager of manufacturing department, assistant to general manager and director of standardisation committee of Jingcheng Compressor. Prior to joining Jingcheng Compressor, Mr. Kou was director of research institute and manager of compressor business of Beijing First General Machinery Plant. He obtained a bachelor degree in chemical equipment and machinery of Tianjin University in 1986. Mr. Kou is also a senior engineer.

Ms. Zhang Huiliang

Ms. Zhang Huiliang, aged 26, board secretary and director of general manager office of Jingcheng Compressor. She is responsible for works related to board meetings and shareholders' meetings. Ms. Zhang minored in law at Law School of South-China University for Nationalities in 2008 and graduated from School of Literature, Journalism and Communication of South-China University for Nationalities in 2009, majoring in Journalism.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

3. Interests and short positions of Directors and chief executives in the share capital of the Company

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors and chief executive of the Company or their respective associates had any interest or short positions in any Shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Beiren Group

<i>Name of Director</i>	<i>Positions held in Beiren Group</i>
Mr. Li Shenggao	Chief Financial Officer
Ms. Wei Li	Deputy General Manager

Jingcheng Holding

<i>Name of Director</i>	<i>Positions held in Jingcheng Holding</i>
Mr. Teng Mingzhi	Secretary to the Board Officer of the Board office, Director of the Communist Party Committee Office
Ms. Wu Dongbo	Head of Audit Department

4. Directors' interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Existing Group or the Target Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Company were made up.

5. Directors' interests in material contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Existing Group or the Reorganised Group.

6. Directors' competing interests

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete with the business of the Group.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

7. Director's service contracts

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any members of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

IV. OTHER INFORMATION

1. Litigation

(i) Litigation in respect of the Existing Group

As at the Latest Practicable Date, the Existing Group was involved in the following pending litigations:

Plaintiff	Defendant	Relevant court/ arbitration body	Time of institution	Cause of action	Amount involved (RMB'0,000)	Status
The Company	Sun Guangqing (孫廣清)	Beijing Yanqing County People's Court	February 2012	Dispute on rental contract	–	First instance
Shannxi Beiren	Zhengyu Mechanical Industry Holding Co., Ltd. (政鈺機械工 業股份有限公司)	Shanghai branch of China International Economic and Trade Arbitration Commission	May 2011	Dispute on sale and purchase agreement	151.46	In the course of arbitration

After verification, the PRC Legal Adviser was of the opinion that, since the Company and Shannxi Beiren were the plaintiffs of the litigation above and the amount involved was not substantial, the above litigations do not constitute material legal impediments to the Reorganisation.

(ii) Litigation in respect of the Target Group

On 29 April 2010, No.3 Tax Office of State Administration of Taxation in Beijing Chaoyang District (北京市朝陽區國家稅務局第三稅務所) imposed a fine of RMB1,000 on Tianhai Xigang, a jointly controlled entity of Tianhai Industrial, for failing to file the enterprise income tax return within the prescribed period. Tianhai Xigang has paid the fine and filed the tax return in accordance with the relevant requirements. Since the breach of Tianhai Xigang was minor and the breach was rectified by filing the tax return in accordance with the relevant requirements, the PRC Legal Adviser was of the view that the aforesaid breach of Tianhai Xigang does not constitute a material legal impediment to the Reorganisation.

Save as disclosed, as at the Latest Practicable Date, neither the Company nor any member of the Existing Group or Target Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Company or any member of the Existing Group or Target Group.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

2. Qualifications and consents of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Grand Vinco Capital Limited ("Vinco Capital")	a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
Celestial Capital Limited ("Celestial Capital")	a licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
Shinewing Certified Public Accountants ("ShineWing")	Certified Public Accountants
Beijing Kangda Law Firm ("Kangda")	PRC lawyers
Savills Valuation and Professional Services Limited ("Savills")	Property valuer
China Faith Appraisers Co., Ltd. ("China Faith")	Valuer

Each of Vinco Capital, Celestial Capital, ShineWing, Kangda, Savills and China Faith have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or letter and/or opinion and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

As at the Latest Practicable Date, none of Vinco Capital, Celestial Capital, ShineWing, Kangda, Savills and China Faith:

- (i) was interested beneficially or non-beneficially in any shares in any member of the Group;
- (ii) had any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group; or
- (iii) had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Existing Group or the Target Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Company were made up.

3. General

- (a) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Hong Kong Registrars Limited at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

- (b) The secretary of the Company is Jiao Ruifang, a graduate of Bachelor in Economics from Harbin University of Science and Technology, MBA in Financial Services Programme from The Chinese University of Hong Kong and a senior project manager.
- (c) The audit reports, unaudited proforma financial information, profit forecasts and valuation reports in Appendices III, IV(1) to (3), V, VI(1) to (4) and VII(1) to (3) to this Circular were prepared in Chinese. In case of inconsistency between the Chinese version and its English translation, the Chinese version shall prevail.
- (d) The English language text of this circular (save for Appendices III, IV(1) to (3), V, VI(1) to (4) and VII(1) to (3)) shall prevail over the Chinese language text in case of inconsistency.

4. Due diligence performed by financial adviser

As stated in a letter from the Listing Division of the Stock Exchange to the Company dated 29 June 2012, the Listing Division requested the Company to appoint a financial adviser acceptable to the Stock Exchange to conduct due diligence over the Incoming Assets in accordance with Practice Note 21 of the Listing Rules and to fulfill the duties and obligations equivalent to those of a sponsor for a new listing application under the Listing Rules. In this relation, the Company has appointed Vinco Capital to undertake such role.

V. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours within 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2010 and 31 December 2011 respectively;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 110 to 153 of this circular;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 109 of this circular;
- (e) the audit report of the Existing Group prepared by ShineWing for the three years ended 31 December 2011 and the seven months ended 31 July 2012, the text of which is set out in Appendix III to this circular;
- (f) the audit report of Tianhai Industrial prepared by ShineWing for the three years ended 31 December 2011 and the seven months ended 31 July 2012, the text of which is set out in Appendix IV(1) to this circular;
- (g) the audit report of Jingcheng Compressor prepared by ShineWing for the three years ended 31 December 2011 and the seven months ended 31 July 2012, the text of which is set out in Appendix IV(2) to this circular;

APPENDIX X GENERAL INFORMATION OF THE REORGANISED GROUP

- (h) the audit report of Jingcheng HK prepared by ShineWing for the three years ended 31 December 2011 and the seven months ended 31 July 2012, the text of which is set out in Appendix IV(3) to this circular;
- (i) the unaudited pro forma information of the Reorganised Group prepared by ShineWing, the text of which is set out in Appendix V to this circular;
- (j) the profit forecast of the Reorganised Group for the two years ending 31 December 2013, the text of which is set out in Appendix VI(1) to this circular;
- (k) the profit forecast of Tianhai Industrial for the two years ending 31 December 2013, the text of which is set out in Appendix VI(2) to this circular;
- (l) the profit forecast of Jingcheng Compressor for the two years ending 31 December 2013, the text of which is set out in Appendix VI(3) to this circular;
- (m) the profit forecast of Jingcheng HK for the two years ending 31 December 2013, the text of which is set out in Appendix VI(4) to this circular;
- (n) the valuation report of the Outgoing Assets prepared by China Faith, the text of which is set out in Appendix VII to this circular;
- (o) the valuation report of Tianhai Industrial prepared by China Faith, the text of which is set out in Appendix VIII(1) to this circular;
- (p) the valuation report of Jingcheng Compressor prepared by China Faith, the text of which is set out in Appendix VIII(2) to this circular;
- (q) the valuation report of Jingcheng HK prepared by China Faith, the text of which is set out in Appendix VIII(3) to this circular;
- (r) the property valuation report on the Disposal Properties prepared by Savills, the text of which is set out in Appendix IX to this circular;
- (s) the material contracts referred to in the section headed “Further Information about the Business of the Reorganised Group – Summary of Material Contracts” in this Appendix X;
- (t) the consent letters of Vinco Capital, Celestial Capital, ShineWing, Kangda, Savills and China Faith referred to in the section headed “Qualifications and Consents of Experts” in this Appendix X; and
- (u) this circular.

NOTICE OF EGM



北人印刷機械股份有限公司

BEIREN PRINTING MACHINERY HOLDINGS LIMITED

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

(Stock Code: 0187)

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF 2012

The board of Beiren Printing Machinery Holdings Limited (the “**Company**”) has decided to convene the first extraordinary general meeting (“**EGM**”) in 2012. At the EGM, resolutions regarding the material asset reorganisation of the Company and amendments to the Articles of Association of the Company, etc. will be considered and voted on site and through the online voting system. The relevant matters set out in the notice are as follows:

I. BASIC INFORMATION OF THE EGM:

- (1) Convenor of the meeting: the board of the Company
- (2) Mode of the meeting: Voting on site and through the online voting system (applicable to A share market)
- (3) Time of the meeting: 18 December 2012 (Tuesday) at 9:00 am
- (4) Place of the meeting: Conference Room of the Company, Room 6206, No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing
- (5) Period for Online Voting: 9:30 to 11:30 a.m. and 1:00 to 3:00 p.m on 18 December 2012 shall be the time for voting through the trading system of the Shanghai Stock Exchange (applicable to A share market). The Company will provide an online voting platform for the holders of A shares of the Company through the trading system of the Shanghai Stock Exchange. Holders of A shares of the Company can exercise their voting rights via the trading system of Shanghai Stock Exchange during the online voting period.

II. MATTERS FOR CONSIDERATION AT THE MEETING:

Motions to be considered and approved by way of special resolution:

1. To consider and approve item by item the resolution regarding the material asset reorganisation of the Company;
 - (1) The counterparties
 - (2) Proposed assets for disposal and proposed assets for acquisition
 - (3) Pricing method
 - (4) Transaction price
 - (5) The handling of the difference in value of the proposed assets for disposal and the proposed assets for acquisition

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- (6) The attribution of the profit and loss in relation to the proposed assets for disposal and the proposed assets for acquisition arising from or incurred during the period commencing from the benchmark date for the valuation of the proposed assets for disposal and the proposed assets for acquisition up to the date of completion
 - (7) Completion
 - (8) Arrangements for staff of Beiren Holdings and the proposed assets for disposal
 - (9) Validity of the resolution
- 2. To consider and approve the resolution on the signing of the conditional “Material Assets Reorganisation Agreement of Beiren Printing Machinery Holdings Company Limited, Beijing Jingcheng Machinery Electric Holding Co., Ltd, and Beiren Group Corporation with Beijing Jingcheng Machinery Electric Holding Co., Ltd, and Beiren Group Corporation;
 - 3. To consider and approve the resolution on the “Report of the Material Assets Reorganisation and Connected Transactions of Beiren Printing Machinery Holdings Company Limited (Draft)” and its extract;
 - 4. To consider and approve the resolution authorising the board of directors of the Company to take actions relating to this transaction;
 - 5. To consider and approve the resolution regarding the change of the name of the Company:

“THAT

- (i) the Chinese name of the Company be changed from “北人印刷機械股份有限公司” to “北京京城機電股份有限公司” (provisional name only, the name specified in the relevant industrial and commercial registration shall prevail), and the English name of the Company from “Beiren Printing Machinery Holdings Limited” to “Beijing Jingcheng Machinery Electric Company Limited”; and
 - (ii) the board of directors of the Company be and are hereby authorised generally to do such acts and things and execute all documents or make such arrangements as they may consider necessary or expedient to effect and implement the change of the name of the Company.”
- 6. To consider and approve the resolution regarding amendment to Articles of Association of the Company (the “**Articles of Association**”).

“THAT the Articles of Association is amended as follows:

- (i) the current Article 230 be deleted in its entirety and be replaced by the following:

Article 230 The basic principles of profit distribution policy of the Company are:

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Taking full account of return to investors and distributing dividend to shareholders per annum in proportion to realized distributable profits (consolidated statement) for the year concerned;

Maintaining the continuity and stability of the Company's dividend distribution policy, in the interest of the Company in the long term and that of all shareholders as a whole, and in line with the sustainable development of the Company;

Giving priority to distribute dividends in cash as the method of profits distribution.

Profits distribution policies of the Company are to be specified as follows:

Profits shall be distributed in the following manner: the Company may distribute dividends in cash, in shares or in a combination of both cash and shares. Subject to conditions, interim profits distribution may be made by the Company.

Specific circumstances for and proportions of cash dividend of the Company:

Save as special circumstances, if the Company's profit for the year and its undistributed profits (consolidated statement) are positive, the Company may distribute dividends in cash and the profits to be distributed in cash per annum will not be less than 5% of the realized distributable profits (consolidated statement) for that year, and that the total profit to be distributed in cash in the last three years will not be less than 30% of the average annual realized distributable profits (consolidated statement) in the last three years.

The "special circumstance" above refer to the aggregate expenditure amount of major investment plan or significant cash expenditure in the next 12 months of the Company reaches or exceeds 25% of the Company's latest audited net assets. "Major investment plan" or "Significant cash expenditure" includes foreign investment, payment of foreign debt, or major assets acquisition etc.

Conditions for distributing dividends in shares by the Company

Where the Company's business is in a sound situation, and the Board considers that the stock price of the Company does not match with the share capital size and distributing dividends in shares will be favorable to all shareholders of the Company as a whole, provided that the above conditions of cash dividend are fully met, the Company may propose dividends distribution in shares.

- (ii) the current Article 231 be deleted in its entirety and be replaced by the following:

Article 231 Procedures for considering the profit distribution plan of the Company:

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The profit distribution plan of the Company shall be drawn up by the board of directors. The board of directors shall thoroughly discuss the rationality of the profit distribution plan and form a special resolution which shall be approved and considered by the board of directors and the Supervisory Committee before submitting to the general meeting for consideration. In considering the profit distribution plan, the Company shall make network voting method accessible to shareholders.

Where the Company has no cash dividends in particular cases as provided for in the foregoing Article 230, the board of directors shall explain the specific reasons for not distributing cash dividends, the exact purpose for the retained profit and the estimated investment return, submit such to the general meeting for consideration after independent non-executive directors express their opinions thereon and disclose the same in the designated media of the Company.

Alteration of the Company's profit distribution policy

In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in material impact on its production and operation, or relatively significant changes to the Company's operational position, the Company may adjust its profit distribution policy. The board of directors shall conduct specific discussion over adjustment to the Company's profit distribution policy, provide detailed reasons for such adjustment, provide a written report to be considered by independent non-executive directors, and then submit to the general meeting for approval by way of a special resolution. In considering alterations to the profit distribution policy, the Company shall make network voting method accessible to shareholders.

III. WHO AND HOW TO JOIN THE EGM:

- (1) The directors, supervisors and senior management of the Company.
- (2) Related parties such as solicitors engaged by the Company.
- (3) Share record date: 16 November 2012 (Friday)

Shareholders whose names appear on the register of members of the Company at the close of business in the afternoon on 16 November 2012 (Friday) are entitled to attend the EGM and may appoint a proxy in writing to attend and vote. A proxy need not be a shareholder of the Company.

- (4) Shareholders who intend to attend the EGM in person or by proxy should deliver the reply slip to the Company on or before 28 November 2012 by hand, by post or by fax.
- (5) Holders of the Company's H shares should note that, the register of holders of H shares will be closed from 16 November 2012 to 18 December 2012, both days inclusive. Holders of the Company's H shares who intend to attend the EGM, must lodge all transfer documents of shares accompanied by the relevant share certificates with the Hong Kong Registrars Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 15 November 2012.

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- (6) A corporate shareholder shall be represented at the meeting by its legal representative, or a proxy appointed by the legal representative. If a corporate shareholder appoints its legal representative to attend the meeting, the legal representative shall produce the document of his identity, valid proof of his identity as a legal representative and the evidence of shareholding. Where a proxy is appointed by the legal representative to attend the meeting on his behalf, the proxy shall produce the document of his identity, the written proxy form duly issued by the legal representative of the corporate shareholder and the evidence of shareholding.
- (7) Shareholders who are entitled to attend and vote at the EGM may appoint one or more persons (whether a shareholder or not) as his proxy to attend and vote on his behalf.
- (8) If more than one proxy is appointed by a Shareholder, such proxies will only be entitled to vote on a poll.
- (9) Shareholders shall appoint a proxy in written form, which shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. In order to be valid, a form of proxy signed by an attorney shall be submitted the power of attorney or other documents of authorisation notarially certified to the Company's registered address not less than 24 hours before convening the EGM.

4. SPECIFIC OPERATIONAL PROCEDURES OF ONLINE VOTING

1. The specific voting program for trading system

- (1) At the EGM, the Company will provide an online voting platform to holders of the A shares of the Company through the trading system of the Shanghai Stock Exchange where holders of A shares of the Company may participate in the online voting with such trading system (the **"Online Voting"**). Period of Online Voting through trading system at the EGM: from 9:30 a.m. to 11:30 a.m. and from 1:00 p.m. to 3:00 p.m. During the Online Voting, the operation of voting program will follow the precedent of the subscription of new shares.
- (2) Voting Code

Voting Code	Voting Abbreviation	Note
738860	Voting of Beiren	Holders of A shares

- (3) Number of resolutions to be voted in the EGM and the corresponding quoted price are as follows:

Resolution Number	Content of the resolution	Corresponding quoted price
	All resolutions	99.00
	Motions to be considered and approved by way of special resolution:	

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Resolution Number	Content of the resolution	Corresponding quoted price
1	To consider and approve the resolution regarding the material asset reorganisation of the Company	1.00
1.1	(1) The counterparties	1.01
1.2	(2) Proposed assets for disposal and proposed assets for acquisition	1.02
1.3	(3) Pricing method	1.03
1.4	(4) Transaction price	1.04
1.5	(5) The handling of the difference in value of the proposed assets for disposal and the proposed assets for acquisition	1.05
1.6	(6) The attribution of the profit and loss in relation to the proposed assets for disposal and the proposed assets for acquisition arising from or incurred during the period commencing from the benchmark date for the valuation of the proposed assets for disposal and the proposed assets for acquisition up to the date of completion	1.06
1.7	(7) Completion	1.07
1.8	(8) Arrangements for staff of Beiren Holdings and the proposed assets for disposal	1.08
1.9	(9) Validity of the resolution	1.09
2	To consider and approve the resolution on the signing of the conditional “Material Assets Reorganisation Agreement of Beiren Printing Machinery Holdings Company Limited, Beijing Jingcheng Machinery Electric Holding Co., Ltd, and Beiren Group Corporation” with Beijing Jingcheng Machinery Electric Holding Co., Ltd, and Beiren Group Corporation	2.00
3	To consider and approve the resolution on the “Report of the Material Asset Reorganisation and Connected Transactions of Beiren Printing Machinery Holdings Company Limited (Draft)” and its extract	3.00

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Resolution Number	Content of the resolution	Corresponding quoted price
4	To consider and approve the resolution authorising the board of directors of the Company to take actions relating to this transaction	4.00
5	To consider and approve the resolution for the change of the name of the Company	5.00
6	To consider and approve resolution regarding amendment to the Articles of Association of the Company	6.00

(4) Voting intention

Types of voting intention	Corresponding number of shares to be voted
For	1 share
Against	2 shares
Abstain	3 shares

2. Examples For Voting

- (1) Following the registration date for entitlements, investor of A shares of “Beiren Holding” shall fill in “99.00” and “1 share” under the quoted price and the number of shares to be voted if they intend to vote in favor of all resolutions to be proposed during the online voting, and shall vote in the following manner:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB99.00	1 share

- (2) Example for voting for single resolution

If an investor would like to vote separately for the resolutions to be proposed in the EGM with the intention to vote in favor of Resolution 2 during the online voting, he shall vote in the following manner:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB2.00	1 share

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If an investor would like to vote separately for the resolutions to be proposed in the EGM with the intention to vote against Resolution 2 during the online voting, he shall vote in the following manner:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB2.00	2 shares

If an investor would like to vote separately for the resolutions to be proposed in the EGM with the intention to abstain from voting to Resolution 2, he shall vote in the following manner:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB2.00	3 shares

(3) Example for voting for items under single resolution

If an investor would like to vote in favor of item 1 under Resolution 1, he shall vote in the following manner:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB1.01	1 share

If an investor would like to vote against item 1 under Resolution 1, he just has to change the number of shares to be voted as 2 shares and other contents declared shall remain the same:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB1.01	2 shares

If an investor has the intention to abstain from voting to item 1 under Resolution 1, he just has to change the number of shares to be voted as 3 shares and other contents declared shall remain the same:

Voting code	Buy or Sell	Trading price	Number of shares to be traded
738860	Buy	RMB1.01	3 shares

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3. Other matters need to be brought to attention

- (1) voting cannot be withdrawn;
- (2) for voting which does not comply with the requirement above will be regarded as invalid and shall not be included in the voting statistics;
- (3) shareholders can only vote once for the same resolution, if more than one vote is taken, the vote which was first made shall be counted and shall not be withdrawn;
- (4) voting which does not comply with the provision above shall be invalid, it will be cancelled by the Shanghai Stock Exchange trading system automatically.

5. OTHER MATTERS:

The Company's registered address: No. 6 Rong Chang Dong Street, Beijing Economic and Technological Development Zone, Beijing

Contact number	:	010-67802565
Fax number	:	010-67802570
Postal Code	:	100176
Contact Person	:	Jiao Ruifang

It is expected that the EGM will take half a day and shareholders attending the EGM shall be responsible for their own transportation and accommodation costs.

On behalf of the Board
Beiren Printing Machinery Holdings Limited
Jiao Rui Fang
Company Secretary

Beijing, the PRC, 2 November 2012

As at the date of this announcement, the board of directors of the Company comprises Mr. Zhang Peiwu, Mr. Chen Bangshe and Ms. Jiang Chi as executive directors, Mr. Teng Mingzhi, Ms. Wu Dongbo, Mr. Li Shenggao and Ms. Wei Li as non-executive directors and Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu as independent non-executive directors.