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Hangzhou Steam Turbine Co., Ltd.
Announcement on the provision for impairment of assets

The members of the Board and the Company acknowledge being responsible for the truthfulness, accuracy, and completeness of the announcement. Not any false record, misleading statement or significant omission carried in this announcement.

The 15th term of Board held its 7th Meeting on October 25, 2017, The meeting examined the Proposal of the provision for impairment of assets, This proposal was adopted with 10 votes in favor, 0 objection and 0 waive. The amount of the provision for impairment of assets of the company is RMB56.2579 million, the detail of which is announced as follows:

I.The overview of the provision for impairment of assets

For fairly reflecting the company’s assets value, according to the Accounting Standards for Enterprises and Regulations on Provision of Asserts Impairment and Write-off of Assets for Enterprises (Revised in 2016）, and based on the principle of prudence, the company has checked each asset of the consolidated financial statements by the end of the reporting period and has assessed that there would be some impairment of assets, then determined the need for the provision for impairment of assets. The assets of the provision for impairment of asset mainly included inventory. which was detailed as follows:

On December 28, 2012, the company signed a supply contract with Inner Mongolia Hongyu Technology Co., Ltd. After signing the contract, the company has produced steam turbines, compressors, with purchasing the related auxiliary equipment for supporting the project. After the project suspension by Inner Mongolia Hongyu, the company's project related equipment costs had occurred. The company recently contacted Inner Mongolia Hongyu, and the project resuming time was uncertain. Upon inquiry, this company has a number of acts of dishonest record. Through the communication by the company and the accounting firm, in the principle of prudence, and in order to objectively reflect the company's financial situation, the Company made a provision of RMB 56.2579 million for the impairment of assets of the finished product inventory produced under the contract of the Inner Mongolia Hongyu Project.

II. The confirmation standard and method of provision on the provision for impairment of assets

The method of the provision for impairment of inventories: the inventories were measured at lower of cost or net realizable value, and the provision for inventory falling price was made according to the difference of the costs higher than the net realizable value of single inventory/inventory category. Namely, as of September 30, 2017, the Inner Mongolia Hongyu project has produced a total cost of RMB 95.5407 million, and after the deduction of RMB 1 million of the received goods and the estimated residual value of the above equipment of RMB 7.7 million, the provision for the bad debt on impairment of assets of Inner Mongolia Hongyu project should be RMB 86.8407 million, of which RMB 30.5828 million was made for provision in 2015.

III.The influence of the provision for impairment of assets on the company's financial status

The company's provision for the impairment of assets leads to the decrease of RMB56.2579 million on the total profits in the company's consolidated financial statements of the 3rd Quarterly Report 2017

IV.The review process of the provision for impairment of assets

The item of the provision for impairment of assets has been examined and adopted in the company's 15th board meeting of the 7th session board of directors. Due to the amount of the provision for impairment of assets exceed the 50% audited net profits of the company of year 2016, according to the regulations of the Stock Listing Rules stipulated by the Shenzhen stock exchange, the item of provision shall be examined and adopted in the general shareholder meeting.

V.The reasonableness explanation of the provision for impairment of assets by the board of directors

The board of directors reckoned that: the provision for impairment of assets was in accordance with the Accounting Standards for Enterprises and the company's management institution on provision for impairment of assets, and that was in line with the principle of prudence and was reasonable, objectively and fairly reflected the company's financial status, so the board agreed the provision for impairment of assets. The company shall performance the review process by strictly conforming to the provisions stipulated by the Regulations on Provision of Asserts Impairment and Write-off of Assets for Enterprises.

VI.The independent opinions on the provision for impairment of assets from independent directors

The company has carried out the provision for impairment of assets by conforming to the Accounting Standards for Enterprises and relevant regulations, which was in line with the company's actual situation and the company law, the articles of association and relevant regulation and laws, with standardized procedure for reviewing, and there was no situation that would jeopardize the interests of the company and the minority shareholders. The provision for impairment of assets was agreed.

VII.The examination opinions on the company's provision for impairment of assets by the board of supervisors

The board of supervisors reckoned that: the company's provision for impairment of assets was in accordance with the Accounting Standards for Enterprises and relevant regulations, which fairly reflected the company's assets value and operating results. The decision making procedure of the proposal on provision for impairment of assets was in line with the law, and the provision for impairment of assets was agreed.

VIII. Documents for reference

1. Resolutions of the 15th meeting of the 7th Term of Board;
2. Resolutions of the 8th Meeting of the 7th Supervisory Committee
3. Independent Opinions of Independent Directors

This announcement is hereby made.

The Board of Directors of Hangzhou Steam Turbine Co., Ltd.

October 26, 2017