

Stock Code: 200771 Stock ID: Hangqilun B Announcement No. 2017-08

Hangzhou Steam Turbine Co., Ltd.

Summary of 2016 annual Report

I. Important Notice

This annual report summary is taken from the full text of the Annual Report. Investors are advised to read carefully the full text of the Annual Report published on the media designated by China Securities Regulatory Commission in order to fully understand the company's operation results, financial position and future

Non-standard auditor's opinion

Not applicable

Plans for profit distribution on ordinary shares or conversion of capital reserves into share capital proposed to the Board during the reporting period.

The Company will not distribute cash dividend or bonus shares, neither capitalizing of common reserves for the report period.

Plans for profit distribution on preference shares for the reporting period approved by the Board

Not applicable

II. Basic information about the company

1. Company profile

Stock ID	Hangqilun B	Stock code	200771
Stock exchange for listing	Shenzhen Stock Exchange		
Contact person and contact manner	Board secretary	Securities affairs Representative	
Name	Yu Changhan	Wang Caihua	
Address	No. 357 Shiqiao Rd. Hangzhou	No. 357 Shiqiao Rd. Hangzhou	
Tel	0571-85780433	0571-85780433	
Fax	0571-85780432	0571-85780438	
E-mail	yqh@htc.cn	wangch@htc.cn	

2. Major operations or products during the reporting period

As the leading provider of turbo machinery equipment and relevant service in China, our company is mainly famous for designing and producing rotating turbo machinery like industrial steam turbines and gas turbines. Our company, one of the major companies drafting the industrial standard in Chinese domestic industry of industrial steam turbine, has developed into the biggest base to research, develop and produce industrial steam turbines in China and ranks first among industrial steam turbine producers in terms of the market occupancy. Holding the principle "our products should be based on clients' demands" as our business mode and characteristic, our company designs and produces in accordance with every client's personal demands so as to meet personalized needs in engineering projects to the utmost. To realize the fast research and development of our products, our company has adopted the advanced modular design technique and, on the other hand, introduces information technique to assist the collaborative production to achieve the resource saving and flexible production. In addition, our company also provides our clients with relevant service such as engineering programs, general engineering

contracting, operation and maintenance of our products as well as remote control and so on.

Industrial steam turbines use the steam featuring high temperature and high pressure as their working medium so as to convert the thermal energy into mechanical energy to drive various industrial equipments through the rotating steam turbines. As for different objects driven by industrial steam turbines, the steam turbines could be divided into industrial driving steam turbines and industrial power-generation steam turbines. Mainly driving rotating machines like compressors, air blowers, pumps and squeezers, industrial driving steam turbines, as the core power part in numerous large-scale industrial equipments, are always introduced into some industries like oil refining, chemical engineering, chemical fertilizer, building materials, metallurgy, electric power, light industry and environmental production. The industrial power-generation steam turbines, mainly utilized to drive electric generators and provide thermal energy, are mainly adopted in private stations, regional projects of combined heat and power generation, power generation by recycling waste heat in industrial production, urban waster power plants and gas-steam combined cyclepower stations in various industrial sectors. The gas turbines produced by our company are mainly used by metallurgical industry to recycle the waste heat from the blast furnace exhaust to generate power. The mode of independent sales and cooperative productions is adopted in the sector of gas turbine business. We win our orders by participating in bidding for engineering equipments needed in new or reconstruction projects in domestic large-scale metallurgical industry. Our design for products is provided by technical partner, major parts of our products are systematically produced and purchased in China and some parts are imported overseas. In the report period, our company cooperating with SIEMENS in the field of distributed energy of gas has started our gas turbine business as the purchaser and implementor of integration of the project. Our company provides life-long operation guarantee service for our clients who have purchased our gas turbines, which has brought long-term business cooperation between our company and our clients.

As the major producer of industrial equipments in China during the report period, our company is mainly benefited from the following factors in terms of the elements driving our business performance:

1. On the basis of market demands. The relevant market demands fluctuate differently due to various business condition and investment cycles in different industrial fields. The sector of energy efficiency and environmental protection maintains its growth by increasingly deepening the structural adjustment of our providers and ceaselessly implementing the policy of “Address Overcapacity, Reduce Inventory, Deleverage, Lower Costs, and Bolster Areas of Weakness”, even though the growth of market demands of industrial steam turbine should be encouraged. On the basis of further market segment, our company implements the differential marketing strategy, strengthens and expands advantages of our original market, further broadens our overseas market and insists on the strategy of “Go out.”

2. Innovation and further reform in difficult areas of product technology.

Our company continuously improves product technical performance and tackles hard issues in the scientific researches of product structure, core parts, basic design, manufacturing technology, material technology, etc. In addition, basing on clients' demands, our company launches the study “The Demonstration and Application Project for Packaging Technology of Steam Turbine” to push forward the intelligence of our products and the development of the integration technology. In May 2016, “Zhejiang Technical Association for Gas Turbines in Equipment Manufacturing Industry” was officially founded jointly by our company and Zhejiang University and other scientific research institutions to build a new platform for integration of production and research in terms of gas turbine technology.

3. Upgrading and transformation of industrial structure transformation.

In July 2016, our company signed a strategic cooperation memorandum of understanding with SIEMENS and Xiexin and jointly entered the market of distributed energy resources to strengthen the development and utilization of natural gas distributed energy, which helped our company transformed from the business of gas turbine to the market of gas distributed energy resources. On the basis of the cooperative sales of gas turbine, our company can provide not only gas turbine equipment but also complete sets of gas turbine power station as well as effective overall solutions.

4. Brand and market position. The company's products have a good reputation and extensive brand influence in the domestic market, but in the international market, comparing with the international well-known enterprises, the company is far behind.

5. Cost controlling level. As domestic labor costs continue to rise and the price of industrial products continue to decline, the product profitability is facing a severe test. In recent years, the company continuously improves the level of costs controlling by improving the organizational structure, optimizing business processes, enhancing the supply chain controlling, strengthening risk management, raising the efficiency of all the staff and so on.

3. Major accounting data and financial indicators

(1) Major accounting data and financial indicators for the last three years

Retrospective adjustment to or restatement of the accounting data for prior years by the Company due to change of accounting policies and correction of accounting errors

No

In RMB				
	2016	2015	Changed over last year (%)	2014
Operating Gross income (RMB)	3,235,303,379.24	2,600,072,151.63	24.43%	3,722,331,920.13
Net profit attributable to the shareholders of the listed company (RMB)	31,955,445.73	-162,809,311.79	119.63%	352,077,352.23
Net profit after deducting of non-recurring gain/loss attributable to the shareholders of listed company (RMB)	-8,366,688.71	-196,163,971.66	95.73%	322,785,643.46
Cash flow generated by business operation, net (RMB)	506,159,428.42	355,677,773.05	42.31%	283,728,971.92
Basic earning per share(RMB/Share)	0.04	-0.22	118.18%	0.47
Diluted gains per share(RMB/Share)(RMB/Share)	0.04	-0.22	118.18%	0.47
Net asset earning ratio (%)	0.60%	-3.77%	4.37%	8.12%
	End of 2016	End of 2015	Changed over last year (%)	End of 2014
Gross assets (RMB)	10,550,899,708.34	7,683,777,005.63	37.31%	7,552,058,947.02
Net assets attributable to shareholders of the listed company (RMB)	6,385,346,243.23	4,219,337,312.80	51.34%	4,450,598,244.32

(2) Main Financial Index by Quarters

In RMB				
	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	687,834,749.02	679,589,022.86	874,410,620.01	993,468,987.35
Net profit attributable to the shareholders of the listed company	6,620,245.62	-37,872,483.81	-29,088,489.63	92,296,173.55
Net profit after deducting of non-recurring gain/loss attributable to the shareholders of listed company	2,908,791.39	-46,387,105.72	-36,516,519.69	71,628,145.31
Net Cash flow generated by business operation	18,550,921.62	196,148,131.33	146,361,357.75	145,099,017.72

Not exist between the above financial index or the index with its sum and the financial index of the quarterly report as well as semi-annual report index disclosed by the Company.

4.Share capital and shareholders

(1) Number of holders of ordinary shares and preference shares with restored voting right and Top 10 shareholders

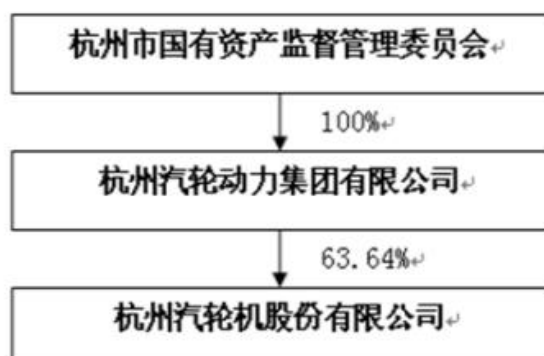
In shares							
Total number of common shareholders at the end of the reporting period	15,307	Total shareholders at the end of the month from the date of disclosing the annual report	15,314	The total number of preferred shareholders voting rights restored at period-end	0	Total preferred shareholders at the end of the month from the date of disclosing the annual report	0

Shareholdings of Top 10 shareholders						
Shareholders	Nature of shareholder	Proportion of shares held (%)	Number of shares held at period -end	Amount of restricted shares held	Number or share pledged/frozen	
					State of share	Amount
Hangzhou Steam Turbine Power Group Co., Ltd.	State-owned legal person	63.64%	479,824,800	479,824,800		
Shanwan Hongyuan Securities (HK) Co.,Ltd.	Foreign legal person	0.69%	5,233,266	0		
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.63%	4,722,804	0		
NORGES BANK	Foreign legal person	0.57%	4,303,675	0		
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign legal person	0.53%	3,984,168	0		
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.45%	3,370,146	0		
CHINA INT'L CAPITAL CORP HONG KONG SECURITIES LTD	Foreign legal person	0.30%	2,275,960	0		
China Merchants Securities(HK)Co., Ltd.	State-owned legal person	0.28%	2,141,980	0		
Xia Zulin	Domestic Natural person	0.28%	2,100,000	0		
CREDIT SUISSE (HONG KONG) LIMITED	Foreign legal person	0.27%	2,034,403	0		
Explanation on associated relationship among the aforesaid shareholders	(1) Hangzhou Steam Turbine Power Group Co., Ltd. is the holder of state-shares of the Company, all other shareholders' are holders of domestic listed foreign shares (B shares) (2) There is no relationship between Hangzhou Steam Turbine Power Group Co., Ltd. and other shareholders; (3) Hangzhou Steam Turbine Group Co., Ltd. is not an "action-in-concert" party with any of other shareholders as described by the "Administration Rules of Informational Disclosure about Change of Shareholding Statues of PLCs".					
Notes to the shareholders involved in financing securities	Not applicable					

(2) Total preference shareholders and the shares held by the Top 10 Preference shareholders

Nil

(3) Block diagram of the ownership and control relations between the Company and the actual controller



III. Discussion and Analysis of the Management

1. Business Operation summary in the reporting period

The Company requires investors to read the full text of this annual report carefully and take note of the following risk factors.

Whether the company needs to comply with the disclosure requirements of the particular industry

No

Global economy was troubled by the complicated and rigorous situation in 2016 when developed countries suffered from obvious slackness of economic growth and economic resurgence. Generally speaking, the falling tendency of growth rate suffered by emerging economies hasn't been effectively controlled. New contradictions and risk points increasingly appeared in the process of addressing overcapacity, deleverage and restructuring in view of Chinese economic development in 2016. Chinese domestic real economy hasn't been fully revitalized, the steam turbine industry was challenged by the overcapacity and domestic market was in downturn and faced fiercer competition. In short, many enterprises faced difficulties in business operation.

Faced with the complicated international and domestic economic environment, our company formulated the annual economic working policy featured by "Deepening the management, innovation-oriented, opening up the market and strengthening the risk control". To be specific, we take the 13th Five Year Plan as our guiding principle and stick to the innovation-oriented path with active exploration of product service fields. Moreover, focusing on the key management work, we comprehensively control the risks of operation, pay much attention to the construction of brand culture and become competitive in high-end equipment products and services to realize the goal of reversing loss.

For the report period, the Company has realized turnover of RMB 3,235,303,379.24 , a increase of 24.43%; Buiness profit of RMB55,525,780.73 , a increase of 132.28%,total profit of RMB77,419,042.07, a increase of 152.24%%, Net profit of RMB66,911,369.92, a increase of 153.95%, net profit attributable to owners of the parent company of RMB31,955,445.73, a increase of 119.63%%.

(I) Adhere to Strategic Drive, Forcing Transformation and Upgrading

During the report period, the company released "Thirteen-Five" strategic development plan to build development vision of "creating an internationally renowned brand, and achieving globalization of industrial turbine business", established 3 strategic directions, namely, "market transformation", "business transformation" and "innovation drive", made it clear to consolidate steam turbine market, to develop combustion turbine business, to expand nuclear power business, and to improve products and engineering service capabilities, innovated business models, and achieved transformation from manufacturing enterprise to service-oriented manufacturing enterprise.

The company analyzed and executed assessment of "Thirteen-Five" strategic planning implementation, and made clear development path of various business, based on various strategic goals as guides, to ensure that "Thirteen-Five" strategic plan of the company was implemented. During the report period, the company implemented and adjusted organizational structure, established operations management platforms and risk management platforms, significantly adjusted production structure based on advanced manufacturing mode, and further integrated manufacturing systems resources, to promote development of "intelligent manufacturing" and "quality project".

During the report period, according to product transition goals of "Thirteen-Five" plan, the company focused on developing new businesses and products services businesses of combustion turbine. The company and Siemens held press conference in Distributed Energy International Exhibition held in Beijing, and officially announced that the two parties first cooperated in field of gas turbines, then, both sides jointly hosted 2016 China Gas Distributed Energy Generation Forum. By deeply digging current client resources of both sides, and through combining users, engineering companies, design institutes and other partners, both sides expanded marketing channels of new round of gas turbine distributed energy projects. In annual 2016, the company undertook an order of 4 GCL distribution energy combustion turbine units with RMB 516.75 million, becoming the company's first combustion turbine order.

During the report period, the company pushed construction of turbo heavy industry and scientific research building, and scientific research building now is finished. To solve fund demand of major construction projects, the company applied for special construction funds using "annual production 450 sets industrial steam turbines, combustion turbines, compressors and high-tech engineering supporting base construction project" of steamer heavy industry. China Development Bank used CDB Capital to buy share of steamer heavy industry, to implement

national policy, and had been injected RMB 208 million special construction funds to steamer heavy industry.

(II) Dealing with Fierce Competition, Consolidating Market Position

During the report period, affected by overcapacity, low oil prices, energy-saving and environmental protection, industrial fierce competition and other factors, the company coal chemical-driven field orders were reduced, resulting into lower gross profit margins in pump power market. By deeply digging clients, in 2016, the company sold 391 units of steam turbines .

Facing difficult market situation, the company will continuously keep dominant position in petrochemical industry, coal chemical and other markets. Although in the reporting period, signed projects were reduced, the company will actively track potential and major investment projects, and provide personalized services in the early, creating favorable conditions for future market recovery. Overseas driven markets showed good situation, and the company successively got projects in Iran, Brunei, Kazakhstan and other emerging markets.

In domestic industrial power generation, the company continued to consolidate occupation ratio in Jiangsu, Zhejiang, Shandong, and other traditional superiority areas, actively developed its markets in North China, Northeast China and other regions, to expand market share, and sought breakthrough in solar thermal, combined cycle, waste power generation field; expanded products influence in bulk parameters with low heat, power generation, chemicals power station field; actively seized market of high capacity feed water pump and steam turbine, and consolidated leading position in induced draft fan and steam turbine. In overseas power generation field, the company successively undertook projects in Pakistan, Vietnam, India and other markets. In nuclear power business fields, orders of the company were increased.

The company with Siemens explored domestic field of natural gas distributed energy, and successfully signed long-term service contracts of combustion turbine with users, to add new models of achieving service-oriented manufacturing strategy, realizing new breakthrough in the market area.

Subsidiaries of the company, focused on changes pattern, actively developed new markets. China energy company realized major breakthroughs in the areas of ultra high pressure, high pressure reheat unit, skid mounted units, biomass and garbage power; auxiliary engine company made breakthroughs in air cooler field, and annual contract amount of self-undertaken air cooler was RMB 70 million, and successfully undertook first overseas set of process air cooling project. Casting and forging company had gained 4 major certifications of classification society and pressure vessels, opening up new market space; machinery and equipment company successfully used laser cladding technology to repair steam turbine of user; complete set companies actively developed solar thermal power generation markets. Turbine companies strengthened and expanded overseas spare parts sales, overseas technology services, overseas users training, and other service services as well as actively explored complete set projects of overseas power station.

(III) Focused on High-End Manufacturing, Promoting Quality Project

In the reporting period, focusing on quality engineering, intelligent product, extension of industry chains, prospective technologies, the company continued to increase investment in research and development, to keep leading edge in core product technology areas. Many technology research and development projects aimed at hot spot applications in markets, such as “developing 25MW level high efficiency condenser shaping power steam turbine”, “developing subcritical parameter steam turbine”, “developing, designing and manufacturing sample machine of emergency steam turbine generator unit with LLS system in nuclear power station” and “industrialization application of high performance blade”. For implementing technology development strategy of “efficient, intelligent, integration, lightweight”, the company studied container technology of steam turbine unit, and successfully applied them in actual products. The company initiated to establish design and development system of combustion turbine, and had already initial capacity in gas turbine design and analysis methods. To better gather technological innovation resources, the company combined Zhejiang University and Zhejiang University of Technology to jointly initiate and establish “technical union in combustion gas turbine machinery industry of equipment manufacturing industry in Zhejiang Province”, laying good foundation for the company to develop technical exchange and cooperation.

In the reporting period, special financing project of major science and technology in Hangzhou City, that is, “industrial steam turbine of auxiliary feed water pumps for pressurized water reactor nuclear power plant with million kilowatt levels”, successfully passed acceptance. “100,000 m³/h ASP matching steam turbines” won the China’s first set demonstration project of major technological equipment in the 12th China Industrial Forum in Annual 2015; “BFPT project development (WK71/2.1) of full capacity hydro cooling in million level” was jointly affirmed as 2016 “Zhejiang Manufacturing Quality” by Zhejiang Province Economic and Information Commission, Zhejiang Provincial Development and Reform Commission, and Zhejiang Provincial Department of Finance; the company was awarded as “key enterprise of high-end equipment manufacturing industry in Zhejiang Province” by Zhejiang Province Economic and Information Commission. The company yearly applied for 23 invention patents and 22 utility model patents, and gained 11 authorized invention patents and 18 utility model

patents. In terms of information construction, the company focused on intelligent manufacturing, finished product warehouse updates, phase II of PLM system, pushing MES project, master data management, finance and business integration projects, developing and optimizing construction platform of business management. Aimed at business model (including personalized demands, differential design, small batch and many varieties) in discrete equipment manufacturing industry of the company, the company launched intelligent manufacturing project, namely, “discrete intelligent manufacturing and digital plant construction”, and researched key technology in design and simulation, digital and automatic manufacturing, and intelligent remote services for users.

(IV) Deepen Digging Management Potential, Strengthening Development Foundation

In the reporting period, the company had established and improved its operational risk control system, and comprehensively controlled and managed areas having significant impact on its business, such as contract sign and review, contract execution, inventory of products being processed, finished goods inventory, and purchase prices. The company strengthened budget management, improved asset turnover rate, improved asset quality, cleaned up non-performing assets and bring them back into active use, to effectively prevent and control operational risk of the company. The company enhanced collection ability of overdue accounts receivable, and improved quantity and structure of accounts receivable by services, legal collection and debt restructuring, etc.

The company enhanced response ability of frequent changes in market needs, increased cohesion ability between production and sales, made full use of manufacturing resources, and improved agile manufacturing capabilities. In 2016, production rate of the company was substantially increased, and inventory turnover times were increased. The company continued to improve supply chain construction, established evaluation system of qualified supplier, held suppliers meeting, praised outstanding suppliers, and improved competition level of supply chain. The company gradually expanded operations ranges of procurement tendering and bidding, and specified related transactions, to further reduce procurement costs.

The company enhanced works in foreign investment and cooperation, capital operation and management after investment. In 2016, capital investment went ups and downs, and the company invested and took part in establishing Hangzhou Jushi Investment Partnership Enterprises (Limited Partnership), and listed for selling property share of Hangzhou Changdi Investment Partnership Enterprises (Limited Partnership). Hangzhou Bank invested as shares by the company went on the market in Shanghai Stock Exchange in October, 2016. During the report period, according to related policy guidelines and regarding improved capital efficiency as goal, the company conducted assessment liquidation and planned to cancel partial holding subsidiaries.

In the reporting period, the company successfully completed leadership transition of the company Board of Directors, Board of Supervisors, organized and hosted the 1st Board of Directors in seventh session to appoint General Manager, Deputy General Manager, Chief Engineer, Chief Accountant, Secretary of the Board of Directors, and other senior management personnel, and formed professional committees of the seventh Board of Directors.

(V) Planting Deep Corporate Culture, Transmitting Brand Value

During the report period, the company strengthened brand building to improve corporate image, and propagated mission, vision and values of “Thirteen-Five” strategic plan of the company through a variety of ways. In the staffs, the company held series of publicity, such as company model selection, “artisan spirit” and “Flash Turbo man”, to promote enterprise spirit and guide employees to achieve personal values. The company won Hangzhou City “exemplary collective”, its staffs respectively gained Hangzhou City “May 1st Labor Medal”, Zhejiang Province “May 1st Labor Medal”, China “May 1st Labor Medal”, Hangzhou City “model worker”, “top 10 craftsmen”, and other honors, and General Manager of the company won the 4th Award for Outstanding Talent in Hangzhou City. The Xia Guoxing Numerical Control and Milling Machine Operator and Skill Master Workshop of the company won excellent award in Hangzhou City evaluation.

2. Material change in principal activities during the reporting period

No

3. Products accounting for over 10% of revenue or profit from principal activities of the Company

In RMB

Name	Turnover	Operation cost	Gross profit rate(%)	Increase/decrease of revenue in the same period of the previous year(%)	Increase/decrease of business cost over the same period of previous year (%)	Increase/decrease of gross profit rate over the same period of

						the previous year (%)
Industrial steam turbine	2,760,361,876.91	822,940,173.40	29.81%	29.25%	40.94%	2.47%

4. Seasonal or cyclical operations requiring special attention

No

5. Material difference of revenue, operating costs or net profit attributable to holders of ordinary shares of the Company for the reporting period from the last reporting period

2016 annual companies in the positive development of the market premise, to further strengthen the production and marketing convergence, sales revenue over the same period last year, a substantial increase in the same time the company continued to increase operational responsibility assessment, risk control efforts to vigorously promote accounts receivable, especially long The recovery of accounts receivable, the company's operating conditions and efficiency improved significantly over the previous year.

6. Suspension in trading or delisting

Not applicable

7. Events relating to the financial report

(1) Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year

Nil

(2) Reason for retrospective restatement to correct major accounting errors during the reporting period

Nil

(3) Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year

Nil

Hangzhou Steam Turbine Co., Ltd.
Chairman of the Board: Zheng Bin
March 18, 2017