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**北京京城機電股份有限公司**  
**Beijing Jingcheng Machinery Electric Company Limited**

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

**(Stock Code: 0187)**

**ANNOUNCEMENT REGARDING REPLY TO LETTER ON POST-VET  
OPINIONS ON THE 2013 ANNUAL REPORT**

The board of directors of the Company and all members of the board warrant that this announcement does not contain any false information, misleading statement or material omission and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the contents herein contained.

Recently, Beijing Jingcheng Machinery Electric Company Limited (the “Company”) received a Letter on Post-Vet Opinions on the 2013 Annual Report of Beijing Jingcheng Machinery Electric Company Limited (Shang Zheng Gong Han [2014] No. 0240) (《關於對北京京城機電股份有限公司2013年年報的事後審核意見函》(上證公函[2014]0240號)) issued by the Listed Companies Regulation Department I of the Shanghai Stock Exchange. Pursuant to the requirements of the Shanghai Stock Exchange, reply to the post-vet opinions is announced as follows:

- I. The supplementary descriptions of the new manufacturing base of the Company in 2014 are as follows:

Construction of new manufacturing base (the “Project”) is a major investment project of the Company. According to the feasibility studies report, the Project’s preliminary preparation tasks such as submission and approval, civil engineering design and construction and purchase of equipment began in 2013. As the difficulty in acquiring land in the preliminary stage encountered by the Company was greater than expected, the cryogenic manufacturing base project of the Company is currently behind schedule. It is also due to changes in the situation of market and competition, given the current domestic macroeconomic condition is still uncertain, the risk of downturn prevails. Regarding the LNG gas cylinder industry, there is no improvement of the decline of demand in the vehicle alteration market since the gas price increased significantly in the second half of last year.

Meanwhile, the competition is also intensified by excessive capacity caused by expansion plans of most domestic corporations that are qualified to produce. The Project is expected to reach 10-20% of its production capacity in 2014 and the sales income is expected to be RMB250,000,000.

In order to raise the market share and the competitiveness of cryogenic products, the Company established the cryogenic product department and filling station department, which are specifically responsible for the R&D, production, sales and management of LNG gas cylinders and filling stations. These professional managing departments help to focus the energy in the market of cryogenic equipment, allow rapid response to new problems and improve decision-making ability while bringing into play the enthusiasm and creativity of the management.

In 2014, the Company will give full play of functions of the cryogenic product department and filling station department and strive to expand the market. Generally, the measures are as follows:

- (1) Take full advantage of favourable policies such as atmospheric governance, Beijing and Tianjin regions coordinated development, priority development of LNG, so as to thoroughly explore all feasible opportunities along the industry chain; (2) Provide good service to current major customers, including passenger car factories, heavy truck factories and public transport companies; (3) improve co-operation with major energy companies, with the focus of re-establishing co-operation with PetroChina, Sinopec and large-scale gas companies; (4) accelerate the construction of after-sales service network points of LNG gas cylinders and improve the timeliness of after-sales service; (5) focus on the marine LNG market and prepare for market entry.

- II. After the Company completed material assets reorganisation, there was larger difference between the profit of the new incoming company asset and the expected profit. The reasons are explained as follows:

Profit forecast of the Company in 2013 was made based on the assumptions that there would be no significant changes in the macroeconomic conditions and market conditions and there would not be major fluctuations in the sales price of products of the Company. However, the failure to attain profit forecasts are mainly due to the reasons below:

1. Smaller price difference between oil and natural gas affects the profitability of natural gas cylinder products

In 2013, the oil price experienced numerous adjustments and did not follow the rising trend as originally expected. Since the reform of natural gas price in China proceeded gradually, the natural gas price is on an apparent rising trend. As the difference of the prices between oil and natural gas was narrowed as a result of the changes mentioned above, the progress of replacing

oil fuels with natural gas slowed down. Therefore, the promotion and application of natural gas in automobiles lost its economic support and slowed down substantially. Consequently, the natural gas cylinder products of the incoming assets did not reach the expected sales targets.

Among the products of Tianhai Industrial, wrapped gas cylinders and cryogenic gas cylinders are mainly used in the natural gas vehicle industry. The total sales volume of wrapped gas cylinders and cryogenic gas cylinders in 2013 was 348,100. The profit forecast was 449,400. The actual volume is 101,300 short compared to the forecast. Overall, the net profit of wrapped gas cylinders and cryogenic gas cylinders in 2013 was lower than the profit forecast by RMB62,857,500.

## 2. Fluctuation of downstream industries affects the profitability of traditional industrial gas cylinder products

In 2013, under the influence of the decline in the operations in the industries which are the main users of industrial gas, including smelting, shipbuilding and construction, the market demand for industrial gas was on a declining trend. This resulted in the excessive capacity of industrial seamless steel gas cylinders and fierce competition in the market of traditional industrial seamless steel gas cylinders which in turn led to the decline in the business performance of the traditional gas cylinders of the incoming assets.

Among the products of Tianhai Industrial, seamless steel gas cylinders are mainly used in containing gases by industrial corporations. The total sales volume of seamless steel gas cylinders in 2013 was 1,536,400. The profit forecast was 2,200,000. The actual volume is 663,600 short compared to the forecast. Overall, the net profit of seamless steel gas cylinders in 2013 was lower than the profit forecast by RMB67,239,000.

## 3. Impact produced by the fluctuation in profits of Jingcheng Compressor

Jingcheng Compressor newly launched the series of 2D10 and 4M10 piston compressors which were of lower production volume and higher costs due to the weak economic growth in 2013. The overall gross profit margin of the Company dropped as a result. Its joint stock company, Fusheng Machine, also experienced the same problems in operation. Its net profit in 2013 reduced significantly and caused greater impact on both investment income and net profit of Jingcheng Compressor.

The net profit of Jingcheng Compressor mainly depends on the investment income from Fusheng Machine, in which it has 30% interest. The investment income from Fusheng Machine in the profit forecast of Jingcheng Compressor in 2013 was RMB17,000,000. Due to the weak economic growth, the net profit of Fusheng Machine in 2013 was RMB21,990,000, which only achieved 36.65% of its forecast of RMB60,000,000. The actual investment income of Jingcheng Compressor was RMB11,400,000 lower than its corresponding forecast.

Putting aside the impact of investment income, the operating profit of Jingcheng Compressor in 2013 was RMB-23,160,000, which is lower than its forecast RMB-13,430,000 by RMB9,730,000. The major reason for operating profit not attaining its profit forecast is the drop in gross profit margin brought by the increase in operating cost. The gross profit margin of Jingcheng Compressor in 2013 is 14.21% and its profit forecast is 25.14%. In order to enhance the market competitiveness, Jingcheng Compressor launched new products including the 2D10 and 4M10 piston compressor series, however the sales volume was low. The cost of products increased as Jingcheng Compressor changed from self-production to outsourcing.

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

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

Among the seamless steel gas cylinders of Langfang Tianhai, subsidiary of Tianhai Industrial, the stamping cylinder products are mainly exported to the United States. The sales volume in 2013 was 171,600 and its profit forecast volume was 350,000. The actual volume is lower than its forecast by 178,400. The overall net profit of stamping cylinders in 2013 is lower than its profit forecast by RMB 6,608,700.

### III. As required by Article 21 of the annual report standard, the supplementary descriptions of the production volume, sales volume, inventory and market share of main products of the Company during the reporting period are as follows:

The products of the Company can be classified into seamless steel gas cylinder, welded cylinder, LNG (cryogenic) gas cylinder, wrapped gas cylinder, respirator, compressor etc. There are 3 types of product with changes over 30% in 2013, which are illustrated in the table below:

Product category	Production (0'000)			Sales (0'000)			Inventory (0'000)		
	2013	2012	As compared to the corresponding period last year ±%	2013	2012	As compared to the corresponding period last year ±%	2013	2012	As compared to the corresponding period last year ±%
Seamless steel gas cylinder	169.93	219.5	-22.6%	153.6	232.09	-33.8%	26.33	10	163.3%
Wrapped cylinder	27.38	30.17	-9.2%	28.74	28.38	1.3%	1.14	2.5	-54.4%
LNG (cryogenic) gas cylinder	1.22	0.48	154.17%	1.16	0.46	152.17%	0.11	0.05	120.0%

## Analysis:

1. Compared to the corresponding period last year, the sales of seamless steel gas cylinder reduced by 33.8% and the inventory increased by 163.3%. This was mainly because the contracted volume was lower than expected as the market demand in 2013 reduced but the Company adopted strategic reserve for maintaining a normal production without halt. Currently, the market condition has improved and the inventory for these products is below 50,000.
  2. The inventory of wrapped gas cylinders dropped by 54.4% compared to that of the corresponding period last year. It was mainly because the customers prefer a lead time between purchase date and manufacturing date which is as short as possible. The Company compressed the inventory cycle and reduced the number of inventory.
  3. LNG cylinder's indicators in production, sales, inventory and market share have shown significant growth compared to those of the corresponding period last year, mainly benefiting from the rapid growth of the LNG industry in the first seven months in 2013 and the strong demand for this type of products, despite the further reduced difference between the prices of oil and gas due to the rise in price of LNG gas in August and September and its impact of this type of products.
- IV. The gross profit margin of the Company's compressor and wrapped cylinder businesses dropped. The reasons are described as follows:

1. Reasons for decline in the gross profit margin of compressors and measures to be taken
  - (1) The new series of piston compressors developed by the Company entirely replaced traditional products but its gross profit margin was lower than expected. The average gross profit margin for piston compressors was -1.1% this year, which is far below the level of around 20% in previous years. Some contracts suffered severe loss.
  - (2) The gross profit margin of membrane compressors also dropped significantly due to market competition. The average gross profit margin for membrane compressors was 24.6% this year, which is lower than the level of above 35% in previous years.

Given gross profit of some compressor products has become negative and business is unlikely to improve in the short-term and the keen competition for products due to the current downturn of macroeconomy, an equity transfer of Jingcheng Compressor Co., Ltd. has been proposed this year.

2. Reasons for decline in the gross profit margin of wrapped cylinder and measures to be taken

Reasons: (1) Price reduction. Affected by factors such as reduced demand and more intense competition, the Company was compelled to reduce prices to fight for the limited market demand; (2) Increase in cost. Affected by factors such as raw material prices, labour costs, energy costs and environmental protection measures, the manufacturing cost of wrapped cylinders has become higher.

Measures: (1) Focus on domestic automobile manufacturers and the international markets in Southeast Asia and America to avoid price competition; (2) Reduce costs in various aspects including procurement, design and production manufacturing.

V. As required by Article 22 of the annual report standard, the supplementary descriptions on the operating plan for the new year are as follows:

1. Operating plan for 2014

In 2014, the Company will face greater difficulties and pressure given various uncertainties in both the domestic and international environment. The transformation of product mix is undergoing adjustment. The revenue of the Company's principal business is expected to amount to RMB2,400,000,000 in 2014, which was RMB2,067,140,000 in 2013. Sales revenue is expected to increase by approximately 15% compared to that of the corresponding period last year, among which natural gas business will account for over 45% of the sales revenue of the Company. Meanwhile, the costs of raw materials and acquired components account for approximately 70% of the total costs of the Company's principal products including controlling cylinder, wrapped cylinder and SI-LNG products. Fluctuation in the prices of raw materials will have significant impact on the costs of the products of the Company, causing higher uncertainty towards the Company's operating income and costs in 2014. The Company will focus on efficiency and transformation, control risks, and strive to realise operating income, maintain stability of costs and facilitate the sustainable development of the Company.

In 2014, the Company expects cash flows from operating activities can achieve balance of income and expenditure and there will be a higher net cash inflow in investment activities which can effectively ease the press of capital shortage.

2. The plan for product R&D in 2014

(1) Development of LNG double-pump skid-mounted fueling devices

LNG standard double-pump skid combines submersible pump, vaporiser, valve system and instrument system onto one skid with the functions of unloading, gas filling and pressure adjustment. Pump skid is manufactured and tested in the factory with reliable quality. Standard double-pump skid is the core part of filling stations, which forms the filling station above ground together with the tank module, the gas filling module and the control module. Products developed by the Company have low requirements for foundation, are easy to install and do not require welding on-site, thus the construction time on-site and difficulty of construction are greatly reduced. They also have the characteristics of being highly integrated and highly automated.



(2) Development of cryogenic liquid mini-storage tank (1~3m<sup>3</sup>)

This product mainly contains gases such as liquid oxygen, nitrogen, argon, CO<sub>2</sub>, N<sub>2</sub>O and LNG. Small tank cars directly supply high-purity liquid to small cryogenic tanks installed on-site, acting as a replacement of steel cylinders and dewars and a simple and convenient equipment for the new gas supply model. The uninterrupted gas supply saves the trouble of moving steel cylinders and cryogenic liquid gas supply has become quick, easy, safe and economic, which is also called “APDirect”. By developing cryogenic liquid mini-storage tanks, production efficiency has been greatly increased and structural and piping system is optimized concurrently in order to better satisfy the demand of users in market.

(3) Development of 35 MPa aluminium-lined carbon fiber composite gas cylinders for storage of hydrogen

Hydrogen energy has caught the attention of research institutions, governments and corporations around the world given its benefits of rich and extensive sources, high combustion value, being environmental friendly and circular utilization. Cars adopting hydrogen (H<sub>2</sub>) as fuel are recognized as one of the applications that are most likely to be industrialised. Therefore, hydrogen-fueled vehicles demonstration scheme was implemented by various governments and renowned automobile corporations successively. The development of product will further expand area of application of Tianhai Company's cylinders for vehicles from the current storage of natural gas to storage of gas for hydrogen energy.

3. The Company will actively facilitate the adjustment made to the spatial layout in 2014 and accelerate the construction of the new manufacturing base, speed up the research and development of cylinder and tank products and station products, continue to implement cost control measures to improve efficiency, innovate marketing model, capability of market expansion and strive to achieve the annual operational goals set.

The board of directors of  
**Beijing Jingcheng Machinery Electric Company Limited**

25 April 2014

*As at the date of this announcement, the Board comprises of Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Wu Yanzhang, Mr. Li Junjie and Ms. Jiang Chi as executive directors, Mr. Jiang Zili and Ms. Wu Dongbo as non-executive directors and Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu as independent non-executive directors.*