京城機電股份
JINGCHENG MAC

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

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

**(Stock Code: 0187)**

## ANNOUNCEMENT ON 2018 ANNUAL RESULTS

The Board of Directors (the "Board") of Beijing Jingcheng Machinery Electric Company Limited (the "Company") hereby announces that the preliminary consolidated results as of and ended 31 December 2018 (the "Reporting Period") prepared by the Company and its subsidiaries (the "Group") in accordance with the China Accounting Standards for Business Enterprises are as follows:

## I. FINANCIAL DATA

(All amounts are stated in RMB Yuan unless otherwise stated)

### CONSOLIDATED BALANCE SHEET

As at 31 December, 2018

Prepared by: Beijing Jingcheng Machinery Electric Company Limited *Unit: RMB Yuan*

| **Item** | *Note* | **31 December 2018** | 31 December 2017 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash at bank and on hand | | **61,162,121.34** | 78,367,503.16 |
| Settlement reserve | | | |
| Loans to banks and other financial institutions | | | |
| Financial assets held for trading | | | |
| Financial assets at fair value through profit or loss | | | |
| Derivative financial assets | | | |
| Notes receivable and accounts receivable | | **246,254,665.67** | 382,745,366.93 |
| Including: Notes receivable | | **23,161,071.50** | 27,812,323.12 |
| Accounts receivable | 9 | **223,093,594.17** | 354,933,043.81 |
| Advances to suppliers | | **58,395,221.68** | 49,912,905.26 |
| Premiums receivable | | | |
| Reinsurance premium receivable | | | |
| Reinsurance contract reserves receivable | | | |
| Other receivables | | **20,470,775.75** | 12,891,300.46 |
| Including: Interests receivable | | | |

| Item | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Dividends receivable | | **6,075,169.12** | 8,756,869.09 |
| Financial assets purchased under agreements to resell | | | |
| Inventories | | **325,700,866.01** | 389,219,002.78 |
| Contractual assets | | | |
| Assets held for sale | | | |
| Non-current assets due within one year | | | |
| Other current assets | | **51,641,219.69** | 56,240,621.78 |
| **Total current assets** | | **763,624,870.14** | 969,376,700.37 |
| **Non-current assets:** | | | |
| Loans and advances | | | |
| Debt investments | | | |
| Available-for-sale financial assets | | | |
| Other debt investments | | | |
| Held-to-maturity investments | | | |
| Long-term receivables | | | |
| Long-term equity investments | | **124,898,949.39** | 71,694,482.47 |
| Other equity instruments investments | | | |
| Other non-current financial investments | | | |
| Investment properties | | **28,723,902.58** | |
| Fixed assets | | **707,396,045.56** | 657,289,324.75 |
| Construction in progress | | **11,653,942.58** | 68,468,558.01 |
| Bearer biological assets | | | |
| Oil and gas assets | | | |
| Intangible assets | | **128,526,552.10** | 139,749,967.30 |
| Development expenditures | | | |
| Goodwill | | | 3,679,654.40 |
| Long-term deferred expenses | | **10,298,416.72** | 14,514,756.50 |
| Deferred income tax assets | | **363,087.25** | 288,577.32 |
| Other non-current assets | | | |
| **Total non-current assets** | | **1,011,860,896.18** | 955,685,320.75 |
| **Total assets** | | **1,775,485,766.32** | 1,925,062,021.12 |

| Item | *Note* | **31 December 2018** | 31 December 2017 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings | | **277,998,046.30** | 285,000,000.00 |
| Borrowings from the central bank | | | |
| Deposits and placements from other financial institutions | | | |
| Placements from banks and other financial institutions | | | |
| Financial liabilities held for trading | | | |
| Financial liabilities at fair value through profit or loss | | | |
| Derivative financial liabilities | | | |
| Notes payable and accounts payable | *10* | **264,374,639.10** | 260,850,663.86 |
| Advances from customers | | | 45,878,250.70 |
| Contractual liabilities | | **48,104,438.48** | |
| Financial assets sold under agreements to repurchase | | | |
| Fees and commissions payable | | | |
| Employee benefits payable | | **22,929,823.79** | 36,862,542.56 |
| Taxes payable | | **15,822,084.92** | 16,683,209.97 |
| Other payables | | **80,624,608.94** | 90,988,717.35 |
| Including: Interest payable | | **72,000.00** | 446,534.71 |
| Dividends payable | | | |
| Reinsurance amounts payable | | | |
| Reserve of Insurance Contract | | | |
| Securities brokering | | | |
| Securities underwriting | | | |
| Liabilities held for sale | | | |
| Non-current liabilities due within one year | | **18,000,000.00** | 11,000,000.00 |
| Other current liabilities | | **286,545.11** | 5,380,893.08 |
| **Total current liabilities** | | **728,140,186.64** | 752,644,277.52 |

| Item | *Note* | **31 December 2018** | 31 December 2017 |
|---|---|---|---|
| **Non-current liabilities:** | | | |
| Long-term borrowings | | **11,000,000.00** | 5,060,000.00 |
| Bonds payable | | | |
| Including: Preferred shares | | | |
| Perpetual bond | | | |
| Long-term payables | | **143,100,000.00** | 103,900,000.00 |
| Long-term employee benefits payable | | **24,637,440.48** | 32,871,892.94 |
| Provisions | | **3,251,807.32** | 4,243,554.25 |
| Deferred incomes | | **2,087,460.36** | 2,000,000.00 |
| Deferred income tax liabilities | | | |
| Other non-current liabilities | | | |
| **Total non-current liabilities** | | **184,076,708.16** | 148,075,447.19 |
| **Total liabilities** | | **912,216,894.80** | 900,719,724.71 |
| **Shareholders' equity:** | | | |
| Capital stock | | **422,000,000.00** | 422,000,000.00 |
| Other equity instruments | | | |
| Including: Preferred shares | | | |
| Perpetual bond | | | |
| Capital reserves | | **687,349,089.60** | 687,349,089.60 |
| Less: treasury stocks | | | |
| Other comprehensive incomes | | **2,308,000.57** | 1,154,074.87 |
| Special reserves | | | |
| Surplus reserves | | **45,665,647.68** | 45,665,647.68 |
| Provisions for general risk | | | |
| Undistributed profit | *11* | **-690,446,430.91** | -567,793,525.60 |
| **Total shareholders' equity attributable to parent company** | | **466,876,306.94** | 588,375,286.55 |
| Non-controlling interest | | **396,392,564.58** | 435,967,009.86 |
| **Total stockholders' equity** | | **863,268,871.52** | 1,024,342,296.41 |
| **Total liabilities and stockholders' equity** | | **1,775,485,766.32** | 1,925,062,021.12 |

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

Prepared by: Beijing Jingcheng Machinery Electric Company Limited *Unit: RMB Yuan*

| Item | Note | **Amount of this year** | Amount of previous year |
|---|---|---|---|
| **I. Total operating revenue** | | **1,121,564,249.15** | 1,203,496,955.02 |
| Including: Operating revenues | *8* | **1,121,564,249.15** | 1,203,496,955.02 |
| Interest incomes | | | |
| Earned premiums | | | |
| Fees and commissions incomes | | | |
| **II. Total operating cost** | | **1,265,728,479.49** | 1,262,017,863.96 |
| Including: Operating cost | | **1,016,767,617.68** | 1,008,933,698.75 |
| Interest expenses | | | |
| Fees and commissions expenses | | | |
| Cash surrender amount | | | |
| Net expenses of claim settlement | | | |
| Net provision for insurance contract reserves | | | |
| Policyholder dividend expenses | | | |
| Expenses for reinsurance accepted | | | |
| Taxes and surcharges | | **10,902,884.81** | 16,443,274.58 |
| Selling expenses | | **50,936,486.91** | 65,404,323.80 |
| Administrative expenses | | **112,348,840.47** | 108,674,504.08 |
| R&D expenses | | **11,827,458.65** | 10,640,445.25 |
| Financial expenses | | **24,487,149.13** | 24,439,493.07 |
| Including: Interest expense | | **25,636,482.12** | 21,325,865.23 |
| Interest income | | **1,183,368.56** | 281,670.69 |
| Assets impairment losses | | **36,440,707.35** | 13,979,858.13 |
| Credit impairment losses | | **2,017,334.49** | 13,502,266.30 |
| Add: Other earmings | | **719,631.91** | |
| Investment incomes (with "-" for losses) | | **-3,275,533.08** | -4,586,130.02 |
| Including: Investment incomes from affiliated enterprises and joint ventures | | **-3,275,533.08** | -4,586,130.02 |
| Gains from net exposure hedges (with "-" for losses) | | | |
| Gains from changes of fair values (with "-" for losses) | | | |
| Exchange gains (with "-" for losses) | | | |
| Incomes of assets disposal (with "-" for losses) | | **8,596,214.61** | 66,140,181.07 |
| **III. Operating profit (with "-" for losses)** | | **-138,123,916.90** | 3,033,142.11 |
| Add: non-operating income | | **13,014,749.97** | 48,430,029.67 |
| Less: non-operating expenses | | **445,593.90** | 19,826,854.16 |

| Item | Note | Amount of this year | Amount of previous year |
|---|---|---|---|
| **IV. Total profits (with "-" for total losses)** | | **-125,554,760.83** | 31,636,317.62 |
| Less: income tax expenses | *12* | **7,089,870.89** | 8,490,684.72 |
| **V. Net profits(with "-" for net losses)** | | **-132,644,631.72** | 23,145,632.90 |
| (I) Classified according to operating continuity: | | **-132,644,631.72** | 23,145,632.90 |
| 1. Net profit from continuing operations (with "-" for net losses) | | **-141,291,419.93** | 23,145,632.90 |
| 2. Net profit from discontinuing operations (with "-" for net losses) | | **8,646,788.21** | |
| (II) Classified according to attribution of the ownership: | | **-132,644,631.72** | 23,145,632.90 |
| 1. Net profit attributable to the parent company's shareholders | | **-93,936,155.30** | 20,868,364.01 |
| 2. Non-controlling interests profit and loss | | **-38,708,476.42** | 2,277,268.89 |
| **VI. Other net comprehensive incomes after-tax** | | **2,252,331.17** | -2,424,859.82 |
| Other net after-tax comprehensive income attributable to the owner of the parent company | | **1,153,925.70** | -1,236,840.66 |
| (I) Other comprehensive income that cannot be reclassified through profit or loss | | | |
| 1. Changes recalculating and setting of the benefit plan | | | |
| 2. Under the equity method, other comprehensive incomes that cannot be transferred to loss and profit in the future | | | |
| 3. Change of fair value of investments in other equity instruments | | | |
| 4. Changes of fair value of the Company's own credit risk | | | |
| 5. Others | | | |
| (II) Other comprehensive incomes that can be reclassified into loss and profit in the future | | **1,153,925.70** | -1,236,840.66 |
| 1. Under the equity method, other comprehensive incomes that can be transferred to loss and profit in the future | | | |
| 2. Change of fair value of other debt investments | | | |
| 3. Change loss and profit of fair value of financial assets available-for-sale | | | |
| 4. Amount of financial assets reclassified into other comprehensive incomes | | | |
| 5. Mature investment reclassified to loss and profit of available-for-sale financial assets | | | |
| 6. Credit impairment provisions for other debt investment | | | |
| 7. Reserves for cash flows hedges | | | |
| 8. Converted difference in foreign currency statements for foreign currency | | **1,153,925.70** | -1,236,840.66 |
| 9. Others | | | |

| Item | *Note* | **Amount of this year** | Amount of previous year |
|---|---|---|---|
| Other comprehensive income attributable to minority shareholders after-tax | | **1,098,405.47** | -1,188,019.16 |
| **VII. Total comprehensive incomes** | | **-130,392,300.55** | 20,720,773.08 |
| Total comprehensive incomes attributable to shareholders of the parent company | | **-92,782,229.60** | 19,631,523.35 |
| Total comprehensive income attributable to minority shareholders | | **-37,610,070.95** | 1,089,249.73 |
| **VIII. Earnings per share:** | | | |
| (I) Basic earnings per share (Yuan per share) | *13* | **-0.22** | 0.05 |
| (II) Diluted earnings per share (Yuan per share) | | **-0.22** | 0.05 |

# Notes to Consolidated Financial Statements

## I. Scope of Consolidated Financial Statements

The Company's consolidated financial statements cover Jingcheng Holding (Hong Kong) Co., Ltd., Beijing Tianhai Industry Co.,Ltd. and its subsidiaries Tianjin Tianhai High Pressure Container Co., Ltd., Shanghai Tianhai Composite Cylinders Co., Ltd., Beijing Tianhai Cryogenic Equipment Co., Ltd., Beijing Pioneer Up Lifter Co., Ltd., Beijing Minghui Tianhai Gas Storage Equipment Sales Co., Ltd., Kuancheng Tainhai Pressure Container Co., Ltd. and BTIC AMERICA CORPORATION.

## II. Basis for preparation of Financial Statements

### (1) Preparation basis

The Group prepared the financial statements on the basis of going concern, as per the actually incurred transaction and events as well as related disclosure made according to *Accounting Standards for Business Enterprises* issued by the Ministry of Finance and relevant provisions (hereinafter the "Accounting Standards for Business Enterprises"), and the *Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports* (revised in 2014) of China Securities Regulatory Commission and relevant provisions and as required by Companies Ordinance of Hong Kong and The Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), and based on the accounting policies and accounting estimates in the "Note III. Significant Accounting Policies and Accounting Estimates".

### (2) Going concern

The Group has evaluated the going concern ability within 12 months since December 31, 2018 and has not found any event and condition causing substantial doubt about the going concern ability. Therefore, these financial statements were prepared on the basis of the going concern assumption.

## III. Significant Accounting Policies and Accounting Estimates

Specific accounting policies and accounting estimates indication: accounting policies developed by the Group according to characteristics of actual production and operation and accounting estimates including business cycle, the recognition and measurement of provisions for bad debts from receivables, the measurement of inventory dispatched, fixed assets classification and depreciation methods, amortization of intangible assets, conditions for capitalizing R&D expenses, recognition and measurement of incomes, impairment of long term assets and provisions, etc.

### 1. Statement of compliance with Accounting Standards for Business Enterprises (ASBE)

The Company declares that the financial statements prepared comply with the Accounting Standards for Business Enterprises, which reflect the financial position, results of operation and cash flow of the Company truly and completely.

### 2. Accounting period

An accounting period of the Group is from January 1 to December 31 of each calendar year.

3. **Business cycle**

The Group treats 12 months as a dividing standard for the liquidity of assets and liabilities since the business cycle is rather short for the Group's business.

4. **Recording currency**

RMB is recording currency for the Company and its subsidiaries, except for BTIC AMERICA CORPORATION and Jingcheng Holding (Hong Kong) Co., Ltd. which use USD as their recording currency.

5. **Accounting treatment method for business merger under common control and different control**

The assets and liabilities acquired by the Group, as the combination party, from business combination under common control should be measured based on the book value in the ultimate holding party consolidated statements of the combination party on the combination date. The balance between the book value of the net assets obtained and the book value of the consideration paid shall be used to adjust the capital reserves; where the capital reserves are not sufficient to be offset, the retained earnings shall be adjusted.

The identifiable assets, liabilities and contingent liabilities acquired by the acquiree in the business merger not under common control are measured at fair value at the acquisition date. The cost for merging is the sum of book value of cash or non-cash assets paid, liabilities issued or assumed, equity securities issued, etc. for obtaining the control power of the acquiree and various direct expenses in business merger (in the business merger realized step by step through several transactions, the cost for merging is the sum of the cost for each single transaction). Positive balance between the cost of merging and the fair value of the identifiable net assets of the acquiree obtained by the Group on the acquisition date shall be recognized as goodwill; if the cost of merging is less than the fair value of the identifiable net assets of the acquiree obtained, the fair value of various identifiable assets, liabilities and contingent liabilities obtained in business merger and the fair value of non-cash assets or equity security issued in the consideration of merger shall be re-checked first. If the re-checked cost of merger is still less than the fair value of identifiable net assets of the acquiree obtained, the balance shall be included into current non-operating revenue.

6. **Preparation methods of consolidated financial statements**

The Group incorporates all subsidiaries controlled by it and structured entities into consolidated financial statements.

When preparing consolidated financial statements, if the accounting policy or the accounting period adopted is inconsistent between the subsidiaries and the Company, the financial statements of subsidiaries shall be adjusted according to the accounting policy or the accounting period of the Company.

All significant internal transactions, current balances and unrealized profits within the scope of the merger are offset in preparing consolidated statements. Shares in owners' equity of subsidiaries but not attributed to the parent company, net profit and loss for the current period, other comprehensive income and shares attributed to non-controlling interests in total comprehensive income shall be listed in consolidated financial statements as non-controlling interests, non-controlling profit and loss, other comprehensive income attributed to minority shareholders and total comprehensive income attributed to minority shareholders.

Operating results and cash flows of subsidiaries which are acquired by business merger under common control are included into consolidated financial statements on the beginning of the current period of the merger. Upon the preparation of comparative consolidated financial statements, any adjustments to relevant items in financial statements of the previous year are considered as the subject of reports formed after merger as if it might have exist since the time when final controlling party begin to take the control.

Under the circumstance that the equity of the investee is obtained under the common control through multiple transactions step by step, which results in business merger, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period for acquiring the control. For example, if equity of the invested entity under the common control is obtained step by step through several transactions, which results in business merger, such equity shall be adjusted in the preparation of consolidated financial statements as if they might have exist as the current state from the time when final controlling party takes the control. When preparing comparative accounts, relevant assets and liabilities of the acquiree are included in comparative accounts of consolidated financial statements of the Group according to the restriction that the time above shall be later than the time when the Group and the acquiree are under the common control of final controlling party, moreover, increased net assets resulting from the merger are adjusted as relevant items under owners' equity. In order to avoid repeated calculation of value of net assets of the merged party, the long-term equity investment held by the Group before the merger is achieved, the changes in relevant profits and losses, other comprehensive incomes and other net asset that have been recognized in the period from the later date, when the long-term equity investment is acquired and when the Group and the acquiree are under the final control of the same party, to the merger date, shall respectively be applied to write off the opening retained earnings or current profits and losses during the period of comparative statement.

As for subsidiaries acquired by business merger under the different control, operating results and cash flows shall be incorporated into consolidated financial statements from the date when the Group takes the control. In preparing consolidated financial statements, adjustments to financial statements of subsidiaries are based on the fair value of identifiable assets, liabilities or contingent liabilities, which is identified at the purchase date.

Under the circumstance that the equity of the investee is obtained under the different control through multiple transactions step by step, which results in business merger, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period for acquiring the control. For instance, under the circumstance that the business merger is realized under the different control through multiple transactions step by step, the equity of the acquiree obtained before the purchase date shall be recalculated as per the fair value of the equity on the purchase date when preparing the consolidated financial statements, with the balance between the fair value and its book value included into the current investment profits; if the equity of the acquiree held before the purchase date involves other comprehensive income calculated under the equity method and other change of the owner's equity except net profits and incomes, other comprehensive incomes and profit allocation, the relevant other comprehensive incomes and other change of owners' equity shall be transferred into current income of the purchase date, except other comprehensive incomes arising out from that the acquiree remeasures change of the net liabilities or net assets of the set benefit plan.

The Group disposes of the long-term equity investment against subsidiaries partially without losing control right; in the consolidated financial statements, as for the balance between the disposing amount and the net asset continuously calculated from the purchase date or date of merging of the subsidiary enjoyed correspondingly in disposing long-term equity investment, capital premium or share premium shall be adjusted; if the capital reserves are not sufficient for offset, the retained earnings shall be adjusted.

Where control right over the investee is lost due to the disposal of partial equity investment of the Group or other reasons, the residual equity will be re-calculated based on the fair value thereof on the day the control is lost when preparing the consolidated financial statements. The balance from the sum of the consideration obtained from the equity disposal and the fair value of the residual equity minus the net assets of the original subsidiaries calculated continuously in proportion to the original holdings from the purchase date or date of merging shall be recorded into the investment income of the current period in which the control right is lost, with goodwill written off simultaneously. Other comprehensive incomes related with the equity investment of the original subsidiaries shall be converted to the current investment profit and loss when losing the control right.

When the Group disposes of equity investment of the subsidiaries step by step through multiple transactions till losing the control right, if various transaction from disposal of equity investment of subsidiaries till losing the control right belongs to package deal, accounting treatment shall be conducted for each transaction as the transaction that disposes of subsidiary with loss of control right; Nonetheless, before loss of control right, the balance between each price disposal and the net asset share of such subsidiary enjoyed correspondingly in asset disposal is recognized in the other comprehensive income in the consolidated financial statements and turned into the current profit and loss when losing control right.

**7. Classification of joint arrangements and accounting treatment method for joint operations**

The Group's joint arrangements include joint operations and joint ventures. In projects for joint operation, for assets held and liabilities assumed solely which are confirmed by the Group as the joint-venture party in joint operation and assets held and liabilities assumed according to shares, their relevant income and costs shall be determined as per related individual agreements or shares. If purchase or sales related to joint operation are not construed as assets transactions of business, it should only determine parts which belong to other participants of joint operation in profit and loss arising from such transactions.

**8. Turnover**

The turnover included the received and receivable net sales value of different types of cryogenic storage-transport vessels and spare parts and net value of service provision, and their analysis is shown as follows:

| Item | Amount in current year | Amount in previous yea |
|---|---|---|
| **Gross sales** | **1,064,319,563.53** | 1,166,472,219.97 |
| Less: sales tax and other additional charges | **11,017,884.56** | 16,443,274.58 |
| **Total** | **1,053,301,678.97** | 1,150,028,945.39 |

***(1) Taxes***

| Item | Amount in current year | Amount in previous year |
|---|---|---|
| **Corporate income tax in the current year** | **7,094,094.19** | 8,496,222.40 |
| Deferred tax liabilities | **-4,223.30** | -5,537.68 |
| **Total** | **7,089,870.89** | 8,490,684.72 |

***(2) Stock dividend***

No dividend paid or proposed during the year of 2018. No dividend has been proposed since the end of this reporting period (2017: nil).

**9. Accounts receivable**

***(1) Accounts receivable***

| Project name | Closing balance | Opening balance |
|---|---|---|
| **Accounts receivable** | **274,653,919.11** | 387,475,764.82 |
| Less: bad debt provision | **51,560,324.94** | 48,821,755.00 |
| **Net amount** | **223,093,594.17** | 338,654,009.82 |

*(2) Accounts receivable listed by age*

| Aging | Closing balance | Opening balance |
|---|---|---|
| Within one year (including 1 year) | **189,119,026.07** | 302,292,760.67 |
| One to two years | **13,729,953.15** | 22,273,995.22 |
| Two to three years | **14,636,247.44** | 5,200,347.99 |
| More than three years | **5,608,367.51** | 8,886,905.94 |
| Including: three to four years | **2,455,605.06** | 7,756,284.81 |
| Four to five years | **3,152,762.45** | 1,130,621.13 |
| More than five years | **0.00** | 0.00 |
| **Total** | **223,093,594.17** | 338,654,009.82 |

The basis of aging analysis of the Group is presented based on the relevant transaction dates.

**10. Accounts payable**

*(1) Presentation of accounts payable*

| Item | Closing balance | Opening balance |
|---|---|---|
| Material payment, etc. | **228,858,941.62** | 247,106,828.24 |
| Project payment | **5,515,697.48** | 10,743,835.62 |
| **Total** | **234,374,639.10** | 257,850,663.86 |

*(2) Significant payables with the aging over 1 year*

| Company name | Closing balance | Reasons for unrepayment or carrying over |
|---|---|---|
| Tianjin Seamless Investment Co., Ltd. | **2,582,070.00** | Unsettled |
| First Branch of Beijing Jingcheng Industrial Logistics Co., Ltd. | **902,227.27** | Unsettled |
| Hangzhou Xinya Cryogenic Technology Co., Ltd. | **877,466.00** | Unsettled |
| Tancy Instrument Group Co., Ltd. | **593,090.00** | Unsettled |
| Beijing VCA Technology Co., Ltd. | **572,548.00** | Unsettled |
| **Total** | **5,527,401.27** | – |

*(3) Presentation of accounts payable as per age*

| Item | Closing balance | Opening balance |
|---|---|---|
| Within 1 year (including 1 year) | **216,935,540.14** | 192,243,087.10 |
| 1-2 years | **12,401,987.78** | 8,401,700.79 |
| 2-3 years | **1,467,709.80** | 53,054,070.96 |
| Over 3 years | **3,569,401.38** | 4,151,805.01 |
| **Total** | **234,374,639.10** | 257,850,663.86 |

## 11. Undistributed profit

| Item | Current year | Previous year |
|---|---|---|
| **Closing balance for the previous period** | **-567,793,525.60** | -588,661,889.61 |
| Add: adjustment of beginning undistributed profit | **-16,451,532.69** | 0.00 |
| Including: retroactive adjustment as newly stipulated in Accounting Standards for Business Enterprises | **-16,451,532.69** | 0.00 |
| Changes in accounting policies | **0.00** | 0.00 |
| Correction of major early errors | **0.00** | 0.00 |
| Change in scope of consolidation under the common control | **0.00** | 0.00 |
| Other adjustment factors | **0.00** | 0.00 |
| **Beginning balance in the current period** | **-584,245,058.29** | -588,661,889.61 |
| Add: net profits attributable to owners of parent company in current period | **-93,936,155.30** | 20,868,364.01 |
| Less: appropriation of statutory surplus reserve | **0.00** | 0.00 |
| Appropriation of discretionary surplus reserves | **0.00** | 0.00 |
| Appropriation of general risk provision | **0.00** | 0.00 |
| Ordinary share dividends payable | **12,265,217.32** | 0.00 |
| Ordinary share dividends transferred into share capital | **0.00** | 0.00 |
| Ending balance in the current period | **-690,446,430.91** | -567,793,525.60 |

*Note:* In this year, Langfang Tianhai High Pressure Container Co., Ltd., a subsidiary of the Company, completed liquidation and cancellation, and distributed the remaining property available to shareholders, among which the distribution to minority shareholders was RMB 12,265,217.32.

## 12. Income tax expenses

### *(1) Income tax expense*

| Item | Amount in current year | Amount in previous year |
|---|---|---|
| Income tax expense for the current period – corporate income | **7,094,094.19** | 8,496,222.40 |
| 1. Mainland China corporate income tax | **5,889,940.34** | 7,012,223.88 |
| 2. Hong Kong income tax | **0.00** | 0.00 |
| 3. Macau income tax | **0.00** | 0.00 |
| 4. Other regions (USA) | **2,133,913.35** | 1,464,427.75 |
| 5. Over-measurement in the previous years (under-measurement) | **-929,759.50** | 19,570.77 |
| Deferred income tax expenses | **-4,223.30** | -5,537.68 |
| **Total** | **7,089,870.89** | 8,490,684.72 |

**13. Return on net assets and earnings per share**

Based on the provisions in Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (revised in 2010) issued by China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share, and diluted earnings per share for the Group are listed below:

| Profit for the Reporting Period | Weighted Average ROA (%) | | Earnings per Share | | | |
|---|---|---|---|---|---|---|
| | | | Basic earnings per share | | Diluted earnings per share | |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Net profits attributable to shareholders of parent company | **-17.35** | 3.61 | **-0.22** | 0.05 | **-0.22** | 0.05 |
| Net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss | **-20.27** | -10.53 | **-0.26** | -0.14 | **-0.26** | -0.14 |

According to Article XIII of the Accounting Standards for Business Enterprises No. 34-Earnings Per Share, the profit and loss of the previous year shall be retrospectively adjusted in accordance with the provisions of the Accounting Standards for Business Enterprises No. 28-Changes in Accounting Policies and Accounting Estimates and Correction of Errors. If the restatement is retrospective, the earnings per share for each reporting period should be recalculated. For relevant items in the financial statements at the beginning of the year upon first implementation of the new financial instrument standards or the adjustment of the new revenue standards, previous year's profit and loss have not been retroactively adjusted, and it is not necessary to recalculate the earnings per share during the comparison period.

## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (I) Chairman's Report

#### Review

In 2018, the Company thoroughly implemented the national guideline and polices, actively eased the non-capital functions and assisted in the construction of "high-end, precise and advanced" industrial structure. Focusing on the strategic positioning of "to build the world's leading industrial gas and the domestic leading energy gas storage and transportation equipment manufacturing and service enterprise", the Company has made great efforts in reform and adjustment, market expansion and research and development of new products and has achieved a number of breakthroughs.

*1. Steadily develop the principal business*

In 2018, the level of results of the Company slightly dropped yet we made certain achievements and also made breakthroughs in a number of major tasks. We recorded annual operating income of RMB112.1564 million, representing a year-on-year decrease of RMB81.9327 million. In the current year, under the joint efforts of all staff of the Company, the Company worked together to promote the healthy and steady development of the principal business in spite of facing with many uncertainties and unstable factors including the complicated external environment and the downward pressure on the economy.

*2. Continuously deepen the management of cost and expense*

In 2018, with China's increasing efforts in reviewing environmental control and environmental protection supervision, major steel mills have successively reduced production and ceased the operations, resulting in high price of the steel. The Company promoted the continuous reduction in the procurement cost of principal business by ways of actively sourcing suppliers, extensively conducting bidding price comparisons, improving supplier competition mechanism and providing commission discount for cash payment. The Company now is boosting the smooth operation of the procurement platform in an open, transparent and systematic manner, which has facilitated in strengthening the prevention and control of integrity risks and improving the level of procurement business.

*3. Deeply explore the potential of capital market and promote the research and development of new products*

In 2018, the Company accelerated the optimization and reconstruction of product technology innovation procedures to comprehensively promote the industrial transformation and upgrading. During the reporting period, Beijing Tianhai Industry Co., Ltd. ("Beijing Tianhai"), a wholly-owned subsidiary of the Company, has accelerated its entry into the hydrogen energy market, which has filled in the gap of hydrogen storage tank (hereinafter referred to as "Type IV cylinder") in domestic hydrogen fuel vehicle system. The completion of research and development of hydrogen supply system for 35MPa commercial vehicles and 70MPa passenger vehicles has provided the key vehicle manufactures with supporting services. Meanwhile, in order to further optimize the capital structure, seize market opportunities, enhance the ability to sustain profitability and resist risks, the Company is planning for the non-public issuance of A shares. The Company will strictly comply with the information confidentiality and will fulfill its information disclosure obligations in strict compliance with the requirements of relevant laws and regulations.

4. ***Deepen industrial cooperation and actively deploy hydrogen energy industry chain***

In this year, the Company has accelerated its own industrial upgrading and transformation. With the goal of expanding industry chain, on 29 August 2018, the Company held the sixth extraordinary meeting of the ninth session of the Board, at which the "Resolution on Proposed Acquisition of 10.91% Equity Interest of Beijing Bolken Energy Technology Inc. by External Investment in Cash by Beijing Tianhai Industry Co., Ltd., a Subsidiary of the Company" was considered and passed. On 6 September 2018, Beijing Tianhai. and Shaanxi Aerospace Science and Technology Group Co., Ltd. entered into the Equity Transfer Agreement in respect of the equity transfer. On 22 February 2019, the industrial and commercial registration procedures for equity change was completed and the transfer of 10.91% equity interest in Beijing Bolken Energy Technology Inc. ("Bolken Energy Technology") to Beijing Tianhai was completed.

By becoming a shareholder of Bolken Energy Technology, the Company will further strengthen the deep cooperation with Bolken Energy Technology in the fields of natural gas and hydrogen energy, and will realize the synergy effects on basic business of Beijing Tianhai and Bolken Energy Technology to improve the basic business of Beijing Tianhai. The Company will make full use of the gas cylinder advantage of Beijing Tianhai and the research and development advantage of Bolken Energy Technology in the field of hydrogen energy, and learn from each other's strength to enter various industrial chain links in the field of hydrogen energy.

5. ***Optimize corporate structure and accelerate strategic implementation***

Firstly, the liquidation of Langfang Tianhai High Pressure Containers Co., Ltd. ("Langfang Tianhai") was completed and the "Announcement in relation to the Result of the Completion of Dissolution and Liquidation of Langfang Tianhai High Pressure Containers Co., Ltd." (Lin 2018-038) was disclosed on 24 October 2018. Secondly, the land resource of the Wufangqiao Plant was revitalized. Beijing Tianhai and Beijing Nengtong established Jingcheng Haitong at 9 Tianying North Road, Chaoyang District, Beijing for the purpose of jointly developing the existing Wufangqiao Plant into an integrated industrial park with garden-style high-end technical innovations, cultural innovations and business office as major functions.

## OUTLOOK

2019 is the 70th anniversary of the PRC and a key year for the "13th Five-Year Plan". The Company will continue to perform well in the four "critical missions", to resolve non-capital functions under coordination, promote the "high-end, precise and advanced" industrialization with concentrated resources, assist in serving the capital functions and deepen the reform and adjustment of various work. The specific objectives of the Company include the following:

1. **Accelerate the "high-end, precise and advanced" industrialization and improve profitability**

   The Company will strengthen its support for Beijing Tianhai, a wholly-owned subsidiary of the Company. The Company will assist in the forecast analysis and trend research of the natural gas market and develop the corresponding measures in advance to mitigate the adverse impact of market volatility on business operations so as to improve the Company's overall profitability and risk resistance ability.

2. **Further improve the Company's asset quality and optimize the resources structure**

   In 2019, the Company will accelerate the integration of internal resources, continue to focus on the development strategy of the enterprise, move emphasis on the strengths over the weaknesses, adhere to advancement and retreat, concentrate high-quality resources to competitive industries, outstanding enterprises and excellent management teams and focus on the development of segments and products with high value-added and positive prospect. Meanwhile, all the decision-making levels will strengthen their communication to improve efficiency, and decisively liquidate inefficient assets and accelerate the pace of transformation. The Company will optimize its business structure on the basis of highlighting the main business, and concentrate resources to strengthen, improve and expand the core business.

3. **Deeply analyze the cost and expenses to demand management efficiency**

   Through further improving its management and control systems, the Company will make such systems more suitable for the needs of the business development in the new era. Besides, the finance department will establish a scientific financial analysis model to make accurate judgment and control over the product price, cost structure, three types of expenses, gross profit margin and other elements, and monitor and regularly summarize and analyze the main financial indicators of each subsidiary/division. The Company will strengthen its cash flow management and take effective measures to ensure the smooth of financing channels, prevent capital risks, ensure the safety of corporate funds and reduce operational risks.

4. **Improve the construction of the risk prevention and control system and comprehensively strengthen risk prevention ability**

   On one hand, the Company will establish risk prevention and control management system with the general legal counsel and legal function department as the focal points. Through attending decision-making meetings such as the Board meetings and the general manager's office meetings, engaging long-term legal counsel and other work mechanisms, the Company will conduct rigorous and professional review on the legal documents such as rules and regulations, contracts and agreements and significant decisions revised by relevant departments, and strive to achieve the goal of general legal counsel in place, legal functions in place, dedicated legal personnel in place and achieving 100% of the three parts of review, establish a risk control network covering major fields and key business processes, such as pre-compliance review, in-process realtime monitoring, post-joint inspection, and audit, so as to keep major risks under control to prevent the occurence of major risks.

On the other hand, in order to further improve the internal control management level of the enterprise, the Company will strive to promote the establishment and improvement of internal control systems of its subsidiaries and sub-subsidiaries. The Company will establish and improve a series of legal systems, including legal affairs management, legal dispute management, contract management and other legal systems, by consolidating the problems found in audits, patrol, inspections and reviews of legal dispute cases; the Company will conduct internal control training for relevant personnel of the Company and its subsidiaries to improve awareness of internal control and risk prevention.

**5. Strengthen the introduction and cultivation of talents and achieve the optimization and upgrading of human resources**

The Company will actively recruit top-level talents, expand the channels for attracting top-level talents and explore through universities and social innovation platforms to replenish the shortage of high-level talents in the industry for the Company. The Company will step up its effort to introduce operation and management talents and technological innovation talents to support the development of the Company.

In addition to injecting new vitality, the Company will improve the comprehensive quality of the existing talents through the full promotion of the training system. By deepening and broadening the scope of training, the Company will gradually extend its experience in establishment of training system to the first-tier subsidiaries, actively explore the best talent management system and aiming to complete the establishment plan and framework.

In addition, the Company will put great effort to implement the establishment of the core talent team and expand the innovative enterprise incentive model, further promote the core talent team establishment in the principal operating entities and establish a sound selection system, cultivation system, incentive system and exit system for core talents.

**(II) Principal Operation during the Reporting Period**

In 2018, the Company was exposed to many uncertainties and unstable factors including the complicated external environment and the downward pressure on the economy, under the joint efforts of all staff of the Company, the Company worked together to overcome difficulties and solidly push forward various tasks in an orderly manner. Although the main economic indicators were still far from expectation, we made certain achievements and also made breakthroughs in a number of major tasks.

During the Reporting Period, the Company had focused on the following work:

***1. Strengthen the management of listed company and improve the governance level***

In strict compliance with the requirements of the Company Law, Securities Law, listing rules in Shanghai and Hong Kong and other rules and regulations, the Company established a sound governance mechanism, and implemented a number of measures to improve corporate governance and ensure its compliance and sustainable development.

***2. Domestic and foreign market expansion trends and measures***

(1) Domestic market: With the fluctuation in domestic fuel prices in 2018, the modified markets of CNG winding cylinders and type III cylinders grew significantly; the LNG automobile market gradually recovered in terms of sale volume since the second half of the year; the marine tank market made a substantial breakthrough and the Company achieved the highest sales volume in the export of cryogenic tanks since its establishment.

(2) International market: North American market remained the largest export market for the Company, which achieved a better growth during the year. The LNG business in European market achieved a major breakthrough, which made us a qualified supplier of LNG heavy truck OEMs in Europe after passing stringent review, and we began to supply small quantities; in view of low-cost competition in the Asian market, the Company adjusted its product positioning to make the price closer to other competitors and successfully entered into the Indonesian market.

***3. Take measures to strengthen cash flow management and guarantee fund security***

In 2018, the Company continued to strengthen the overall budget management, focus on the analysis and accounting of operational indicators such as receivables, payables and inventories, so as to achieve accurate budget and reasonable expenditure, to optimize the allocation of production, supply and marketing resources, and to exert the best performance and improve quality of operations. Meanwhile, by leveraging the OA platform, we strived to optimize the audit process, assign responsibilities to individuals and achieve the whole-process dynamic management of cost and expense, and made efforts to reduce the risk relating to cash flow and ensure the safety of funds.

***4. Exert the refinancing function of the listed platform and facilitate the development of subsidiaries***

On 20 December 2018, the Company officially launched the non-public issuance of A shares for developing the project of type IV cylinders and the research and development project of hydrogen energy products, replenishing working capital and repaying debts and other businesses, the purpose of which is mainly to improve the Company's capital and liability structure, consolidate the capital base of high-quality business development, and enhance the risk resistance and profitability.

### 5. *Deepen reform and adjustment and serve the real economy*

In 2018, the Company focused on the asset disposal, personnel placement, liquidation and cancellation work of Langfang Tianhai, and completed the industrial and commercial cancellation procedures in October 2018. The Company actively promoted the implementation of the Wufangqiao Science and Technology Innovation Industrial Park project, and through investigation and study of a number of cultural and creative parks, combined with the industrial characteristics of the factory, it has completed the environmental transformation of such park after several rounds of demonstration, and currently is in the process of attracting investment from customers. Given that the cultural and creative industry is an important support of the tertiary industry, it is of great significance to the profit growth, transformation and upgrading of the Company, the Company strictly controlled the investment projects, seized business opportunities, created a good investment environment for itself, which brought about economic benefits to the Company as early as possible.

## (III) Analysis of principal business

### 1. *Table of movement analysis on the related items in income statement and cash flow statement*

*Unit: Yuan Currency: RMB*

| Item | Current year | Corresponding period of last year | Change (%) |
|---|---|---|---|
| Operating income | 1,121,564,249.15 | 1,203,496,955.02 | -6.81 |
| Operating cost | 1,016,767,617.68 | 1,008,933,698.75 | 0.78 |
| Selling expense | 50,936,486.91 | 65,404,323.80 | -22.12 |
| Administrative expense | 112,348,840.47 | 108,674,504.08 | 3.38 |
| R&D expenses | 11,827,458.65 | 10,640,445.25 | 11.16 |
| Finance cost | 24,487,149.13 | 24,439,493.07 | 0.19 |
| Net cash flows generated from operating activities | 11,215,989.36 | -226,658,464.95 | Not applicable |
| Net cash flows generated from investing activities | -14,240,366.57 | 206,702,807.81 | -106.89 |
| Net cash flows generated from financing activities | -27,447,642.13 | -3,780,038.99 | Not applicable |
| Tax and surcharges | 10,902,884.81 | 16,443,274.58 | -33.69 |
| Assets impairment losses | 36,440,707.35 | 13,979,858.13 | 160.67 |
| Credit impairment losses | 2,017,334.49 | 13,502,266.30 | -85.06 |
| Other earnings | 719,631.91 | – | |
| Income from disposal of assets | 8,596,214.61 | 66,140,181.07 | -87.00 |
| Non-operating income | 13,014,749.97 | 48,430,029.67 | -73.13 |
| Non-operating expenses | 445,593.90 | 19,826,854.16 | -97.75 |
| Other net comprehensive income after tax | 2,252,331.17 | -2,424,859.82 | Not applicable |

### 2. *Analysis of income and cost*

During the Reporting Period, total profit of the Company decreased by RMB157,191,100 over the same period last year. Operating income decreased by RMB81,932,700 over the same period last year; operating cost increased by RMB7,833,900 over the same period last year; and operating profit decreased by RMB141,157,100 year-on-year.

The decrease in operating income and decrease in product profitability were mainly due to the LNG orders from automobile manufacturers decreased which led to the corresponding decrease in income of the Company. Fixed charges cannot be diluted as a result of the decreased production volume, which led to the increase in production unit costs. In addition, the increase in prices of raw materials caused the increase in production costs and decrease in gross profit margin. The operating profit decreased year-on-year.

*(1) Principal business by industry, by product and by region*

*Unit: Yuan Currency: RMB*

**Principal businesses by industry**

| By industry | Operating income | Operating cost | Gross profit margin (%) | Increase/ decrease in operating income over last year (%) | Increase/ decrease in operating cost over last year (%) | Increase/decrease in gross profit margin over last year (%) |
|---|---|---|---|---|---|---|
| Seamless steel gas cylinders | 451,822,363.07 | 352,633,205.81 | 21.95 | -7.39 | -12.46 | Increase of 4.53 percentage points |
| Winding cylinders | 200,284,106.42 | 192,212,437.19 | 4.03 | 0.51 | 9.31 | Decrease of 7.73 percentage points |
| Cryogenic gas cylinders | 116,136,013.97 | 121,243,981.48 | -4.40 | -13.34 | 1.95 | Decrease of 15.65 percentage points |
| Cryogenic devices for storage and transportation | 107,310,711.54 | 123,168,948.78 | -14.78 | -53.00 | -29.52 | Decrease of 38.24 percentage points |
| Others | 188,766,368.53 | 181,591,392.87 | 3.80 | 61.30 | 66.45 | Decrease of 2.98 percentage points |
| Total | 1,064,319,563.53 | 970,849,966.13 | 8.78 | -8.76 | -1.08 | Decrease of 7.08 percentage points |

Principal business by region

| By region | Operating income | Operating cost | Gross profit margin (%) | Increase/ decrease in operating income over last year (%) | Increase/ decrease in operating cost over last year (%) | Increase/decrease in gross profit margin over last year (%) |
|---|---|---|---|---|---|---|
| Domestic | 648,135,555.43 | 618,197,096.83 | 4.62 | -19.65 | -6.27 | Decrease of 13.61 percentage points |
| Overseas | 416,184,008.10 | 352,652,869.30 | 15.27 | 15.65 | 9.56 | Increase of 4.71 percentage points |
| Total | 1,064,319,563.53 | 970,849,966.13 | 8.78 | -8.76 | -1.08 | Decrease of 7.08 percentage points |

Description of principal business by industry, by product and by region

The operating income of China decreased by 19.65% over the same period last year. Under the impact of the overall slowdown in LNG market demand, the number of orders, especially the significant drops for cylinders and tanks over the same period last year which led to excess production. In terms of international market, North American market remained the largest export market for the Company, which achieved a better growth during the year. The European market was affected by the increased tariffs of the US on European countries and under the impact of the economic downturn led by the frequent European political events, the performance slightly declined. The emerging markets of "One Belt, One Road" increased steadily.

(2) *Analysis of production and sales volume*

| Principal product | Production volume | Sales volume | Inventory volume | Increase/ decrease in production volume over last year (%) | Increase/ decrease in sales volume over last year (%) | Increase/ decrease in inventory volume over last year (%) |
|---|---|---|---|---|---|---|
| Seamless steel gas cylinders | 889,752 | 953,551 | 67,311 | 0.7% | 13.3% | -39.8% |
| Winding cylinders | 97,512.0 | 110,234 | 5,832 | 1.6% | 16.8% | 43.0% |
| Cryogenic tanks | 370 | 306 | 112 | -46.5% | -56.3% | 239.4% |
| Cryogenic gas cylinders | 10,131 | 8,059 | 1,024 | -26.7% | -29.8% | -6.5% |
| Type III cylinders | 1,887 | 1,924 | 63 | -10.0% | -7.6% | -55.3% |
| Filling stations | 44 | 57 | 4 | -27.9% | -5.0% | 300.0% |
| Carbon fiber full-winding compound gas cylinders | 60,499 | 62,566 | 3,497 | -1.5% | 3.5% | -37.8% |

Description of production and sales volume

The production volume in 2018 was 1.15 million, representing decrease of 10.3% over the same period last year. The sales volume in 2018 was 1.21 million, representing decrease of 5.14% over the same period last year. Decreases in both the production and sales volume were due the shortage of orders in the first three quarters. The sales capacity of our traditional industrial fire protection products needed an upgrade as soon as possible. The capacity of expanding customers base of the key natural gas products still needed to be improved. The marketing pattern of hydrogen products required further innovation.

*(3) Cost analysis*

*Unit: Yuan Currency: RMB*

**By product**

| By product | Component of cost | Current period | Proportion over total cost for the current period (%) | Corresponding period of last year | Proportion over total cost for the corresponding period of last year (%) | Change in amount over last year (%) | Scenario Note |
|---|---|---|---|---|---|---|---|
| Seamless steel gas cylinders | Materials | 218,193,574.95 | 61.88 | 226,665,178.84 | 56.27 | -3.74 | |
| | Labour cost | 26,985,489.39 | 7.65 | 33,241,307.15 | 8.25 | -18.82 | |
| | Manufacturing cost | 107,454,141.47 | 30.47 | 142,927,408.14 | 35.48 | -24.82 | |
| | Total | 352,633,205.81 | 100.00 | 402,833,894.13 | 100.00 | -12.46 | |
| Winding cylinders | Materials | 134,174,134.85 | 69.81 | 111,528,001.10 | 63.43 | 20.31 | |
| | Labour cost | 10,093,229.99 | 5.25 | 16,183,716.96 | 9.20 | -37.63 | |
| | Manufacturing cost | 47,945,072.34 | 24.94 | 48,128,933.69 | 27.37 | -0.38 | |
| | Total | 192,212,437.19 | 100.00 | 175,840,651.75 | 100.00 | 9.31 | |
| Cryogenic gas cylinders | Materials | 96,467,202.86 | 79.56 | 89,217,812.58 | 75.02 | 8.13 | |
| | Labour cost | 10,018,898.40 | 8.26 | 10,113,057.49 | 8.50 | -0.93 | |
| | Manufacturing cost | 14,757,880.23 | 12.17 | 19,597,799.69 | 16.48 | -24.70 | |
| | Total | 121,243,981.48 | 100.00 | 118,928,669.76 | 100.00 | 1.95 | |
| Cryogenic devices for storage and transportation | Materials | 75,015,933.28 | 60.90 | 125,066,562.39 | 71.57 | -40.02 | |
| | Labour cost | 14,467,676.15 | 11.75 | 20,239,499.79 | 11.58 | -28.52 | |
| | Manufacturing cost | 33,685,339.35 | 27.35 | 29,440,582.42 | 16.85 | 14.42 | |
| | Total | 123,168,948.78 | 100.00 | 174,746,644.61 | 100.00 | -29.52 | |

Other information on cost analysis

In 2018, under the situation of major steel manufacturers reducing production and closing down, the Company endeavoured to reduce procurement costs through various measures. The scope of the purchasing platform in an open, transparent and systematic manner was expanded. The procurement materials of 6 subsidiaries and 2 business departments were included in the scope of monitoring, which facilitated in strengthening the prevention and control of integrity risks and improving the level of procurement business.

*(4) Information on major customers and major suppliers*

Sales to five largest customers amounted to RMB279,043,300, representing 24.87% of total annual sales, of which sales to related parties were RMB0, representing 0% of total annual sales.

Procurement from five largest suppliers amounted to RMB322,230,700, representing 43.01% of total annual procurement cost, of which procurement from related parties were RMB107,672,800, representing 14.37% of total annual procurement cost.

***3. Expenses***

*Unit: Yuan Currency: RMB*

| **Item** | **Current year** | **Corresponding period of last year** | **Change (%)** |
|---|---|---|---|
| Selling expense | 50,936,486.91 | 65,404,323.80 | -22.12 |
| Administrative expense | 112,348,840.47 | 108,674,504.08 | 3.38 |
| Finance cost | 24,487,149.13 | 24,439,493.07 | 0.19 |

***4. Research and development expenditure***

**Breakdown of research and development expenditure**

*Unit: Yuan Currency: RMB*

| | |
|---|---|
| Research and development expenditure recorded in expenses during the period | 11,827,458.65 |
| Research and development expenditure capitalised during the period | – |
| Total research and development expenditure | 11,827,458.65 |
| Percentage of total research and development expenditure over operating income (%) | 1.05 |
| Number of research and development staff | 68 |
| Number of research and development staff over total number of staff (%) | 4.32 |
| Percentage of research and development expenditure capitalised (%) | – |

**Description**

During the Reporting Period, the Company continued to devote to the development of Type III cylinders and combined with the Ministry of Science and Technology and the Beijing Municipal Science and Technology Commission to carry out a series of new product development including 70MPa series, 35MPa single-port large-volume series, 20MPa steel liner carbon fiber full-winding for vehicles and passenger vehicles. The development of certain specifications series products was progressing smoothly and the corresponding test and certification were gradually completed. In the field of natural gas applications, the Company will continue to develop lightweight CNG Type III cylinders for transportation vehicles and large-volume LNG welding insulated gas cylinders, LNG tank containers for transportation and storage and other products. More than 100 development and certification of various types of seamless steel gas cylinders, accumulator shells, SCBA respirator cylinders, cryogenic gas cylinders, cryogenic tanks and other conventional products were completed.

### 5. *Cash flows*

*Unit: Yuan Currency: RMB*

| Item | Current year | Corresponding period of last year | Change (%) |
|---|---|---|---|
| Cash inflows from operating activities | 875,446,604.95 | 806,053,274.10 | 8.61 |
| Cash outflows from operating activities | 864,230,615.59 | 1,032,711,739.05 | -16.31 |
| Net cash flows generated from operating activities | 11,215,989.36 | -226,658,464.95 | Not Applicable |
| Cash inflows from investing activities | 29,084,740.50 | 230,024,000.00 | -87.36 |
| Cash outflows from investing activities | 43,325,107.07 | 23,321,192.19 | 85.78 |
| Net cash flows generated from investing activities | -14,240,366.57 | 206,702,807.81 | -106.89 |
| Cash inflows from financing activities | 510,775,808.30 | 384,878,320.00 | 32.71 |
| Cash outflows from financing activities | 538,223,450.43 | 388,658,358.99 | 38.48 |
| Net cash flows generated from financing activities | -27,447,642.13 | -3,780,038.99 | Not Applicable |

Description:

1. Net cash flows from operating activities increased by RMB237,874,500 as compared to the corresponding period of last year, mainly due to the increase in net cash flows from operating activities during the period, as the increase in cash inflows from operating activities was larger than the increase in cash outflows from operating activities during the period;

2. Net cash flows generated from investing activities decreased by RMB220,943,200 as compared to the corresponding period of last year, mainly due to the disposal of properties of Langfang Tianhai, a subsidiary of Beijing Tianhai, during the previous period;

3. Net cash flows generated from financing activities decreased by RMB23,667,600 as compared to the corresponding period of last year, mainly because the net repayment of borrowings made during the period was higher than that during the corresponding period of last year.

## (IV) Description of material change in profit due to non-principal business

Not applicable

## (V) Analysis of assets and liabilities

### *1. Assets and liabilities*

*Unit: Yuan Currency: RMB*

| Name of item | Balance at the end of the current period | Balance at the end of the current period over total assets (%) | Balance at the end of the previous period | Balance at the end of the previous period over total assets (%) | Change in amount over the previous period (%) | Description |
|---|---|---|---|---|---|---|
| Notes receivable and accounts receivable | 246,254,665.67 | 13.87 | 382,745,366.93 | 19.88 | -35.66 | Mainly due to the decrease in accounts receivable |
| Accounts receivable | 223,093,594.17 | 12.57 | 354,933,043.81 | 18.44 | -37.14 | Mainly due to the stronger control on accounts receivable by the Company and the recovery of long-term receivable |
| Other receivables | 20,470,775.75 | 1.15 | 12,891,300.46 | 0.67 | 58.8 | Mainly due to the increase in the amount of export tax rebate |

| Name of item | Balance at the end of the current period | Balance at the end of the current period over total assets (%) | Balance at the end of the previous period | Balance at the end of the previous period over total assets (%) | Change in amount over the previous period (%) | Description |
|---|---|---|---|---|---|---|
| Dividends receivable | 6,075,169.12 | 0.34 | 8,756,869.09 | 0.45 | -30.62 | Mainly due to the partial payment of dividend of joint ventures |
| Long-term equity investments | 124,898,949.39 | 7.03 | 71,694,482.47 | 3.72 | 74.21 | Mainly due to the investments on the two assoicates, Jingcheng Haitong and Bolken Energy by Beijing Tianhai, a subsidiary of the Company during the period |
| Investment properties | 28,723,902.58 | 1.62 | | | | Mainly due to the transfer of the Plant at North Road, Chaoyang District, Beijing to investment properties Energy by Beijing Tianhai, a subsidiary of the Company during the period |
| Construction in progress | 11,653,942.58 | 0.66 | 68,468,558.01 | 3.56 | -82.98 | Mainly due to the completion of construction in progress of Kuancheng Tianhai, a subsidiary of the Company during the period |
| Goodwill | | | 3,679,654.40 | 0.19 | -100.00 | Mainly due to the impairment test of goodwill and provided for impairment of goodwill by Beijing Tianhai, a subsidiary of the Company during the period |
| Employee benefits payable | 22,929,823.79 | 1.29 | 36,862,542.56 | 1.91 | -37.8 | Mainly due to the decrease in employee pay payable at the end of the year |
| Interest payable | 72,000.00 | 0.00 | 446,534.71 | 0.02 | -83.88 | Mainly due to the decrease in interest payable at the end of the period |
| Non-current liabilities due within one year | 18,000,000.00 | 1.01 | 11,000,000.00 | 0.57 | 63.64 | Mainly due to the increase in long-term borrowings due within one year of Kuancheng Tianhai, a subsidiary of the Company |
| Other current liabilities | 286,545.11 | 0.02 | 5,380,893.08 | 0.28 | -94.67 | Mainly due to the decrease in pending changeover VAT on sales |
| Long-term borrowings | 11,000,000.00 | 0.62 | 5,060,000.00 | 0.26 | 117.39 | Mainly due to the increase in long-term borrowings of Kuancheng Tianhai, a subsidiary of the Company |
| Long-term payables | 143,100,000.00 | 8.06 | 103,900,000.00 | 5.40 | 37.73 | Mainly due to the consideration of the subscribed shares in Jingcheng Haitong of Beijing Tianhai, a subsidiary of the Company |

| Name of item | Balance at the end of the current period | Balance at the end of the current period over total assets (%) | Balance at the end of the previous period | Balance at the end of the previous period over total assets (%) | Change in amount over the previous period (%) | Description |
|---|---|---|---|---|---|---|
| Other comprehensive income | 2,308,000.57 | 0.13 | 1,154,074.87 | 0.06 | 99.99 | Mainly due to the impact of exchange rate changes |

2. ***Major restricted assets at the end of the reporting period***

*Unit: Yuan Currency: RMB*

| Item | Book Value at the end of year | Reasons for restriction |
|---|---|---|
| Monetary funds | 14,500,000.00 | Bill margin |
| Fixed assets | 250,944,555.51 | Pledged to secure bank borrowings |
| Intangible assets | 68,854,443.19 | Pledged to secure bank borrowings |
| **Total** | 334,298,998.70 | — |

3. ***Other description***

Not applicable

## (VI) Analysis of industry operation

### *(1) Industrial Gas Industry*

The global industrial gas market has presented a steady growth momentum in recent years. The growth rate of the industrial gas industry is 2.0 to 2.5 times that of global GDP and in 2018, the growth rate of global industrial gas was approximately 8%, representing a steady expansion of the market scale. The structural adjustment of China's high-end manufacturing industry and the development of strategic emerging industries will greatly expand the application field of industrial gas, and the demand for industrial gas will grow continuously. In recent years, both domestic and international industrial gas industries have developed rapidly, and the market scale has been continuously expanding. However, the industrial gas industry also faces serious polarization problems with the world's top four manufacturers accounting for more than 50% of the market size. At present, the development of global gas industry is basically monopolized by several major companies from the United States, Germany, France, Japan, and other countries with a trend of continuously expanding to the developing countries. The seamless steel gas cylinder industry is now facing fierce competition as China now has an annual capacity of more than 5 million units, which is much higher than the annual demand of approximately 3.7 million units.

### *(2) Liquefied Natural Gas Industry*

According to the Three-Year Action Plan on Defending the Blue Sky (《打贏藍天保衛戰三年行動計劃》) issued by the State Council, diesel vehicles will be gradually withdrawn from cities. The Opinions on Accelerating the Promotion of Natural Gas Utilization (《加快推進天然氣利用的意見》) issued by the State pointed out that: "The natural gas vehicles shall focus on the development of bus rental, long distance heavy trucks, as well as sanitation, field and other operating vehicles, and the promotion of heavy-duty natural gas vehicles (LNG) to replace heavy-duty diesel vehicles shall be accelerated. The gasified vehicles are expected to reach approximately 10 million by 2020." The LNG vehicles will undoubtedly embrace new development opportunities, but the important thing is how to timely solve the LNG supply and gas price fluctuation problems.

With the continuous growth in the demand of domestic natural gas, the contradiction between supply and demand continues to increase. At present, the operation gas volume of gas storage in China is only 3% of the national natural gas consumption, which is significantly lower than the international average level of 12-15%. According to the Opinion on Expediting the Construction of Gas Storage Facilities and Improving the Market Mechanism of Auxiliary Services for Peak-load Shifting of Gas Storage (《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》) issued by the State, the upstream gas supply enterprises, urban gas enterprises and the local government at or above the county level shall possess a gas storage capacity equivalent to at least 10% of its annual sales volume, a gas storage capacity 5% of its annual sales volume and a gas storage capacity of ensuring local 3-day demand by 2020, respectively. Thus, China's LNG tank construction market is expected to exceed RMB180 billion in the next three years and there will be a huge increase in demand for the relevant LNG tank equipment.

Approximately 40% of China's natural gas demand relies on import as the domestic production of natural gas lags behind the demand growth. In the future, with the increase in demand for imported natural gas, it will drive the development of LNG shipping business to provide opportunities for LNG tank container transportation market.

A series of national policies are favorable to the overall improvement of the development environment of natural gas, and the specific requirements for implementing such policies will promote the market demand for the main products of the Company such as LNG gas cylinder, LNG gasification station, LNG tank container and are beneficial to the recovery and growth of the Company's main business.

### *(3) Hydrogen and Fuel Cell Industry*

At present, the useful life of fuel cells for passenger vehicles has exceeded 5,000 hours, and the useful life of fuel cells for commercial vehicles has exceeded 10,000 hours in China, which basically meets the operation conditions of vehicles; the engine power density of hydrogen fuel cell vehicles has reached the same level with that of traditional internal combustion engines; based on 70MPa hydrogen storage technology, the driving range of hydrogen fuel cell vehicles has reached 750 kilometers; the lowest start-up temperature of the hydrogen fuel cells has reached -30°C, and the overall application range of such vehicles has basically reached the same level with that of the traditional vehicles. The hydrogen energy industry in China has initially possessed industrialization conditions. Local governments and enterprises have actively explored the development of hydrogen energy industry to initially form an integrated industrial chain covering preparation, storage, transportation and application, and have formed the Pearl River Delta, Yangtze River Delta, Beijing-Tianjin-Hebei and other major hydrogen energy industrial clusters centering on Guangzhou, Shanghai and Beijing, and gradually radiated to surrounding areas. By leveraging on the local road and railway network traffic advantages, the Pearl River Delta region in Guangdong has realized the export transportation of fuel cell vehicles which represented the application terminal of hydrogen energy. Currently, the Yunfu Hydrogen Energy Industrial Park has reached an annual production capacity of 5,000 fuel cell vehicles and 20,000 fuel cell stacks, and has basically completed the layout of industrial chain. Nanhai District in Foshan City has currently created "Fairy Lake & Hydrogen Valley" with the effect of industrial cluster emerging. The Yangtze River Delta region, with Shanghai as the center, is currently promoting the construction of the "hydrogen economy demonstrative city" in Rugao, Jiangsu province and the "hydrogen energy town" in Taizhou, Zhejiang province. Liu'an city in Anhui province is committed to independent research and development in key technologies such as reactor design, production, system design, integration and control, which are close to the world's advanced level. Zhangjiakou in Hebei Province is, by taking the opportunity of serving the 2022 Winter Olympic Committee, in the process of building a hydrogen industry demonstrative base in northern China. The construction of domestic hydrogen energy infrastructure is also accelerating, and so far, 15 hydrogen refueling stations have been in operation and more than 20 hydrogen refueling stations are under construction. The Ministry of Industry and Information Technology has released the List of Recommended Models for Promotion and Application of New Energy Vehicles (《新能源汽車推廣應用推薦車型目錄》), which shows that more than 100 vehicle models are in the list of recommended models for hydrogen fuel cell vehicles in 2018 and the growth space of hydrogen fuel cell light trucks will be faster than that of hydrogen fuel cell buses.

## (VII) Analysis of investments

### *1. General analysis of external equity investments*

*(1) Material equity investments*

1. According to the strategic target of "Develop Wufangqiao land by way of cultural innovation or property development" in the 13th Five-Year Strategic Planning of Beijing Tianhai Industry Co., Ltd., Beijing Tianhai Industry Co., Ltd. and Beijing Nengtong Lease Company established a joint venture, Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. on 30 August 2018 in Chaoyang District, Beijing. The registered capital was RMB80 million, which was contributed by the parties via cash. Beijing Tianhai Industry Co., Ltd. contributed RMB39.2 million and holds 49% equity interest in the joint venture, and Beijing Nengtong Lease Company contributed RMB40.80 million and holds 51% equity interest in the joint venture. Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. leased the Wufangqiao Plant of Beijing Tianhai and developed it into an integrated industrial park with gardenstyle high-end technical innovations, cultural innovations and business office as major functions.

2. According to the strategic positioning of "Accelerate the planning of hydrogen industry, introduce core techniques, seize market opportunities" of Beijing Tianhai Industry Co., Ltd., Beijing Tianhai Industry Co., Ltd. completed the equity interest transfer procedures for the acquisition of 10.91% equity interest in Beijing Bolken Energy Technology Inc. held by Shaanxi Aerospace Science and Technology Group Co., Ltd. on 8 November 2018. By becoming a shareholder of Beijing Bolken Energy Technology Inc., the Company can further enhance its strategic partnership with Beijing Bolken Energy Technology Inc. and will carry out in depth cooperation with it in the natural gas sector and hydrogen sector.

*(2) Material non-equity investments*

Not applicable

*(3) Financial assets measured at fair value*

Not applicable

## (VIII) Material disposal of assets and equity interest

The transfer of 51% equity interest in Shandong Tianhai High Pressure Containers Co., Ltd. held by Beijing Tianha Industry Co., Ltd. through public tender.

On 25 December 2018, the Company disclosed the "Indicative Announcement on Pre-Listing of Transferring Equity Interest of a Subsidiary". On 16 January 2019, the Company disclosed the "Announcement of Disposal of the Equity Interests in subsidiary by public tender". On 21 February 2019, the Company disclosed the "Announcement in relation to the Approval on the Asset Valuation Report of Shandong Tianhai By Beijing SASAC". On 7 March 2019, 51% equity interests in Shandong Tianhai High Pressure Containers Co., Ltd. was transferred on China Beijing Equity Exchange Co., Ltd. by public tender. The base price of transfer consideration was RMB61,409,200. The Company will disclose the progress in strict compliance with the requirements of the listing rules of Shanghai and Hong Kong.

## (IX) Analysis of major subsidiaries and associates

| Company name | Business nature | Principal products or services | Registered capital | Total assets | Net assets | Net profit |
|---|---|---|---|---|---|---|
| Beijing Tianhai Industry Co. Ltd. | Production | Production and sale of gas cylinders accumulator shells, pressure vessels and auxiliary equipment, etc. | US$ 61,401,800 | 1,766,706,066.89 | 491,148,876.94 | -138,132,761.35 |
| Jingcheng Holding (Hong Kong) Company Limited | Trading and investment | Import and export trade, investment holding and consultancy services, etc. | HK$ 1,000 | 164,038,489.15 | 158,850,841.90 | 250,801.34 |

## (X) Structured entities under the control of the Company

Not applicable

## (XI) Industry structure and trends

### 1. *Competition within the industry*

Many private capital, listed companies and upstream raw material manufacturers entered the gas storage and transportation industry in recent years. In particular, with frenzied investments in the natural gas market in the past few years, the competition landscape was deteriorating. China currently has 33 CNG cylinder manufactures with a total annual capacity of over 2 million units and more than 80 LNG cylinder manufactures with a total annual capacity of nearly 500,000 units. There has been fierce industry competition as the production capacity is much higher than the demand. However, the period of economic downturn is the key period for reshaping the industry landscape and for enterprises to take chance in attaining the leading position by improving competitiveness. The industrial gas industry remained depressed and the LNG industry continued its downward trend due to low oil price. However, the LNG industry still has a promising prospect as China faces pressure relating to the environment protection and the treatment of haze. China's determination on adjusting the energy structure is steadfast. As the plan for natural gas application is gradually implemented, there is sufficient supply of natural gas in the PRC. Non-piped natural gas will further develop, and many private enterprises in several provinces spontaneously invest in the LNG industry.

**2. *Development trend***

*(1)* Cylinder products

As it's unlikely to change the competitive landscape of standardised industrial gas cylinder, the demand for highly pure cylinders will gradually increase. In 2019, global demand for industrial gas cylinders will not be much higher than 2018, and domestic industrial gas cylinders will still be unable to escape from the situation of excessive production capacity and competition in low prices. With the adjustment in the national industrial structure, energy saving and environmental protection, electronic information and renewable energy industries experienced rapid development, leading to the significant increase in the demand for special gas and also in the demand for home-made highly pure gas cylinders.

The market demand for vehicle cylinders will hopefully increase. With the rally in international oil price, the economic performance of vehicle LGN was demonstrated once again. According to national policies on the requirements of vehicle weight reduction and along with the state's natural gas development policies consecutively taking effect, these factors may help to revitalize the natural gas vehicle industry. We will increase our efforts in maintaining and expanding OEM customers and establish a comprehensive service chain combining sales, technology with quality control to meet the increasing market demand for service. However, there are relatively more liquidity problems for automobile manufacturers, so the market needs to be developed moderately.

*(2)* Cryogenic products

China's industrial restructuring and changes in methods of industrial gas transportation and storage to low-temperature liquids will bring continuous increase in market demand for cryogenic cylinders and cryogenic tanks. In the long term, the trend of implementing environmental control globally, China's energy-saving and emission reduction and increasing the percentage of clean energy consumption remains unchanged. In the future, natural gas as a clean energy will still be applied in transportation sector such as LNG heavy trucks and vessels. Cryogenic tanks industry is exposed to favorable market opportunities. Large cryogenic tanks are required for receiving stations, peak regulation stations, vessels, gas refueling stations and the construction of factory buildings. Meanwhile, along with the adjustment of internal mechanism of major domestic energy companies, projects previously suspended are gradually activated. The market will gradually recover in the future. The continuous increase in the demand for peak regulating infrastructures will also stimulate the increase of demand for large LNG storage tanks.

*(3)* Station-related products

With a slowdown in economic growth and the shift from rapid growth to high quality, filling station enterprises are cautious about investment and slow down the market development. In addition, the cost recovery period of LNG filling stations currently continued to extend, noticeably reducing the investment and slowing down the development of LNG filling stations. It will stick to implementing policies of accelerating popularization of natural gas, seize the opportunities of smog treating and promoting the "coal to gas" policy to strengthen the corporation among gas companies in all regions as well as develop bottle and integrated gasification stations to capture market share by LNG gasification skids, keeping the proper development of filling stations business.

*(4)* Tank container products

Undoubtedly the potential for the development of tank container industry is huge in the coming years. Its flexibility in transportation methods can satisfy the large demand of LNG imports market, help the upgrade of global LNG delivery methods and provide a new approach to quickly allocate LNG resources, and therefore a broad market prospect. To actively develop long-term corporation with customers is the main focus in the future.

*(5)* Hydrogen energy products

China has been paying high attention to the development of hydrogen power industry in recent years. National policies including the 13th Five-Year National Science and Technology Innovation Plan（「十三五」國家科技創新規劃）, "Made in China 2025" initiative（中國製造2025）and the "13th Five-Year Plan for Projects of Science and Technology Innovation for the Transportation"（「十三五」交通領域科技創新專項規劃）classified the hydrogen energy and fuel cell technology as a priority and list the fuel cell vehicles as a supporting focus, which expressly specified that the demonstration use of 5,000 public buses in certain areas shall be achieved and 100 hydrogen stations shall be set up in 2020. By 2025, there will be 5 million buses in use and 300 hydrogen stations constructed. By 2030, there will be millions of fuel cell cars in commercial operation and the number of hydrogen stations reaches to 1,000. Currently, there are five hydrogen energy demonstration cities, including Beijing and Shanghai, and nine hydrogen stations in China. Some automobile manufacturers such as SAIC (上汽), YuTong (宇通), Foton (福田) and DongFeng (東風) have obtained the announced fuel cell vehicles models. Several provinces have proposed hydrogen energy demonstration projects. In Guangdong, the hydrogen filling stations jointly established by PetroChina and Sinopec has commenced construction. It is expected that the hydrogen power industry shall make breakthroughs in the next three to five years. By virtue of its advantage in producing gas storage and transportation equipment accumulated over years, we will seize the opportunities to develop Type III and IV cylinders and systems of hydrogen supply and to gain dominance in the area of hydrogen equipment manufacturing.

## (XII) Development strategies of the Company

Strategic positioning: To build the world's leading industrial gas and the domestic leading energy gas storage and transportation equipment manufacturing and service enterprise.

Overall strategy:

1. Traditional energy equipment (industrial gas): Strengthening the leading position of traditional product market such as industrial gas cylinders, maintaining proper scale and enhancing profitability to ensure profitability;

2. Clean energy equipment (natural gas): Focusing on the development of the leading natural gas storage and transportation equipment and enhancing the market shares of tank products and LNG cylinders;

3. New energy equipment (hydrogen): Accelerating the planning of hydrogen industry, introducing core techniques and seizing market opportunities as well as the launch of Type IV cylinders.

## (XIII) Operating plan

2019 represents a critical year for implementing the Company's "13th Five-Year" strategy. Under the current socio-economic environment clouded by both international and domestic problems, the Company must understand the precise trend of socio-economic development, enhance the awareness to risks and grasp and make use of the important strategic opportunities of China's development. Based on various requirements of the full and rigorous exercise of Party self-governance, the Company will focus its effort on turning loss into profit with strong determination and steady progress. By targeting the two issues of innovation and market and accomplish different key mission with continuous effort and high quality, a solid foundation of fully completing the target missions in 2019 and implementing the "13th Five-Year" strategy was laid. The Company will adopt the adjusted strategy as guidance and actively implementing different strategic initiatives. By enhancing the precision marketing of major customers, accelerating the completion of research and development of strategic new products, improving the corporate management capabilities and avoiding corporate operational risks, the achievement of all strategic objectives can be ensured.

## (XIV) Potential risks

### *(1) Risks from the constant expansion of production capacity in the industry to the operating results*

After a decade with rapid growth in the market scale of the domestic industrial gas industry, the growth rate slowed down and entered into a steady growth period. The market demand for gas cylinder will experience a slower growth following the growth trend of industrial gas. Currently, the domestic annual production capacity of seamless steel gas cylinder industry exceeds 5 million units, which is a lot more than the demand of 3.70 million units. The manufacturers of natural gas storage and transportation equipment continued to expand the production scale which created serious excess production capacity. There are over 60 enterprises with LNG cylinder production qualifications in China with total annual capacity of nearly 400,000 units which resulted in a fierce competition in the industry. As such, the Company will face strong pressure in its operation.

### *(2) Shrink of future LNG passenger vehicles market due to increase in gas price and the development in pure electricity and fuel cell technology*

Due to the decrease in fuel oil price and the significant increase in natural gas price in China, the economic advantages of natural gas vehicles are no longer obvious. In addition, as China's economy enters the new normal state and its economic growth slows down, so does the growth of the automobile industry, resulting in the decrease in the demand for operating vehicles. Affected by the electrical and hydrogen energy vehicles, the passenger vehicles is a "sunset industry". With the advancement of technology and the government's development and investment in fuel cell energy vehicles, short-haul vehicles such as buses and other passenger vehicles will mainly use pure electricity and fuel cell energy in the future, which will cause the demand for LNG in the passenger vehicles sector to shrink in the future.

The gas price is the key as to whether the NGV industry to prosper or languish. The seasonal gas shortage caused large fluctuations in gas prices, which is one of the main challenges faced by the NGV industry.

## (XV) Analysis of financial position and operating results of the Company during the Reporting Period

### *1 Analysis of operating results*

During the Reporting Period, total profit of the Company decreased by RMB157,191,100 over the same period last year. Operating income decreased by RMB81,932,700 over the same period last year; operating cost increased by RMB7,833,900 over the same period last year; and operating profit decreased by RMB141,157,100 year-on-year.

The decrease in operating income and increase in product profitability were mainly due to the orders from automobile manufacturers decreased which led to the corresponding decrease in income of the Company. Fixed charges cannot be diluted as a result of the decreased production volume, which led to the increase in production unit costs. In addition, the prices of raw materials increase caused the increase in production costs and decrease gross profit margin. The operating profit decreased year-on-year.

During the Reporting Period, expenses decreased by RMB9,558,800 over the same period last year, of which, selling expenses decreased by RMB14,467,800, mainly due to the adoption of acceptance and pick up of products in the plants by certain major customers for procurement of products, meanwhile, the Company and logistics companies chose to charter vehicles to deduce waste of transporting capacity and effectively reduced the transportation costs. The after-sales service fees are reduced due to product quality improvement. The administrative expense increased by RMB3,674,300, mainly due to the intermediary fee paid for the dissolution and liquidation of Langfang Tianhai, a subsidiary of the Company and the increase in legal fee paid by BTIC America Corporation. The R&D expenses increased by RMB1,187,000, mainly due to the increase in development fee, material fee and inspection fee for new types of gas cylinders. The finance cost remained stable.

During the Reporting Period, impairment loss on assets increased by RMB22,460,800 over the same period last year. 1. Provision for inventory impairment loss increased: The gas refueling stations project stagnated due to the strong specificity of its products and is affected by business transformation. The net realizable value of certain raw materials and inventories decreased. 2. Provision for impairment of fixed assets: During the year, fixed assets were not impaired after tests. 3. During the year, goodwill was impaired for RMB3,679,700 after tests. The goodwill of BTIC America Corporation was tested. Based on the assessment on the calculation of the discount rate and cash flow forecasting method, the provision for impairment of goodwill was RMB3,679,700. The investment income during the Reporting Period increased by RMB1,310,600, mainly due to the increase in profits of associates.

The credit impairment losses decreased by RMB11,484,900 during the Reporting Period, mainly due to the decrease in long-term receivables.

Gains from disposal of assets decreased by RMB57,544,000 during the Reporting Period, mainly due to the income from the disposal of properties of Langfang Tianhai, a subsidiary of the Company, during the same period last year.

Non-operating income decreased by RMB35,415,300 during the Reporting Period. In particular, the debt restructuring gain resulted from the debt restructuring agreement with the suppliers decreased by RMB5,934,900 as compared to the previous year. Government subsidies decreased by RMB13,183,300 year-on-year, mainly due to the receipt of state-owned enterprises' remission and remediation incentive subsidies of RMB15,839,200 and Langfang Tianhai received a refund of RMB14,285,700 during the same period last year.

During the Reporting Period, the non-operating expenses decreased by RMB19,381,300, mainly due to the inclusion of personnel placement expenses of Langfang Tianhai during the same period last year.

## 2 *Analysis of assets, liabilities and shareholders' equity*

As at the end of the Reporting Period, total assets decreased from the beginning of the year while total liabilities increased from the beginning of the year.

As at the end of the Reporting Period, total assets were RMB1,775,485,800, representing an decrease of 7.77% as compared with the beginning of the year, of which: monetary funds decreased by 21.95%, accounts receivable decreased by 37.14%, notes receivable decreased by 16.72%, and inventories decreased by 16.32%.

Total liabilities were RMB912,216,900, representing an increase of 1.28% as compared with the beginning of the year, of which long-term borrowings increased by RMB12,940,000, or 255.73% and long-term payables increased by RMB39,200,000, or 37.73%.

Total shareholders' equity amounted to RMB863,268,900, representing an decrease of RMB161,073,400 or 15.72% as compared with the beginning of the year, mainly due to the decrease in net profit for the year.

## 3 *Analysis of financial position*

By implementing its prudent financial policies, the Company established a strict risk control system for investment, financing and cash management to maintain a sound capital structure and solid financing channels. The Company kept its loan scale under strict control such that it can satisfy the capital need of operating activities while minimizing its finance cost and preventing against financial risks in a timely manner by fully utilizing financial instruments, for purposes of achieving sustainable development of the Company and maximizing its shareholders' value.

Liquidity and capital structure

| | **2018** | 2017 |
|---|---|---|
| (1) Gearing ratio | 51.38% | 46.79% |
| (2) Quick ratio | 60.14% | 77.08% |
| (3) Current ratio | 104.87% | 128.8% |

### *4 Bank loans*

The Company prudently implemented its annual capital budget plan in accordance with the market conditions and requirement of customers to control the bank loan scale strictly. The Company fully utilized financial tools to timely reduce finance cost and prevent financial risks. In so doing, the Company improved the profit of the Company and shareholders while satisfying the capital need of operating activities. As at the end of the Reporting Period, the Company had short-term loan amounting to RMB277,998,000, representing an decrease of 2.46% as compared with the beginning of the year. Long-term loan amounted to RMB18,000,000.

### *5 Foreign exchange risk management*

Foreign exchange risks assumed by the Company are mainly related to US dollars. Apart from BTIC AMERICA CORPORATION and Jingcheng Holding (Hong Kong) Co., Ltd., the subsidiaries of the Company that purchase and sell in US dollars, other prime business activities of the Group were priced and settled in RMB. Therefore, the Company was exposed to the foreign exchange risk arising from the fluctuation of exchange rate between RMB and US dollars. The Company actively adopted such measures to reduce the foreign exchange risk.

## (XVI) Principal Sources of Fund and Its Use

### *1 Cash flows from operating activities*

Cash inflows from operating activities during the Reporting Period were mainly derived from the income of product sales. Cash outflow was mainly related to the production and operating activities. The Company's cash inflows from operating activities during the Reporting Period amounted to RMB875,446,600, while cash outflow amounted to RMB864,230,600. Net cash flow during the Reporting Period from operating activities amounted to RMB11,216,000.

### *2 Cash flows from investment activities*

Cash inflows from investment activities during the Reporting Period amounted to RMB29,084,700 while cash outflows from investment activities amounted to RMB43,325,100 which was mainly used for capital expense on the purchase of fixed assets and equity investments. Net cash flows from investment activities during the Reporting Period amounted to RMB-14,240,400.

### 3 *Cash flows from financing activities*

Cash inflows from financing activities during the Reporting Period amounted to RMB510,775,800, which was mainly derived from bank loans and loans from Jingcheng Holding. Cash outflows from financing activities during the Reporting Period amounted to RMB538,223,500, which was mainly due to the repayment of bank loans and borrowings from banks and Jingcheng Holding and interest. Net cash flow from financing activities for the Reporting Period amounted to RMB-27,477,600.

In 2018, net cash flows from operating activities increased by RMB237,874,500 as compared to the corresponding period of last year, mainly due to the increase in net cash flows from operating activities during the period, as the cash inflows from operating activities increased, while the cash outflows from operating activities decreased during the period. Net cash flows generated from investing activities decreased by RMB220,943,200 as compared to the corresponding period of last year, mainly due to the disposal of properties of Langfang Tianhai, a subsidiary of Beijing Tianhai, during the previous period. Net cash flows generated from financing activities decreased by RMB23,667,600 as compared to the corresponding period of last year, mainly because the net repayment of borrowings made during the year was higher than that during the corresponding period of last year.

During the Reporting Period, the Company mainly financed its operations through cash inflows from operating activities, borrowings from controlling shareholder and bank loans.

## (XVII) Capital Structure

The Company's capital structure consists of shareholders' equity and liabilities during the Reporting Period. Shareholders' equity amounted to RMB863,268,900, of which minority interests amounted to RMB396,392,600, and total liabilities amounted to RMB912,216,900. Total assets amounted to RMB1,775,485,800. As at the end of the year, the Company's gearing ratio was 51.38%.

**Capital structure by liquidity**

| | | |
|---|---|---|
| Total current liabilities | RMB728,140,200 | Percentage of assets 41.01% |
| Total shareholders' equity | RMB863,268,900 | Percentage of assets 48.62% |
| Of which: minority interest | RMB396,392,600 | Percentage of assets 22.33% |

## (XVIII) Contingent Liabilities

As at the end of the Reporting Period, the Company did not have any significant contingent liabilities.

## (XIX) Details of the Group's charge on assets

*United: Yuan Currency: RMB*

| Item | Book value at the end of year | Reason for restriction |
|---|---|---|
| Monetary funds | RMB14,500,000.00 | Bill margin |
| Fixed assets | RMB250,944,555.51 | Pledged to secure bank borrowings |
| Intangible assets | RMB68,854,443.19 | Pledged to secure bank borrowings |
| Total | RMB334,298,998.70 | – |

## (XX) Embezzlement of funds and repayment of debt during the Reporting Period

Not applicable

## (XXI) Explanation of the Company on "Non-Standard Auditors' Report" issued by the auditors

Not applicable

## (XXII) Profit distribution plan or plan to convert surplus reserves into share capital

### 1. *Formulation, implementation or adjustment of cash dividend policy*

Not applicable

### 2. *Profit distribution plan or pre-arranged plan or plan or pre-arranged plan to convert surplus reserves into share capital in the previous three years (inclusive of the Reporting Period)*

*Unit: Yuan Currency: RMB*

| Year of distribution | Number of shares to be distributed for every ten shares (share) | Amount to be distributed for every ten shares (RMB) (tax inclusive) | Number of shares to be converted into share capital for every ten shares (share) | Amount of cash dividend (inclusive of tax) | Net profit attributable to ordinary shareholders of listed company in the consolidated financial statement during the year of distribution | Percentage of the net profit attributable to ordinary shareholders of the listed companies in the consolidated financial statement (%) |
|---|---|---|---|---|---|---|
| 2018 | 0 | 0 | 0 | 0 | -93,936,155.30 | 0 |
| 2017 | 0 | 0 | 0 | 0 | 20,868,364.01 | 0 |
| 2016 | 0 | 0 | 0 | 0 | -148,787,585.19 | 0 |

### *3. Repurchase of shares under cash offer included in cash dividend*

Not applicable

### *4. If the Company records profits and the parent company records a positive undistributed profit during the Reporting Period but there is no resolution for cash dividend, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details*

Not applicable

## III. EXPLANATION ON OTHER IMPORTANT MATTERS

### 1. Receipt of government subsidies

*Unit: Yuan Currency: RMB*

| Item | Amount for the year | Source |
|---|---|---|
| Incentive grant by Beijing Municipal Commission of Commerce | 941,177.00 | Appropriation from Beijing Municipal Commission of Commerce |
| Energy Saving Target Assessment funds by Development and Reform Commission of Chaoyang District of Beijing Municipal | 200,000.00 | "Management of Fund for Energy Saving Development in Chaoyang District" |
| Technical standard funds of Science and Technology Committee of Chaoyang of Beijing | 22,500.00 | "Notice on Evaluation Results of Funding Projects under the 2018 Technical standard of Chaoyang District by the Quality and Technology Supervision Bureau and Intellectual Property Administration of Chaoyang District of Beijing Municipal" |
| Patent award of Science and Technology Committee of Chaoyang District of Beijing Municipal | 4,880.00 | "Implementation of Patents subsidy and award of Chaoyang District" (Chao Zhi Wen [2016] No.7) |
| Incentive grant for steam | 54,000.00 | Notice on Receiving the subsidy for steam in the second half of 2017 (Tianjin Free Trade Zone) |

| Item | Amount for the year | Source |
|---|---|---|
| Self-dependent innovative project funds of Beijing Zhongguancun | 682,000.00 | "Management on Fund for technical innovative construction projects in Zhongguancun National Self-dependent Innovation Demonstrative Area" "Notice on payment of the fund for the 2017 Zhongguancun technical innovative construction projects (technical standard sector)" |
| Patent subsidy of Intellectual Property Administration of Beijing Municipal | 3,000.00 | "Notice on application for 2018 Beijing Municipal Patent Subsidy" "Notice on Evaluation Results of 2018 Beijing Municipal Patent Subsidy" |
| Energy Saving Assessment Incentive of Science and Technology Committee of Chaoyang District of Beijing Municipal | 200,000.00 | "Notice on the Commencement of Assessment on Energy Saving Target Responsibility of 2017 by the Energy Saving Leading Team of Beijing Municipal" |
| Fund in way of incentive instead of subsidy for low nitrogen transformation of gas boilers | 327,000.00 | Summary Table of low nitrogen transformation of gas (oil) boilers |
| Appropriation of Funding for science project of Science and Technology Committee of Tongzhou District of Beijing Municipal | 400,000.00 | Science and Technology Committee of Tongzhou District of Beijing Municipal |
| Subsidies for addressing over-capacity of steel enterprises and providing positions for their employees | 648,000.00 | "Notice on efforts of addressing over-capacity of steel enterprises and providing positions for their employees" by Municipal Human Resources and Social Security Bureau and Ministry of Finance |
| 2018 Provincial Industrial transformation and upgrade projects | 2,000,000.00 | "Notice on Fund Delivery of 2018 Provincial Industrial transformation and upgrade (technical) projects" by Ministry of Finance of Chengde City |
| Total | 5,482,557.00 | |

**2. Changes of the subsidiaries that included in the consolidation scope during the Reporting Period**

Langfang Tianhai High Pressure Containers Co., Ltd., the subsidiary of the Company was dissolved and liquidated on 9 October 2018.

3. **During the Reporting Period, the Company was subject to an applicable enterprise income tax rate of 25%.**

4. **Review of financial statements for the Reporting Period by the Audit Committee**

   The Audit Committee of the Board of the Company has reviewed and confirmed the financial report for 2018.

5. **Corporate Governance Code**

   The Company has always complied with the Listing Rules of Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited during the Reporting Period.

   The Company has adopted the Corporate Governance Code contained in Appendix 14 (the "CG Code") to the Listing Rules as its own corporate governance code. The Board considered that the Company has complied with all the applicable code provisions set out in the CG Code throughout the year.

6. **Model Code for Securities Transactions by Directors and Supervisors**

   During the Reporting Period, the Company has adopted the model code of conduct regarding securities transactions by directors and supervisors on terms no less exacting than the required standards set in the Model Code in Appendix 10 of the Listing Rules. After making specific enquiries to all directors and supervisors, the Company confirmed that, each of directors and supervisors has complied with the required standards on securities transactions by directors and supervisors as set in the Model Code for the 12 months ended 31 December 2018.

7. **Share capital**

   (1) During the Reporting Period, there was no change in the total number of shares and shareholding structure of the Company.

   (2) During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## IV. ANNUAL REPORT AND OTHER INFORMATION

This announcement will be published on the websites of the Company (www.jingchenggf.com.cn) and the Stock Exchange (www.hkexnews.hk). The annual report in entirety will be published on the websites of the Company and the Hong Kong Stock Exchange on 23 April 2019.

By Order of the Board
**Beijing Jingcheng Machinery Electric Company Limited**
**Wang Jun**
*Chairman*

Beijing, the PRC
25 March 2019

*As at the date of this announcement, the Board comprises Mr. Wang Jun, Mr. Li Junjie and Mr. Zhang Jiheng as executive directors, Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.*