BUSINESS

OVERVIEW

We are the largest domestic independent industrial gas supplier specializing in on-site gas supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report.

We produce, supply and distribute a variety of industrial gas products to our on-site and merchant customers from a number of locations in the PRC, with oxygen, nitrogen and argon being our main gas products. Our on-site customers are customers for whom we have our gas production facilities located on or in close proximity to their premises and to whom we supply industrial gases directly. We own 100% equity interest in all of our subsidiaries conducting on-site operations, except for one joint venture company with one of our on-site customers (namely, Hengyang Yingde). Our merchant customers are generally liquid gas distributors who purchase industrial gases from us on a spot market basis from time to time.

We primarily focus on on-site gas supply, which generated 89.3% of our total revenue for the six months ended June 30, 2009. Through our on-site gas operations, which we generally own independently from our on-site customers, we design, construct, operate and maintain gas production facilities, assuring the reliability and stability of our industrial gas supplies to our on-site customers. Our on-site customers are primarily iron and steel companies which use our gas products as part of their production processes. We also supply gas products to the chemical and non-ferrous metals industries. We enter into long-term take-or-pay gas supply contracts with our on-site customers, generally with a duration of between 15 to 25 years. Pursuant to the terms of these take-or-pay gas supply contracts, our on-site customers undertake to purchase at least the specified minimum quantity of industrial gases from us throughout the contract term and they are required to pay for this minimum quantity even if their usage does not reach such minimum level.

In addition, we maintain a merchant gas operation for which we have one dedicated production facility currently in operation located in Nanjing and two production facilities under development in Yangzhou and Zhangjiagang, all located in Jiangsu province, as at the Latest Practicable Date. Gases that are sold through our merchant operations can be applied in the solar, electronics, glass, food, automotive and construction industries. Any remaining available capacity of our on-site gas production facilities is also utilized to produce gases for selling to the merchant market, which allows us to take full advantage of our production capacity to maximize sales revenue.

We distinguish ourselves in the industry by providing customized solutions, high quality products and competitive prices to a variety of on-site customers based on their specific needs. We have successfully built our customer base to include a group of established and high quality companies consisting of several leading iron and steel companies across different regions in China. We are generally the major outsourcing on-site industrial gas supplier for the production facilities of on-site customers, and our industrial gases are essential to our on-site customers' production processes. Accordingly, we enjoy entrenched relationships with our on-site customers, who we believe are reliant on us. We are frequently engaged by our on-site customers to expand existing production plants or to construct new production facilities in order to supply additional industrial gases for their expansion needs.

Since the establishment of our first subsidiary, Hunan Yingde, in October 2001 which commenced gas supply in May 2003, we have expanded our operations across the PRC to include 20 industrial gas production facilities currently in operation and another 12 production facilities under development as at the Latest Practicable Date. Upon completion of these 12 production facilities that are under development, we expect to increase our total installed capacity to approximately 848,800 Nm^3/hr, in terms of installed oxygen capacity, representing a 135.1% increase from our total installed capacity of 361,000 Nm^3/hr at the end of 2008.

We believe our increasing production capacity, together with our proven track record, experienced management team, local market knowledge and focused geographic expansion, will place us in an advantageous position to capture the opportunities presented by the expected high growth of the outsourcing on-site industrial gas market in China.

For the three years ended December 31, 2008, our total revenue and profit from operations grew by a CAGR of 70.6% and 65.0%, respectively. For the year ended December 31, 2008, we generated total revenue and profit from operations of approximately RMB1,411.7 million and RMB489.9 million, respectively. For the six months ended June 30, 2009, we generated total revenue and profit from operations of approximately RMB917.2 million and RMB278.0 million, respectively. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our (loss)/profit attributable to the equity holders of our Company were approximately RMB(6.7) million, RMB177.0 million, RMB430.1 million and RMB232.5 million, respectively. Our profit/(loss) attributable to the equity holders of our Company has taken into account finance costs in relation to fair value adjustments and termination gain/loss relating to certain financial instruments that we issued, which amounted to a loss of RMB135.1 million, RMB38.3 million and RMB11.0 million for the two years ended December 31, 2006 and 2007 and the six months ended June 30, 2009, respectively; and a gain of RMB21.3 million for the year ended December 31, 2008. Please refer to the section headed "Financial Information — Factors Affecting Comparability" in this document for further details.

OUR COMPETITIVE STRENGTHS

We believe our achievements to date and potential for future growth can be attributed to a combination of our competitive strengths, including:

Market leader in the outsourcing on-site industrial gas market in China with a proven track record

We are the largest domestic independent industrial gas supplier specializing in on-site supply in China in terms of total revenue as at the end of 2008, based on the research information in the SAI Report. For the year ended December 31, 2008, our total sales revenue was RMB1,411.7 million. We had a total oxygen, nitrogen and argon installed capacity of 361,000 Nm^3/hr, 545,500 Nm^3/hr and 13,650 Nm^3/hr, respectively, in relation to our gas production facilities in operation as at December 31, 2008, and a total sales volume of 1,861.1 million Nm^3 for our oxygen product, 1,369.5 million Nm^3 for our nitrogen product and 65.1 million Nm^3 for our argon product. We have an established nation-wide gas supply network in the PRC with 20 industrial gas production facilities currently in operation and another 12 production facilities under development as at the Latest Practicable Date. These production facilities are located in eight provinces, one autonomous region and one municipality (Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin), all of which are expected to have a growing demand for industrial gases.

We have a proven track record in constructing and operating large-scale industrial gas production plants since we established our business in Hunan province in October 2001, which commenced gas supply in May 2003. Since our establishment, we have successfully implemented our expansion strategies in the PRC and established, constructed and commenced gas supply with respect to 20 industrial gas production facilities as at the Latest Practicable Date.

In addition, we have achieved a proven record of reliable and safe gas supply since production commenced at our first production plant in May 2003. This track record has helped us attract and establish a quality customer base.

Well positioned to capture future growth opportunities in the outsourcing on-site industrial gas market in China

As the largest domestic independent on-site gas supplier in China, with in-depth local knowledge and customer experience as well as our proven track record and project pipeline, we believe we are well-positioned to capture the opportunities presented by the anticipated high growth of the outsourcing on-site industrial gas market in China. Based on the research information in the SAI Report, the value of the outsourcing on-site industrial gas market in China was approximately US$2.01 billion in 2008 and is expected to grow at a CAGR of 12.9% from 2008 to 2010, primarily driven by (i) expected continued GDP growth in the PRC; (ii) expected growth in the iron and steel, chemical and non-ferrous metals industries in the PRC, and corresponding growth in the industrial gas consumption in these industries; and (iii) increasing customer receptiveness to outsourced on-site industrial gas supply. We believe these factors present significant market opportunities for us.

Customized and efficient solutions resulting in short supply lead-time

We are able to provide customized solutions to our customers and establish efficient production facilities with short supply lead-time.

We compete based on the length of supply lead-time, which refers to the period from the signing of the gas supply contract with our on-site customer to the commencement of gas supply. Our optimized construction management practices allow us to adjust the supply lead-time of our production plants to accommodate our on-site customers' project completion timing requirements, and deliver gas products to our on-site customers in a timely manner. Our ability to simultaneously construct several production facilities at different sites enables us to take advantage of efficient construction and procurement process. As a result, we believe we are able to achieve supply lead-time shorter than the industry average.

We adopt commercially sound procurement practices and use our advanced production integration systems, know-how and technological processes to lower initial capital expenditure and maximize operational efficiency across our operations. Our procurement process involves sourcing from a combination of local and overseas suppliers, who are able to offer reliable and high quality products. In addition, our team of experienced engineers and support staff draw on their extensive industry experience and our technological know-how to design, construct and operate efficient gas production plants, which also leads to savings in utility costs.

Entrenched relationships with high quality customers

We strive to establish a high quality customer base through our stringent customer selection process. We target potential on-site customers with strong financial conditions and favorable competitive advantages in their respective markets. Since production commenced at our first production plant in May 2003, we have successfully expanded our customer base to include a group of high quality companies consisting of several leading iron and steel companies across different regions in China including, Tianjin Steel Pipe Corporation, the single largest production plant for seamless steel pipes in the world, and Shaanxi Longmen Steel Company Limited, the largest steel company in Shaanxi province.

For further details on our customer base, please refer to the section headed "Business — Our Production Facilities". Our customer-centric focus together with our reliability and safety record have contributed to our success in winning new on-site customers as well as maintaining sound relationships with our existing on-site customers.

We are generally the major on-site industrial gas supplier for the production facilities of our on-site customers that are served by us, and our industrial gases are an important component of our on-site customers' production processes. Accordingly, we enjoy entrenched relationships with our on-site customers, who we believe are reliant on us. We believe we have achieved a high level of customer satisfaction and loyalty amongst our existing on-site customers. As a result, we have received a number of requests from our on-site customers to expand our existing production plants, or to construct new production facilities in order to supply additional industrial gases for their expansion needs.

We are diversifying our customer base into the rapidly growing chemical and non-ferrous metals industries. We believe our established and quality customer base has placed us in an advantageous position to grow our customer base further.

Strong and predictable earnings secured by long-term gas supply contracts

We generated approximately 89.3% of our total revenue from our on-site customers for the six months ended June 30, 2009. The revenue and income generated from our on-site operations are generally more stable and less exposed to market volatilities compared to those generated from our merchant operations.

We sign long-term take-or-pay gas supply contracts generally with a duration ranging from 15 to 25 years with our on-site customers. These gas supply contracts provide for a minimum quantity of industrial gas to be purchased by our on-site customers throughout the contract term. Our electricity costs, being the largest component of our cost of sales, accounted for approximately 87.5% of our total cost of sales for the six months ended June 30, 2009. We generally include price adjustment provisions in these gas supply contracts which allow us to pass on fluctuations in utility costs to our on-site customers, and hence maintain the stability of our gross profit margin.

Optimized geographic coverage and self-supporting network

Since our first plant commenced production in May 2003, we have engaged in a selective expansion of our production plant network in China, while taking into account the strategic value of each individual gas production plant to our overall expansion strategy. In addition, we have targeted locations that are highly industrialized or resource rich, including Inner Mongolia, Jiangsu, Shaanxi and Guangdong, all of which are expected to have a growing demand for industrial gases.

Due to the optimized geographic coverage of our business, we were able to leverage our existing production plants to complement our new projects when they are under development. For example, production plants within geographic proximity can support each other during the ramp-up period of our new production plant (the length of which is determined by the demand level of our on-site customers) to provide stable supplies and satisfy customers' demand. In addition, in the event of unforeseen production disruptions, we believe that the optimized geographic coverage of our production plants and self-supporting network is able to minimize disruptions and hence losses to our customers and our business.

Strong and experienced management and engineering teams with extensive operating experience and industry knowledge

Our senior management team, headed by our founders, Mr. Sun and Mr. Strutt, and key engineering personnel, possess extensive operating experience and industry knowledge in the industrial gas market in the PRC. Each of Mr. Sun and Mr. Strutt has more than ten years of experience in the industrial gas business including working with major international industrial gas companies in China.

Under their leadership, we have successfully established and maintained management and engineering teams with extensive regional experience and knowledge of the industrial gas market across different regions in China. Many of our managerial and technical staff have had experience working with leading international industrial gas companies. The experience and quality of our management and engineering teams have been demonstrated by our execution ability in building our Company into the largest domestic independent supplier of on-site industrial gases in China, and achieving profitability within the first 12 months of commencement of production at our first plant in May 2003.

OUR STRATEGIES

We aim to consolidate and further strengthen our position as the leading domestic independent on-site industrial gas supplier in the PRC.

In order to achieve this, we intend to pursue the following strategies:

Capitalize on the outsourcing trend and consolidate and further strengthen our leading position in the outsourcing on-site industrial gas market in China

We seek to capitalize on the outsourcing trend in the China industrial gas market, continue to focus on the outsourcing on-site industrial gas market in the PRC, and aim to maintain our established and long-term relationships with, and strive to become the exclusive or primary outsourcing industrial gas supplier for, all of our on-site customers.

We will also seek to continue to attract new customers and expand our production capacity and geographic coverage. Pursuant to gas supply contracts executed with our on-site customers, we expect to invest approximately RMB1,234 million in connection with those facilities recently completed and to complete those production facilities currently under development as set out in the section headed "Business — Our Business — Our Production Facilities" in this document. Upon completion of these production facilities, and together with our existing production capacity currently under operation, we expect to increase our total gas installed capacity to approximately 848,800 Nm^3/hr, in terms of installed oxygen capacity, representing a 135.1% increase from the capacity of 361,000 Nm^3/hr at the end of 2008. In addition, we plan to continue to establish, construct and commission new production plants with an aim to maintain our leading domestic position in the outsourcing on-site industrial gas supply market in China.

We may also consider undertaking selective acquisitions of existing industrial gas suppliers in the PRC which satisfy our investment criteria to strengthen our market leading position.

Further enhance and expand our target market through industry diversification

We aim to continue to pursue our customer-focused approach to expand and further diversify our customer base to other markets including chemical, coal chemical and non-ferrous metals industries. For example, the on-site customer of our new production plant in Zhuzhou in Hunan province is in the non-ferrous metals industry, while the on-site customer of our new production plant in Fuquan in Guizhou province is in the chemical industry. We have also successfully secured the coal chemical subsidiary of China Shenhua Energy Group as one of our on-site customers.

Enhance our competitive strength in providing customized, unique and efficient solutions to our customers through continuous innovation and effort

One of the critical factors for our success and achievements to date has been our ability to provide customized, unique and efficient solutions to accommodate the needs of different on-site customers. We will strive to further enhance this competitive strength by:

- further developing innovative solutions to suit the needs of different on-site customers;
- solidifying our relationships with equipment manufacturers and component suppliers, domestically and overseas;
- managing the construction phase of our new projects to accommodate our on-site customers' project completion timing requirements as part of our endeavor to provide customized solutions;

- endeavoring to expand product offerings to include capital- or technology-intensive gas products such as syngas, fuel gases and other specialty gases; and
- continuing to reduce costs and improve efficiency.

Continue to attract and retain highly skilled personnel

The successful implementation of our growth strategies by our experienced management team and employees has been critical to our accomplishment to date. Attracting and retaining highly skilled personnel has been, and will remain, critical to our success.

We plan to continue to attract and retain highly skilled personnel and further strengthen our corporate culture by continuing to invest in employee training and other professional development programs. We also plan to provide our employees with growth opportunities, performance-based incentives linked to individual contributions and our operational results and other attractive benefits to further align employees' interests with those of our shareholders.

OUR BUSINESS

Our Products and Services

We design, construct, operate and maintain gas production facilities; produce, supply and distribute liquid and non-liquid industrial gases; and provide ancillary services to our on-site customers. We also produce, supply and distribute liquid industrial gases to customers in the merchant market.

Through our on-site gas supply operations, we design, construct, operate and maintain gas production facilities on or in close proximity to our on-site customers' production sites, and supply our on-site customers with industrial gas products, assuring the reliability and stability of their industrial gas supplies. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, revenue from our on-site operations was RMB399.5 million, RMB625.9 million, RMB1,137.2 million and RMB819.0 million, respectively, representing 82.4%, 79.9%, 80.6% and 89.3% of our total revenue for the respective periods.

In relation to our on-site operations, we identify and then enter into definitive long-term gas supply contracts with our on-site customers. After we have entered into definitive long-term gas supply contracts, we commence construction of production facilities. After construction is completed, we commence gas supplies in accordance with the terms of the long-term gas supply contract. Therefore, we will not commence construction of a production facility prior to identification of an on-site customer and the execution of a long-term gas supply contract with such on-site customer.

We sign long-term take-or-pay gas supply contracts with our on-site customers. These gas supply contracts are generally for a term ranging from 15 to 25 years. The gas supply contracts provide for a minimum volume of gas products (where applicable, the minimum volume for different types of gas products) our on-site customers are required to purchase from us throughout the term of the gas supply contract. Where our on-site customer fails to utilize the minimum off-take volume, it is still under an obligation to pay us for the minimum off-take volume.

Our gas supply contracts generally stipulate the minimum production capacity with respect to the gas production facility that we are obliged to construct and sometimes a specified gas production capacity for different types of gas products. There are generally provisions on the specifications of the gas products that we are required to supply to our on-site customers, such as purity, pressure level, temperature and hourly supply quantity. The gas supply contracts generally also contain terms enabling us to make adjustments to gas prices to take into account fluctuations in utility prices. Our on-site customers are generally required to provide us with electricity as part of the gas supply contracts and, as such, if we suffer losses resulting from our on-site customer's breach of contract by failing to provide the required electricity, we would be entitled to compensation from the relevant on-site customer. Whilst our gas supply contracts do not stipulate which party would be responsible for losses or damages caused to a third party, our PRC legal advisors advise that under PRC law, the party responsible for causing losses or damages would be liable to such third parties. We are also entitled to compensation for losses resulting from breach of contract by our on-site customers who fail to provide or secure the parcels of land for us, including losses for relocation and demolishment.

We take into account a number of considerations before entering into a gas supply contract with an on-site customer including the potential on-site customer's industry profile, financial background and whether the project is in line with our business strategy. After we have entered into the gas supply contract with an on-site customer, we commence construction of our production facilities pursuant to our obligation under the gas supply contract. We finance the entire cost of construction and we own the facilities constructed. The length of construction time varies and is affected by a number of factors, such as the requirements of our on-site customers, availability of funding, equipment and components, utilities and/or qualified personnel, unexpected technical problems, unforeseen developments at the construction sites and issues in connection with the construction subcontractors and other logistical issues. Upon the expiry of a gas supply contract, we may negotiate with our on-site customer to renew or sign a new gas supply contract, or we may dismantle and remove our production facilities. As at the Latest Practicable Date, none of our gas supply contracts has expired.

Our gas supply contracts generally provide that where we, in breach of our contractual obligations, fail to construct gas production facilities by the dates specified in such gas supply contracts or we fail to provide gas supplies at the agreed level to our on-site customers, we are liable to compensate our on-site customers and pay a specified monetary sum or a sum to be determined in accordance with a specified formula. Our gas supply contracts generally provide a limit on the total amount of compensation we are required to pay to our on-site customers for our breach of contract.

Our gas supply contracts generally provide that we can terminate the contract 40 days after the due date for payment from our on-site customer if such payment remains outstanding. After such termination, most of our gas supply contracts require our on-site customer to pay us a specified penalty or a penalty calculated using a specified formula. Generally, the circumstances which entitle us to claim against our on-site customers include late payment, breach of confidentiality and failure to provide us with suitable land, electricity, water, sewage or road access for us to construct and operate our gas production facilities. Save as disclosed in this document, neither we nor any of our on-site customers have terminated any gas supply contract prior to its expiry during the Track Record Period.

In addition, we maintain a merchant gas operation for which we have three dedicated production plants (one in operation and two under development) in the PRC, located in Nanjing, Yangzhou and Zhangjiagang in Jiangsu province. We also use the remaining available capacity of our on-site gas production facilities to produce industrial gases which we sell to local distributors in the merchant market. We offer both liquid gas supplies and compressed gas supplies. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, revenue from our merchant gas distribution operations was RMB85.6 million, RMB157.8 million, RMB274.5 million and RMB98.2 million, respectively, representing 17.6%, 20.1%, 19.4% and 10.7% of our total revenue for the respective periods.

On the basis set out above, we differentiate our on-site operation and merchant operation as well as the revenue generated from the respective operations in accordance with the type of customers to which we sell our gas products. In relation to the on-site operation, we generate revenue by selling our gas products to those customers with whom we have entered into long-term gas supply contracts. In relation to the merchant operation, we generally generate revenue by selling our gas products (which are produced from the remaining available capacities of our on-site production facilities as well as from our dedicated merchant production facilities) to local distributors in the spot market. The on-site production facilities referred to in this document relate to those facilities which are dedicated to serving our on-site customers pursuant to long-term gas supply contracts. The merchant production facilities referred to in this document relate to those facilities which we generally operate without entering into long-term gas supply contracts. However, we have entered into gas supply contracts with a selected number of merchant customers who have a stable and regular demand for our gas products, pursuant to which we supply industrial gas products on a regular basis during the term of the relevant gas supply contracts.

For our on-site operation, we construct and operate the gas production facilities ourselves. We then supply the industrial gases we produce to our on-site customers who pay us in accordance with the gas supply contracts. The payment terms we extend to our on-site customers generally range from 30 to 45 days. Extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by our management on a case-by-case basis. For our merchant operation, we generally generate our revenue by selling the gases we produce to our merchant customers at market spot prices. We generally receive payment from our merchant customers on or prior to delivery.

Our Production Method

There are two major industrial gas production methods, namely the cryogenic and non-cryogenic processes, used to separate air components and to produce industrial gases.

- The cryogenic process uses very low temperature distillation to separate air ingredients and achieve desired product purity under the principle that different gases have different boiling points. We believe this is the most cost-effective means to produce gas products with the highest purity at a high production rate.
- The non-cryogenic process generates oxygen and nitrogen under near-ambient temperature by utilizing different properties of air ingredients, such as absorption rates or diffusion rates. We believe this is a suitable and cost-effective means of gas production when a high purity product is not required and/or when the required production rate is relatively low.

We primarily utilize the cryogenic process in our industrial gas production process. We believe the cryogenic process is more commonly used by industrial gas suppliers with large-scale operations.

The following flow chart sets forth the major steps in the cryogenic process:

Step 1: Air intake	Oxygen, nitrogen, argon, helium, neon, xenon and krypton are obtained from the air by the cryogenic method.
Step 2: Compression	The air that has been sucked in is compressed.
Step 3: Pre-purification	Before the air is separated into its gaseous components, unwanted ingredients must be removed. These are filtered out, chemically absorbed on surfaces or frozen out.
Step 4: Cooling	The compressed air is cooled to minus 180°C.
Step 5: Separation	The air is separated into its components via a physical process. The liquid oxygen at the bottom is vaporized, while nitrogen at the top of the column is changed from gaseous to liquid form. This process is continued for as long as is required to reach the desired level of purity.
Step 6: Rare gas recovery	To obtain the rare gases, the separation column of the air separation unit is equipped with additional aggregates for raw argon, a neon/helium mixture and a krypton/xenon mixture. These mixtures must be purified further.
Step 7: Storage	Liquid oxygen, nitrogen and argon are poured into cryogenic tanks, road tankers or steel cylinders.

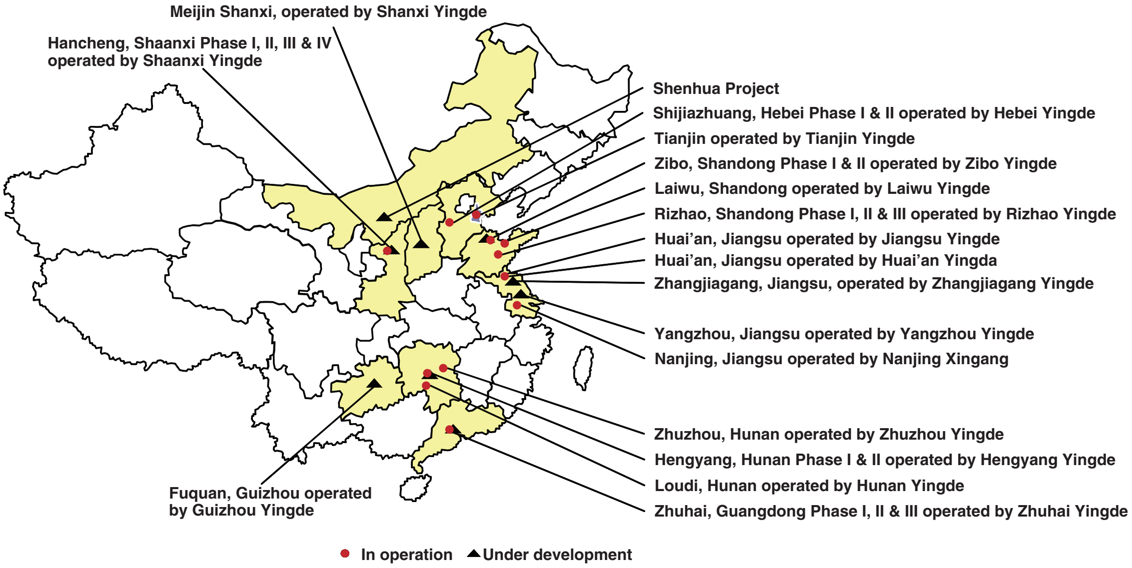
The core equipment used during the industrial gas production process is the air separation unit. The main parts and components of a typical air separation unit include: air filter, air compressor, refrigerator unit, molecular sieve purifier, electric heater, heat exchanger, turbo expander, rectification column, sub-cooler, oxygen storage balloon, oxygen compressor and oxygen filling system.

Our Production Facilities

We commenced our business in October 2001 with the establishment of our first subsidiary, Hunan Yingde, in Loudi, Hunan province. We completed the construction of our first production plant in early 2003 and commenced gas supplies to our first on-site customer in May 2003.

Since 2003, we have expanded our production plant network and established a nation-wide gas supply network in China with 20 industrial gas production facilities in operation and another 12 industrial gas production facilities under development as at the Latest Practicable Date. Our industrial gas production plants (including those currently under development) are located in eight provinces, one autonomous region and one municipality across the PRC, namely, Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin.

The following map illustrates the locations in China where we have, and plan to have, industrial gas production facilities:



The following table sets out certain information regarding our on-site and merchant industrial gas production facilities currently in operation:

Location/Subsidiary	Off-taker	Supply start time	Installed capacity (Nm^3/hr)	Utilization rate[1]
On-site Facility				
Loudi Hunan, operated by Hunan Yingde	A major steel company based in Hunan	May 2003	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	92%
Huai'an Jiangsu, operated by Jiangsu Yingde	A major steel company based in Jiangsu	May 2004	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	77%[2]
Hancheng Shaanxi Phase I, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	September 2004	Oxygen: 25,000 Argon: 800 Nitrogen: 25,000	93%
Zhuhai Guangdong, Phase I operated by Zhuhai Yingde	Zhuhai Yueyufeng Iron & Steel Company Limited	June 2005	Oxygen: 17,500 Argon: 630 Nitrogen: 18,000	86%
Tianjin, operated by Tianjin Yingde	Tianjin Steel Pipe Corporation	July 2005	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	86%
Rizhao Shandong Phase I, operated by Rizhao Yingde	Rizhao Steel Company Limited	May 2007	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	89%[3]
Zibo Shandong Phase I, operated by Zibo Yingde	Zibo Qilin Fushan Steel Company Limited	September 2007[2]	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	47%
Shijiazhuang Hebei Phase I, operated by Hebei Yingde	Hebei Jingye Steel Company Limited	September 2007	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	75%
Hancheng Shaanxi Phase II, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	September 2007	Oxygen: 6,500 Nitrogen: 6,500	68%

Location/Subsidiary	Off-taker	Supply start time	Installed capacity (Nm^3/hr)	Utilization rate[1]
Rizhao Shandong Phase II, operated by Rizhao Yingde	Rizhao Steel Company Limited	November 2007	Oxygen: 42,000 Argon: 1,400 Nitrogen: 60,000	89%[3]
Huai'an Jiangsu, operated by Huai'an Yingda	A major steel Company based in Jiangsu	March 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	77%[2]
Laiwu Shandong, operated by Laiwu Yingde	Taishan Steel Group Company Limited	July 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	99%
Rizhao Shandong Phase III, operated by Rizhao Yingde	Rizhao Steel Company Limited	October 2008	Oxygen: 63,000 Argon: 2,000 Nitrogen: 120,000	89%[3]
Shijiazhuang Hebei Phase II, operated by Hebei Yingde	Hebei Jingye Steel Company Limited	November 2008	Oxygen: 28,000 Argon: 900 Nitrogen: 40,000	62%
Hancheng Shaanxi Phase III, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	March 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	N/A
Hengyang Hunan Phase I, operated by Hengyang Yingde[4]	Hengyang Hualing Lianzhaguan Company Limited	April 2009	Oxygen: 3,800 Nitrogen: 4,000	N/A
	Hengyang Hualing Lianzhaguan Company Limited	April 2009	Oxygen: 6,000 Argon: 180 Nitrogen: 10,000	N/A
Zhuzhou Hunan, operated by Zhuzhou Yingde	Hunan Zhuzhou Yelian Huoju Jinshu Company Limited	June 2009	Oxygen: 6,500 Argon: 180 Nitrogen: 10,000	N/A
Zhuhai Guangdong Phase II, operated by Zhuhai Yingde	Zhuhai Yueyufeng Iron & Steel Company Limited	July 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000	N/A
Merchant Facility				
Nanjing Jiangsu, operated by Nanjing Xingang	N/A	July 2006	Argon: 1,860	N/A

Notes:

(1) For the purpose of calculating the utilization rate, only the production facilities that were in operation throughout the entire six months ended June 30, 2009 were included. The figures refer to the utilization rate for the six months ended June 30, 2009, which is calculated according to the following formula:

$$\frac{\text{Total sales volume — purchases from third parties}}{\text{Installed oxygen capacity x 24 hours x 181 days}}$$

(2) The utilization rate refers to the combined average utilization rate for Huai'an Jiangsu operated by Jiangsu Yingde and Huai'an Jiangsu operated by Huai'an Yingda.

(3) The utilization rate refers to the combined average utilization rate for Rizhao Shandong Phases I, II and III.

(4) Hengyang Phase I consists of two production facilities. We hold a 70% interest in Hengyang Yingde and the installed production capacity information provided in this table includes the entire installed production capacity of Hengyang Yingde.

We set out below certain information regarding some of our on-site customers and the length of our supply lead-time with such on-site customers.

- The on-site customer at our production plant operated by Hunan Yingde is a major steel company based in Hunan, whose parent company is ranked 8th in China and 24th globally in terms of steel products output in 2008. Our customer is a strong local player with over 50% market share in Hunan province. Our gas supply contract was signed in August 2001 and we commenced our gas supply in May 2003 with a total supply lead-time of approximately 21 months.
- The on-site customer at our production plants operated by Jiangsu Yingde and Huai'an Yingda is a major steel company based in Jiangsu, which is a subsidiary of the largest private steel-maker in China. Our customer's main products, non-alloy steel products, account for 30% market share in Jiangsu province and its spring steel products account for approximately 80% domestic market share. Our gas supply contract was signed in October 2002 and Jiangsu Yingde commenced gas supply in May 2004 with a total supply lead-time of approximately 20 months. Huai'an Yingda commenced gas supply in March 2008.
- The on-site customer at our production plants operated by Shaanxi Yingde is Shaanxi Longmen Steel Company Limited, which is a state-owned enterprise the majority interest of which is owned by the Shaanxi provincial government. Shaanxi Longmen Steel Company Limited is the largest steel-maker in Shaanxi province with over 50% market share in Shaanxi province. It is ranked 467th among the "China Top 500 Enterprises 2008" compiled by the China Enterprise Confederation and China Enterprise Directors Association. Our gas supply contract was signed in January 2003 and we commenced our gas supply at the Phase I facility of Hancheng Shaanxi in September 2004 with a total supply lead-time of approximately 20 months. We commenced gas supply at the Phase II and Phase III facilities of Hancheng Shaanxi in September 2007 and March 2009, respectively.
- The on-site customer at our Phase I plant operated by Zhuhai Yingde is Zhuhai Yueyufeng Iron & Steel Company Limited, which is controlled by the same ultimate ownership group as Guangzhou Panyu Yufeng Iron & Steel Company Limited. These two companies have a combined production output that places them amongst the top four major steel billet and rebar producers in Guangdong province. Our gas supply contract was signed in December 2002 and we commenced our gas supply at Zhuhai Guangdong Phase I in June 2005 with a total supply lead-time of approximately 30 months. We commenced gas supply at the Phase II facility of Zhuhai Guangdong in July 2009.
- The on-site customer at our production plant operated by Tianjin Yingde is Tianjin Steel Pipe Corporation, which owns the largest production plant for seamless steel pipes in the world, accounting for 11% of total domestic production and 50% of oil casing pipe production in 2005. It is ranked 46th in China and 114th globally in terms of steel products output in 2008. Our gas supply contract was signed in July 2004 and we commenced our gas supply in July 2005 with a total supply lead-time of approximately 12 months. In addition to oxygen, nitrogen and argon, we also supply purified air to this on-site customer.
- The on-site customer at our production plants operated by Rizhao Yingde is Rizhao Steel Company Limited, which is one of the leading H Beam suppliers in China, and also produces other high-end steel products. It is ranked 14th in China and 40th globally in terms of steel products output in 2008. Our gas supply contract was signed in May 2006 and we commenced our gas supply at the Phase I facility of Rizhao Shandong in May 2007 with a total supply lead-time of approximately 12 months and we commenced our gas supply at the Phase II facility of Rizhao Shandong in November 2007 with a total supply lead-time of approximately 19 months.

- The on-site customer at our production plants operated by Hebei Yingde is Hebei Jingye Steel Company Limited, which is a privately-owned steel corporation. In terms of steel production, it is ranked 8th in Hebei province. In terms of steel products output, Hebei Jingye Steel Company Limited is ranked 30th in China and 74th globally in 2008. Our gas supply contract was signed in June 2006 and we commenced our gas supply at the Phase I facility of Shijiazhuang Hebei in September 2007 with a total supply lead-time of approximately 15 months. We commenced gas supply at Shijiazhuang Hebei Phase II in November 2008.
- The on-site customer at our production plant operated by Zibo Yingde is Zibo Qilin Fushan Steel Company Limited, which is ranked 452nd among the "China Top 500 Enterprises 2008" compiled by the China Enterprise Confederation and China Enterprise Directors Association. Our gas supply contract was signed in April 2006 and we commenced our gas supply in September 2007 with a total supply lead-time of approximately 16 months.
- With respect to our merchant facility operated by Nanjing Xingang, we have entered into a 30 year co-operation agreement with a leading petroleum and petrochemical company in China pursuant to which the petroleum and petrochemical company will supply the argon-rich gases from their operation for our processing and subsequent sales. Pursuant to the terms of the relevant co-operation agreement, we have delegated the production and operational aspects of this business to our cooperative partner who charges us management fees while we remain responsible for the sales and overall supervision of this business. This is an attractive business opportunity for us and this merchant production facility differs from the other dedicated merchant production facilities that we are currently developing in that we are able to utilize the argon-rich gases, which cannot be obtained directly from the air, discharged as a by-product from our cooperative partner's operation by the installation of our separation unit at their gas discharge point, enabling us to produce argon gases for commercial sale to our merchant customers in areas surrounding Nanjing. We are able to minimize our operational costs by delegating the management and maintenance services to our cooperative partner.

  In June 2008, Nanjing Xingang terminated its sales contract with one of its merchant customers as it was unable to produce sufficient argon to supply the amount required under the sales contract as well as to other merchant customers, because the raw material for the production of argon, namely argon fraction, provided by our co-operative partner was not at the required level. The terminated sales contract was with a merchant customer which had contributed only limited income to our Group during the Track Record Period and accordingly, our directors consider that the termination of the contract did not have a material effect on our Group during the Track Record Period.
- The on-site customer at our production plant operated by Laiwu Yingde is Taishan Steel Group Company Limited, which is ranked 42nd in China and 101st globally in terms of steel products output in 2008.
- The on-site customer at our production plant operated by Hengyang Yingde is Hengyang Valin. The holding company of Hengyang Valin is Hunan Valin Steel Company Limited, a company whose shares are listed on the Shenzhen Stock Exchange and whose largest shareholder is Hunan Valin Iron & Steel Group Company Limited. Hunan Valin Iron & Steel Group Company Limited is ranked 8th in China and 24th globally in terms of steel products output in 2008.
- The on-site customer at our production plant operated by Zhuzhou Yingde is Hunan Zhuye Torch Metals Company Limited, or Zhuye Torch, a non-ferrous metals company based in Hunan province. Zhuye Torch is a subsidiary of Hunan Nonferrous Metals Holding Group Company Limited, which is the largest integrated producer of non-ferrous metals, excluding aluminum, in the PRC as measured by production volume.

As at the Latest Practicable Date, our directors confirm that, save for Hengyang Valin which is a substantial shareholder of Hengyang Yingde, all of the above customers and cooperative partner are independent third parties of our Group.

Our production facilities are accounted for as property, plant and equipment in our financial statements.

The table below sets out the total revenue generated by our subsidiaries for the periods indicated:

	For the year ended December 31,						Six months ended June 30,	
	2006		2007		2008		2009	
	RMB	% of total	RMB	% of total	RMB	% of total	RMB	% of total
	(in millions, except for percentages)							
Hunan Yingde	53.4	11.0	89.4	11.4	83.3	5.9	38.8	4.2
Jiangsu Yingde	112.2	23.1	134.5	17.2	95.1	6.7	21.7	2.4
Shaanxi Yingde	115.7	23.8	119.6	15.3	140.1	9.9	88.7	9.7
Zhuhai Yingde	105.1	21.7	125.9	16.1	145.9	10.3	83.3	9.1
Tianjin Yingde	94.6	19.5	139.8	17.8	132.1	9.4	64.8	7.1
Nanjing Xingang	4.1	0.9	20.6	2.6	13.9	1.0	2.8	0.3
Rizhao Yingde(1)	—	—	104.2	13.3	363.8	25.8	242.3	26.4
Zibo Yingde(1)	—	—	15.1	1.9	26.9	1.9	45.6	5.0
Hebei Yingde(1)	—	—	34.6	4.4	162.6	11.5	109.4	11.9
Huai'an Yingda(2)	—	—	—	—	153.0	10.9	101.1	11.0
Laiwu Yingde(2)	—	—	—	—	95.0	6.7	101.7	11.1
Zhuzhou Yingde(3)	—	—	—	—	—	—	2.7	0.3
Hengyang Yingde(3)	—	—	—	—	—	—	14.3	1.5
Total:	**485.1**	**100.0**	**783.7**	**100.0**	**1,411.7**	**100.0**	**917.2**	**100.0**

Notes:

(1) The relevant production plant operated by our subsidiary had not yet commenced operation during the year ended December 31, 2006.
(2) The relevant production plant operated by our subsidiary had not yet commenced operation during the two years ended December 31, 2006 and 2007.
(3) The relevant production plant operated by our subsidiary had not yet commenced operation during the three years ended December 31, 2006, 2007 and 2008.

The table below sets out the volume weighted average prices of gases sold through our merchant operations for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	Unit price (RMB/Nm^3)				
Oxygen	0.77	0.90	0.79	0.89	0.69
Nitrogen	0.97	0.88	0.76	1.18	0.68
Argon	1.77	2.55	3.21	2.64	1.60
Total volume weighted average price:	**1.03**	**1.36**	**1.44**	**1.45**	**0.89**

The following table sets forth information regarding our on-site and merchant industrial gas production facilities currently under development:

Location/Entity	Off-taker	Target supply start time	Installed capacity (Nm^3/hr)
On-site Facility			
Hengyang Hunan Phase II, operated by Hengyang Yingde(1)	Hengyang Hualing Lianzhaguan Company Limited	November 2009	Oxygen: 22,000 Argon: 750 Nitrogen: 40,000
Fuquan Guizhou, operated by Guizhou Yingde	A chemical company based in Guizhou	January 2010	Oxygen: 55,000 Argon: 1,600 Nitrogen: 100,000
Zibo Shandong Phase II, operated by Zibo Yingde	Shandong Xiwang Steel Company Limited	April 2010	Oxygen: 6,500 Argon: 180 Nitrogen: 10,000
Shenhua Project	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Argon: 2,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
	China Shenhua Meizhiyou Huagong Company Limited	July 2010	Oxygen: 60,000 Nitrogen: 60,000
Hancheng Shaanxi Phase IV, operated by Shaanxi Yingde	Shaanxi Longmen Steel Company Limited	July 2010	Oxygen: 45,000 Argon: 1,500 Nitrogen: 70,000
Meijin Shanxi, operated by Shanxi Yingde	Meijin Energy Group Company Limited	January 2011	Oxygen: 28,000 Argon: 900 Nitrogen: 50,000
Zhuhai Guangdong Phase III, operated by Zhuhai Yingde	Zhuhai Yueyufeng Iron & Steel Company	December 2011	Oxygen: 28,000 Argon: 900 Nitrogen: 50,000
Merchant Facility			
Yangzhou Jiangsu, operated by Yangzhou Yingde	N/A	October 2009	Liquid oxygen: 3,000 Argon: 100 Nitrogen: 9,000
Zhangjiagang Jiangsu, operated by Zhangjiagang Yingde	N/A	March 2010	Sulfur fluoride: 500 metric ton Nitrogen fluoride: 150 metric ton Fluoride: 50 metric ton

Note:

(1) While we hold a 70% interest in Hengyang Yingde, the installed production capacity information provided in this table includes the entire installed production capacity of Hengyang Yingde.

Arrangement with our on-site customer in Guizhou

We entered into a gas supply contract on November 10, 2006 with our on-site customer in Guizhou province, referred to as our Guizhou On-site Customer. Our Guizhou On-site Customer is a company incorporated under the laws of the PRC, and is a chemical production company and a subsidiary of a company listed on the Shanghai Stock Exchange. Our Guizhou On-site Customer is an independent third party of our Company. Under the terms of this gas supply contract, our Guizhou On-site Customer was granted an option to purchase between 25% to 49% of the equity of Guizhou Yingde. The consideration to be paid for any equity purchase under the option will be determined on the basis of a valuation by an accounting firm recognized by both parties and will be subject to the relevant PRC laws and regulations.

Under the same gas supply contract, we and Guizhou On-site Customer agreed in principle that we would invest RMB250 million for a 25% equity interest in the registered capital of Guizhou On-site Customer which had a registered capital of RMB1 billion at the time. However, other contractual details in connection with our proposed investment, including but not limited to, the joint venture arrangement, PRC government approval procedure and completion process, had not been agreed upon the execution of the gas supply contract and will be subject to further discussion and negotiation between the parties. Our PRC legal advisors, Jun He Law Offices, have advised that our contractual obligation to invest RMB250 million for a 25% equity interest in Guizhou On-site Customer is legal and valid, but the enforcement of the proposed investment by us is still subject to agreement between the parties, approval of Guizhou On-site Customer shareholders and government approval and registration. We are under an obligation to enter into further discussion of the details of our proposed investment with the shareholders of Guizhou On-site Customer in good faith. This contractual obligation will cease to have effect upon the expiry of the gas supply contract.

We agreed to the option clause for us to invest in Guizhou On-site Customer because, at that time, we intended to expand our synthetic gas production capabilities through our minority investment in Guizhou On-site Customer's synthetic gas business. We no longer hold such intention at present because we believe that we have already built our own team of experts for the development of the synthetic gas business subsequent to the execution of the gas supply contract with Guizhou On-site Customer. Further, it was also brought to the parties' attention that a foreign investment by us into Guizhou On-site Customer may create government procedural hurdles for the gas project currently undertaken by Guizhou On-site Customer. Accordingly, we advised Guizhou On-site Customer that we no longer intended to invest in them and have also requested to terminate the arrangement. Our Company believes that we have acted in good faith. However, we have not terminated this contractual arrangement as Guizhou On-site Customer has not yet agreed to the termination. Our PRC legal advisors advised that our action does not amount to a breach of contract on our part before a more specific agreement regarding the investment is reached.

Guizhou On-site Customer was also granted an option such that in the event our proposed investment in Guizhou On-site Customer is not approved by the PRC government, Guizhou On-site Customer has an option to require us to dispose of the gas production facility operated by Guizhou Yingde to Guizhou On-site Customer. Guizhou On-site Customer requested this option because Guizhou On-site Customer wanted to secure ongoing industrial gas supply in the event that Guizhou Yingde decides that it no longer wishes to continue supplying industrial gases to Guizhou On-site Customer. Such an option was a term granted by us alongside with, and part and parcel of the arrangement in respect of, the agreement with Guizhou On-site Customer for a potential investment by us in Guizhou On-site Customer for the purposes of expanding our business into the synthetic gas sector. The consideration of such disposal would be determined on the basis of a valuation by an accounting firm recognized by both parties and will be subject to the relevant PRC laws and regulations.

As of the Latest Practicable Date, other than the agreed terms in the gas supply contracts, we have not had any further discussion or agreement with Guizhou On-site Customer in relation to any proposed joint venture arrangement or further steps to complete our proposed investment, nor have we received any notice from Guizhou On-site Customer regarding the exercise of its option to acquire the gas production facility operated by Guizhou Yingde.

Our PRC legal advisors advised that the contractual obligation to enter into discussions in respect of our investment in Guizhou On-site Customer will cease to have effect upon the expiry of the gas supply contract entered into between the parties.

Joint venture arrangement with Hengyang Valin

On November 28, 2008, Yingde BVI and Hunan Yingde entered into a joint venture agreement with Hengyang Valin, to establish a joint venture industrial gas supply company named Hengyang Yingde in Hengyang city, Hunan province.

Pursuant to the terms of the joint venture agreement, we and Hengyang Valin have jointly established Hengyang Yingde in which we and Hengyang Valin hold a 70% and 30% interest, respectively. Pursuant to the joint venture agreement, we are required to contribute a total of RMB84 million and Hengyang Valin is required to contribute a total of RMB36 million to the registered capital of Hengyang Yingde. The board of directors of Hengyang Yingde comprises three directors. Pursuant to the shareholders' agreement between the parties, we are entitled to appoint two directors and Hengyang Valin is entitled to appoint one director to the board of directors of Hengyang Yingde. Hengyang Yingde supplies industrial gas products to Hengyang Valin's production facility in Hengyang city, Hunan province.

As we own a 70% interest in Hengyang Yingde and have the right to appoint two out of three members of its board of directors, we have control over Hengyang Yingde. Therefore, we account for Hengyang Yingde as our subsidiary.

Joint venture arrangement with Shihlien China Holding Company Limited

On June 2, 2009, we entered into a joint venture agreement with Shihlien China Holding Company Limited, or Shihlien. Shihlien is associated with Taiwan Glass Company Limited which was one of the largest glass producers in the world in 2008 in terms of total production output.

Under the terms of the joint venture agreement, we and Shihlien established a joint venture company, Shihlien Yingde, in which each of us and Shihlien holds a 50% interest and is entitled to appoint 50% of the board of directors. Shihlien Yingde is a jointly controlled entity. The total investment of our Group in Shihlien Yingde is currently estimated to be approximately RMB280 million and is proposed to be contributed in the form of cash to the registered capital of Shihlien Yingde . It is intended that Shihlien Yingde or its subsidiaries would supply industrial gas products as well as provide management services to Shihlien's manufacturing facility to be established in Huai'an city, Jiangsu province.

As we own a 50% interest in Shihlien Yingde and have the right to appoint 50% of its board of directors, we do not control Shihlien Yingde . Therefore, we do not account for Shihlien Yingde as our subsidiary.

We are currently engaged in discussions with Shihlien with respect to our proposed investment in this project and our joint venture arrangement with Shihlien. Such discussions may result in the joint venture agreement and the gas supply contract with Shihlien being terminated. Given the uncertainty arising from these ongoing discussions, we exclude the Shihlien Project when presenting the number of our production facilities currently under development and the expected total installed oxygen capacity upon completion of those production facilities currently under development. Accordingly, any such references in this document do not include this Shihlien project.

The reasons for the potential termination of the joint venture agreement with Shihlien include: (i) uncertainty regarding the fulfilment of and timing for fulfilment of conditions precedent; and (ii) the potential impact on the overall timetable for the Shihlien Project given the uncertainty involved.

We have already made an initial investment of US$1.66 million in the Shihlien Project in the form of our contribution to the registered capital of Shihlien Yingde as at the Latest Practicable Date. Given Shihlien Yingde has not started to engage in any business activity, our Company does not expect any material impediment for us to recover the investment made by us in the event that the joint venture agreement is terminated.

Logistics and Transportation

We deliver our industrial gas products to our customers through the following two main methods:

- On-site delivery — This method involves piping the industrial gas products produced directly from our production plants to the customers' facilities. Where our production plants are located on-site or in proximity to our customers' facilities, pipeline is the main method for delivery of our industrial gas product.
- Road tanker delivery — This method involves using road tanker trucks to deliver our industrial gas products to the customers' storage facilities through road transportation.

In our on-site gas distribution operations, we produce and deliver most of our industrial gas products to our on-site customers directly and do not generally store the produced industrial gas products, except for a reserve for emergency situations. In our merchant gas distribution operations, we generally use liquid tanks to store the produced industrial gas products before we deliver to our merchant customers. Yingde Logistics, our wholly-owned subsidiary, was established on October 15, 2008 in the PRC and commenced engaging in the transportation of industrial gas products to our customers in the second half of 2008. We maintain a fleet of road tankers as well as engage third-party road tanker truck operators to service our customers in our merchant operations.

In addition, we maintain back-up gas supply reserves in liquid form at all of our on-site industrial gas production plants to provide security for stable and reliable gas supplies to our on-site customers in the event of unforeseen circumstances which may result in supply breakdown to our on-site customers.

Raw Materials, Energy, Equipment and Sourcing

The raw material we currently use to produce our industrial gas products is air, which we obtain at no cost.

Our business is electricity-intensive. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, electricity expenses, being the largest component of our cost of sales, constituted approximately 83.3%, 80.1%, 86.7% and 87.5% of the aggregate of our total cost of sales, respectively. However, we have entered into contractual arrangements with all of our on-site customers pursuant to which either the prices we charge our on-site customers for our industrial gas products can be adjusted in accordance with fluctuations in the local electricity prices or the electricity price is fixed throughout the duration of the gas supply contract. Through these contractual arrangements, we are able to maintain our profitability.

The core equipment used in our industrial gas production process is the air separation unit. Please refer to the section headed "Business — Our Production Method" in this document for more details. Our production equipment is sourced from reputable international companies as well as quality companies in the PRC specializing in the manufacturing of industrial gas production equipment. We generally had three major equipment and component suppliers in relation to each of our major equipment or component supplies during the Track Record Period. We use high standards in selecting our equipment and component suppliers and we only source our equipment and component supplies from those whose products are of acceptable standard and quality. By sourcing some of our equipment and most of our component supplies domestically in China, we are able to reduce our costs and thus, be more competitive on our pricing and maintain our profitability. Our directors confirm that we did not experience difficulties in the procurement of equipment and components during the Track Record Period.

As we obtain our major raw material, air, at no cost, electricity, which comprises over 80% of our total cost of sales, is therefore the largest item of our total purchases. As we normally secure our electricity supply for our on-site operations through contractual arrangements with our on-site customers, our current five largest suppliers are all our on-site customers. We generally obtain electricity from our on-site customers at the market rate set by state-owned electricity grid companies. The electricity is usually supplied to our on-site customers by the local electricity companies which are state-owned enterprises. We did not experience electricity supply shortage during the Track Record Period. As we generally collect our receivables from our on-site customers and make payment to on-site customers for our electricity usage at or around the same time, their payments to us are generally netted off to take into account our electricity expenses to our on-site customers. Our five largest suppliers together accounted for approximately 98.4%, 74.6%, 80.2% and 73.7%, respectively, of our total purchases for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our largest supplier accounted for approximately 27.8%, 17.5%, 29.3% and 29.3% of our total purchases, respectively. Our directors confirm that, as at the Latest Practicable Date, all of our five largest suppliers are independent third parties and none of our directors or their associates or our existing shareholders who, to the knowledge of our directors, owns more than 5% of our issued share capital, has any interest in any of our five largest suppliers.

Customers

Our five largest customers together accounted for approximately 82.1%, 65.3%, 62.8% and 66.9% of our total revenues for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our largest customer accounted for approximately 21.9%, 15.1%, 21.5% and 24.3% of our total turnover, respectively. Our directors confirm that, as at the Latest Practicable Date, all of the above five largest customers are independent third parties and none of our directors or their associates or our existing shareholders who, to the knowledge of our directors, owns more than 5% of our issued share capital, has any interest in any of our five largest customers. The payment terms we extend to our on-site customers generally range from 30 to 45 days. We grant extended credit terms to certain on-site customers depending on the credit assessment carried out by our management on a case-by-case basis. We generally receive payment from our merchant customers on or prior to delivery.

Innovation

We emphasize innovation in order to strengthen further our leading position and enhance our competitiveness. Our innovation focuses on the development of engineering solutions to improve our production processes. We have a team of engineers based in our various production plants across China who focus on design solutions and development.

We intend to continue to focus our engineering and design efforts on the development and implementation of more advanced, efficient and lower cost production processes and technology.

Marketing and Pricing

Our on-site gas supply operations are generally obtained through a competitive tender process. When responding to a potential on-site customer's request for a proposal, we establish a dedicated project team comprising both technical and business personnel, who will design and develop customized solutions in accordance with the potential on-site customer’s needs.

All of the customers of our on-site gas distribution operations have entered into long-term contractual arrangements with us in relation to the minimum off-take volume that they undertake to purchase from us. Our long-term contractual arrangements with our on-site customers generally range from 15 to 25 years. We charge our on-site customers the same unit price in the event they require gas supplies exceeding the minimum off-take volume. In addition, these long-term take-or-pay gas supply contracts generally provide for remedies available to us in the event that our on-site customers terminate the long-term take-or-pay gas supply contracts prior to the contract expiry date. Most of our gas supply contracts would require our on-site customers to pay us a specified amount of compensation if they are responsible for the termination due to their breach of the gas supply contract.

In relation to our merchant gas distribution operations, our customers mostly consist of distributors, who purchase various industrial gas products from us at or in proximity to our production plants. We generally sell our industrial gas products at spot market prices. However, we also enter into gas supply contracts with a selected number of merchant customers who have a stable and regular demand for our industrial gas products pursuant to which we supply gas products on a regular basis during the term of the relevant gas supply contracts.

Customer Service

We are committed to providing customer service of the highest quality, as we believe it to be the key to building and expanding our loyal customer base, and ultimately our success. From the outset, we seek to ascertain the specific gas supply needs of each on-site customer. We demonstrate flexibility and innovation in our endeavor to develop creative and customized solutions to meet our on-site customers’ needs.

Our on-site services include giving suggestions to our on-site customers on equipment selection and operation, in order to increase the efficiency of their gas use. Where our on-site customers encounter technical difficulties, we are generally able to assist them to evaluate the situation and then formulate appropriate solutions. We provide our on-site services to our on-site customers as part of our on-site operation and as such, our Company does not receive any separate or additional income or fees from our on-site customers.

Competition

The industrial gas supply industry in China is highly competitive. Participants generally compete for new customers on product price, supply lead-time, and supply stability and reliability. Based on the research information in the SAI Report, there are more than 1,000 participants in the industrial gas supply industry in China as at March 20, 2009, including gas plants affiliated with large steel and chemical projects, domestic cylinder gas companies, centralized gas suppliers in industrial zones and international and domestic gas companies providing on-site gas services. The top five players’ total market share in 2008 in the China outsourcing on-site industrial gas market was approximately 87% in aggregate. We are the largest domestic independent supplier of on-site industrial gases in China in terms of total revenue as at the end of 2008 based on the research information in the SAI Report.

We have in the past obtained most of our on-site businesses through competitive tender processes, and we expect that a significant portion of our future on-site businesses will be obtained in the same way. In order to obtain new on-site businesses in the competitive tender process, we compete on the length of supply lead-time as well as on pricing. There are certain barriers to entry into the outsourcing on-site industrial gas supply industry, including: (1) industry experience and track record, (2) capital intensity, and (3) relationship with large-scale on-site customers.

In 2008, the demand of the Chinese industrial gas market grew to approximately US$4.7 billion, based on the research information in the SAI Report. Several international industrial gas supply companies, such as Linde, Praxair, APCI, Messer and Air Liquide, mainly compete for large-scale projects, while quite a number of smaller private domestic industrial gas supply companies compete mainly for smaller-scale projects and steel cylinder supply market across different regions in the PRC.

We believe that the large international industrial gas suppliers have certain advantages in competing for large-scale projects, including established brand history and a global customer network while the small domestic industrial gas suppliers have advantages in establishing local customer connections in the region in which they operate. We consider that our main competitors are large international industrial gas suppliers.

We distinguish ourselves from our competitors through our proven record of successfully constructing and operating various industrial gas production plants to meet the needs of our on-site customers. Our historical shortest gas production plant supply lead-time was 12 months. We believe that our commitment to providing flexible, innovative, timely and customized solutions to meet our on-site customers’ needs sets us apart from our competitors.

QUALITY, SAFETY AND ENVIRONMENTAL PROTECTION

We are committed to achieving a high standard of quality in the provision of products and services to our customers. We have designated quality control technicians in each of our industrial gas production plants responsible for monitoring the quality of our industrial gas products and operating our advanced quality control systems. In addition, we control the quality of our industrial gas products through the use of technological equipment and advanced online analysis systems which can analyze, detect and report any quality defects, such as purity and pressure level issues, in order to ensure our gas supplies comply with national standards and meet customers’ requirements. We believe we have established a reputation for product quality and reliability.

Industrial health and safety is also a very important focus for our Company. We have taken measures to comply with the applicable laws and regulations relevant to social responsibility, health and safety. We are subject to various labor and safety laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the Regulation of Insurance for Labor Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), and the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例). We have adopted a series of measures to ensure health and safety of our employees. We also provide our employees with welfare schemes including, among other things, injury insurance and medical insurance. For more information on insurance for our employees, please see the section headed “Insurance” below.

We have designated personnel for our industrial gas production plants who are responsible for regulating our labor, hygiene and safety conditions. In addition, we provide induction and regular safety education programs to our employees through the provision of safety instruction manuals, training seminars and regular safety knowledge and response testing. As our personnel control and monitor the daily operation of our production facilities from computerized operation control rooms, we provide a healthy and safe workplace for our personnel. Therefore, we do not generally encounter any health and safety issues. There is also no requirement imposed by our on-site customers in relation to social, health and safety aspects of our operation. Our directors confirm that except as disclosed in this document, as at the Latest Practicable Date, we have complied with all relevant safety and health regulations and have not been subject to fines or penalties during the Track Record Period. We do not generally incur any additional annual compliance costs in relation to health and safety on an ongoing basis.

As our gas production process essentially involves the separation of air into its constituent ingredients such as oxygen, nitrogen and argon, we understand industrial gas production is generally not regarded as a polluting industry and we do not produce any air pollution during our production process. The environmental issues arising in our production process consist of cooling water discharge and noise reduction. During our production process, we require water for facility cooling purposes and in order to achieve an effective and better cooling effect, we add chemicals into our cooling water, which is an industry-wide practice. We recycle our cooling water for continuous use, but we need to discharge a small volume of cooling water periodically in order to maintain chemical concentration at an optimal level. The water is returned to the factory and treated by the on-site customers and reused. We have obtained all wastewater discharge permits from the relevant government authorities for our production plants currently in operation or have complied with the local wastewater discharge requirements pursuant to the confirmation issued by the local government authority. In respect of the facility operated by Huai'an Yingda, as our wastewater is disposed of through the site of our on-site customer, we are not required to obtain the wastewater discharge permit and such view is confirmed by our PRC legal advisors.

In addition, we emit noise as part of our production process. We are usually subject to the requirements of our on-site customers or the relevant laws applicable to where our production facility is located in relation to the maximum level of noise we are allowed to emit. In order to reduce the level of noise we emit, we endeavor to use quality noise reduction and absorption materials when constructing our production facilities. In addition, we endeavor to design our new production facility and repair and maintain our existing production facilities periodically to minimize any noise that may be created. We closely monitor our wastewater discharge and noise issues and we carry out regular internal inspections.

We generally incur one-off equipment purchase costs in relation to our wastewater discharge facilities and noise reduction and absorption materials at the time of constructing our new production facilities. The level of costs we incur varies depending on factors such as the location of our production facility, local applicable laws and whether our on-site customers provide a wastewater discharge facility. We do not generally incur any annual ongoing compliance costs, but may purchase new equipment voluntarily at our own initiative or due to a change in any of the factors described above.

Environmental impact studies for all of our production facilities are completed and submitted for examination by the relevant Environment Protection Bureaus in the regions in which we operate as part of the approval process for the establishment of each of our production plants. We believe that our safety control systems, environmental protection systems and facilities are adequate to comply with applicable PRC national and local regulations.

Based on the confirmation issued by the local Municipal Environmental Protection Bureaus in the regions in which we operate, we have complied with the PRC state environmental regulatory requirements during the Track Record Period. Our directors confirm that except for those disclosed in this document, as at the Latest Practicable Date, we have complied with all relevant environmental, safety and health regulations and have not been subject to fines or penalties during the Track Record Period.

EMPLOYEES

Employees

Our accomplishments to date are closely linked to the successful implementation of our growth strategies by our experienced, dedicated and innovative employees. We are committed to recruiting, training and retaining skilled and experienced people throughout our operations to better serve our customers. We intend to do this through our remuneration packages, including discretionary bonuses and Share Option Schemes, as well as an emphasis on employee training.

As at June 30, 2009, our Group had a total of 920 full-time employees, the majority of whom have attended technical schools or obtained higher education qualifications.

As at June 30, 2009, our total number of employees by function were as follows:

Functions	Number of people
Senior Management	7
Operations	478
Finance and accounting	47
Sales	83
Business development	98
Human resources, administration and technical support	207
Total	920

We have not experienced any strikes, work stoppages or significant labor disputes and we have not experienced any significant difficulties in recruiting and retaining qualified staff during the Track Record Period.

Remuneration

We review the performance of our employees annually, the results of which are used in employee salary reviews and promotion appraisals. Key employees are considered for an annual bonus based on various performance criteria and their assessment results. We review our staff's remuneration packages from time to time. We conduct research on remuneration packages offered for similar positions in our industry, which we believe allows us to remain competitive in the labor market.

Certain of our employees are also eligible to participate in our employee Share Option Scheme subject to their performance and the discretion of our directors, details of which are more fully set out in Appendix VI of this document.

We incurred total employees compensation (including wages, salaries and other benefits) of approximately RMB19.9 million, RMB38.9 million, RMB51.0 million and RMB35.8 million for the three years ended, December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively, representing 4.1%, 5.0%, 3.6% and 3.9%, respectively, of our total revenue for the relevant periods.

Training

We place emphasis on the training and development of our staff. We invest in continuing education and training programs for our management staff and employees in order to regularly upgrade their skills and knowledge. We provide internal and external training programs to our employees in areas such as technical skills, safety, sales and marketing and customer service, depending on their needs. All new employees are required to attend induction courses to ensure that they are equipped with the necessary skills to perform their duties. We provide on-the-job training and mentoring programs, as well as self-study resources for our employees.

OUR PROPERTIES

Under PRC law, we are required to obtain two main permits for the construction of a production plant (both on-site and merchant production plants), namely: (i) construction planning permit (pursuant to the PRC Urban Planning Law); and (ii) construction permit (pursuant to the PRC Construction Law).

Our PRC legal advisors advised that the absence of construction planning permits or construction permits for our production facilities does not affect the validity of the safe production permits and production permits for industrial products of the relevant facilities and thus the absence of construction planning permits or construction permits would not lead to safe production permits and production permits being revoked after they have been granted.

For our on-site operations, pursuant to the definitive long-term gas supply contracts, our on-site customers are generally responsible for providing or securing land for us to construct our production plants. After a gas supply contract is executed, we commence preparations for construction. Upon completion of construction, we commence gas supply to our on-site customer in accordance with the gas supply contract. We do not commence construction before signing a gas supply contract with an on-site customer. In exceptional cases, we will purchase land with valid title, which has capital appreciation potential and is in close proximity to our on-site customer to construct our plants. However, owning the land we occupy is not critical to our operations.

The majority of our on-site production facilities currently in operation or under development are situated on parcels of land which have been provided or secured by our on-site customers for our use, pursuant to the requirements of the gas supply contracts with our on-site customers. However, certain of our on-site customers have failed to provide or secure land with proper titles to us which has resulted in our facilities being subject to certain legal risks. In addition, we have not obtained the construction planning permits and/or the construction permits in respect of certain of our other on-site production facilities which also subjects these facilities to certain legal risks. As we do not own any property interest in these parcels of land, we generally require the assistance and co-operation of the on-site customers (who in most cases are also the title owners) in applying for the relevant construction planning permits and construction permits. We believe that we have not obtained these permits because (a) the necessary assistance from the on-site customers to undertake the application process was not forthcoming; and/or (b) the on-site customers considered that it was not necessary for us to apply for the relevant permits in connection with the construction of our production facilities as our rights are sufficiently protected under the gas supply contracts.

Most of our gas supply contracts require our on-site customers to pay us a specified amount of compensation or pay us compensation according to a specific method or scope, should our on-site customers be responsible for the termination due to their breach of the gas supply contract, which would include circumstances where we were forced to vacate the land which our facilities occupy due to defective title of such land. The compensation provided under those on-site gas supply contracts generally entitles us to recover, at a minimum, the net book value of the assets and facilities constructed by us for the project, and the long-term gas supply contracts have factored in the capital expenditure involved in the construction of the production facilities. For these reasons, the parcels of land without proper titles outlined below are not crucial to our business. Our PRC legal advisors advised that under the gas supply contracts, we would not be able to claim against our on-site customers for losses and expenses incurred if the failure to obtain construction planning permits or construction permits were only due to the failure of the relevant on-site customer to provide the necessary cooperation as the gas supply contracts do not require our on-site customers to obtain these permits on our behalf.

Non-compliance issues relating to our properties

The table below summarizes the material non-compliance matters relating to our properties and the corresponding potential legal implications to us:

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and June 30, 2009 *(Note)*
Hebei Yingde	• Defective title of land for Phase I provided or procured by on-site customer.	• Facilities on the land are subject to the risk of demolishment or relocation due to the defective land title.	• Our PRC legal advisors confirm that under the relevant gas supply contract and supplemental agreement, Hebei Yingde is entitled to claim compensation from the on-site customer for losses resulting from forced relocation or demolishment.	• Revenue contributions: nil, 4.4%, 11.5% and 11.9% (representing nil, RMB34.6 million, RMB162.6 million and RMB109.4 million respectively). • Net profit contributions: -1%, 4%, 13.3% and 9.2%.
Zibo Yingde	• Defective title of land provided or procured by on-site customer.	• Facilities on the land are subject to the risk of demolishment or relocation due to the defective land title.	• The administrative commission of the relevant local development zone has confirmed that it will not request the relocation or demolishment of the plant operated by Zibo Yingde. • Notwithstanding the above, our PRC legal advisors confirm that under the relevant gas supply contract, Zibo Yingde is entitled to claim compensation from the on-site customer for loss resulting from forced relocation or demolishment.	• Revenue contributions: nil, 1.9%, 1.9% and 5.0% (representing nil, RMB15.1 million, RMB26.9 million and RMB45.6 million respectively). • Net profit contributions: -2%, 0.4 %, -1.3% and -1.9%.

Note:
The revenue and net profit contributions of the relevant subsidiaries during the Track Record Period have eliminated intra group transaction value.

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Laiwu Yingde	• Defective title of land provided or procured by on-site customer.	• Facilities on the land are subject to the risk of demolishment or relocation due to the defective land title. • Possible fine of approximately RMB200,000 for the absence of construction permit which was later obtained on November 24, 2008. This amount is covered by an indemnity provided by certain of our existing Shareholders.	• Our PRC legal advisors confirm that under the relevant gas supply contract and the supplemental agreement, Laiwu Yingde is entitled to claim compensation from the on-site customer for losses resulting from forced relocation or demolishment.	• Revenue contributions: nil, nil, 6.7% and 11.1% (representing nil, nil, RMB95 million and RMB101.7 million respectively). • Net profit contributions: nil, nil, 8.0% and 18.4%.

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Tianjin Yingde	• Land with proper title leased from on-site customer's parent company, which lease has not been registered with relevant authority. • Absence of construction planning permit. • Absence of construction permit.	• Our PRC legal advisors confirm that the non-registration of the lease does not affect the legality, validity and enforceability of the lease agreement. • Potential maximum penalties for the absence of construction planning permit and construction permit are approximately RMB2.6 million and RMB0.3 million, respectively. These amounts are covered by an indemnity provided by certain of our existing Shareholders.	• Registration of the lease requires co-operation of the lessor, and the lessor indicated that it has no intention to register the lease. • Absence of construction planning permit and construction permit cannot be rectified given the length of time that has lapsed since construction.	• Revenue contributions: 19.5%, 17.8%, 9.4% and 7.1% (representing RMB94.6 million, RMB139.8 million, RMB132.1 million and RMB64.8 million respectively) • Net profit contributions: 103%, 34%, 8.0% and 5.9%

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Hunan Yingde	• Absence of construction planning permit. • Absence of construction permit.	• Potential maximum penalties for the absence of construction planning permit and construction permit are approximately RMB42 million and RMB0.2 million, respectively. The RMB42.2 million exposure is covered by an indemnity provided by certain of our existing Shareholders. • Based on the confirmation letter issued by the relevant local planning bureau, our PRC legal advisors advise that Hunan Yingde is not exposed to any fine or penalty for the absence of construction planning permit by the local competent government.	• Absence of construction planning permit and construction permit cannot be rectified given the length of time that has lapsed since construction.	• Revenue contributions: 11.0%, 11.4%, 5.9% and 4.2% (representing RMB53.4 million, RMB89.4 million, RMB83.3 million and RMB38.8 million, respectively) • Net profit contributions: 27%, 50%, 2.4% and 1.2%

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Shaanxi Yingde (Phase II: commenced production in September 2007)	• Absence of construction planning permit. • Absence of construction permit.	• Facilities on the land are subject to the risk of demolishment or relocation due to the absence of construction permit and construction planning permit. • On the basis that our Group was not responsible for the construction of the facility, our PRC legal advisors advise that our Group will not be subject to any fines or penalties for absence of construction permit and construction planning permit. • Our PRC legal advisors confirm that our Group is able to claim against the transferor of the facilities for any loss or damage arising from absence of the permits.	• Encouraged constructing party to apply for relevant permits. • As we are not the constructing party, we are not able to rectify these defects by applying for the permits. • Our Group has taken into account the possibility, although remote, that the facilities may be ordered to be demolished by increasing the capacity of nearby facilities. Design of facilities allows for relocation or use in the construction of new facilities.	• Revenue contributions: nil, nil, 2.0% and 1.5% (Note). • Net profit contributions: nil, nil, 3.5% and 2.3% (Note).

Note:
These figures only represented the revenue and net profit contributions of Phase II facilities operated by Shaanxi Yingde, which have been determined by multiplying the revenue and profit contributions of Shaanxi Yingde to our Group with the ratio of the capacity of such Phase II facilities (and also taking into account the utilisation rate of such facilities during the relevant periods) over the total capacity of all the facilities operated by Shaanxi Yingde.

Our subsidiary	Nature of non-compliance	Legal implications	Remedial actions taken / to be taken	Revenue / profit contributions to our Group for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
Hengyang Yingde	• Absence of construction planning permit. • Absence of construction permit.	• Facilities on the land are subject to the risk of demolishment or relocation due to the absence of construction permit and construction planning permit. • On the basis that our Group was not responsible for the construction of the facility, our PRC legal advisors advise that our Group will not be subject to any fines or penalties for absence of construction permit and construction planning permit. • our PRC legal advisors confirm that our Group is able to claim against the transferor of the facilities for any loss or damage arising from absence of the permits.	• Encouraged constructing party to apply for relevant permits. • As we are not the constructing party, we are not able to rectify these defects by applying for the permits. • Our Group has taken into account the possibility, although remote, that the facilities may be ordered to be demolished by increasing the capacity of nearby facilities. Design of facilities allows for relocation or use in the construction of new facilities.	• Revenue contributions: nil, nil, nil and 1.6% (representing nil, nil, nil and RMB14.3 million respectively). • Net profit contributions: nil, nil, nil and 1.6%.

Impact on our Group

Our directors confirm that, as at the Latest Practicable Date, none of our relevant subsidiaries or facilities has been subject to any fine, request for suspension of production or construction or request for relocation from the local governments or the title holders (as appropriate) by reason of the absence of project construction planning permits and/or construction permits or occupation of land with defective land titles as specified above.

All of our production facilities currently in operation operate with a buffer capacity. Should there be suspension of production at any of our production facilities, the committed gas supply to that on-site customer can be met by (i) utilizing the buffer capacity and the inventory from our other facilities, and/or (ii) direct purchase from third parties in the merchant market.

It is feasible to substitute the on-site gas supply with a buffer capacity from off-site by transporting gas products from surrounding facilities by road tankers. This is similar to our merchant business whereby we generally deliver gas products to customers or the customers collect gas products from our merchant facilities. We understand that our on-site customers can use gas products in the same manner, irrespective of the mode of delivery. Transportation costs are insignificant as our network enables surrounding facilities in relative close proximity to provide buffer capacity to one another.

As at the Latest Practicable Date, we have not been subject to any claim from the local government authorities or the relevant on-site customers (or the relevant land title holders) in respect of buildings and units we constructed on those parcels of land provided by our on-site customers. Please refer to Items (3) to (10) and (12) to (14) of "Group I – Property interest held and occupied by the Group in the PRC" in "Appendix IV – Property Valuation" for details in respect of buildings and units we constructed on those parcels of land provided by our on-site customers and Items (15) and (16) of "Group II – Property interest held under development by the Group in the PRC" in "Appendix IV – Property Valuation" to this document for details in respect of buildings and units we are currently constructing on those parcels of land provided by our on-site customers.

Nanjing Xingang

Our Nanjing Xingang merchant production facility only requires the installation of an air separation unit at an existing facility of our cooperative partner, a petroleum and petrochemical company, which is a subsidiary of one of the largest state-owned petrochemical companies in China. Accordingly, this facility does not occupy any land. This differs from the other merchant production facilities operated by Yangzhou Yingde and Zhangjiagang Yingde which occupy parcels of land for which we hold proper title. Unlike the usual arrangement between us and our on-site customers, under the cooperation agreement, the cooperative partner is not under an obligation to provide land for use by Nanjing Xingang. We confirm that our cooperative partner installed the equipment provided by Nanjing Xingang at its own facility. Our PRC legal advisors advised that, on this basis, the cooperative partner is responsible for obtaining the construction planning permit and construction permit for the overall project which should include all of its relevant facilities as well as the equipment provided by Nanjing Xingang and that Nanjing Xingang does not need to obtain the construction planning permit and construction permit as our cooperative partner carried our the installation works for the facility. In the event of Nanjing Xingang's relocation, the air separation unit may be removed at insignificant cost and be installed in an alternative location to maintain argon gas production for our Group. We have not yet identified an alternative location for such equipment but, should this evacuate, it may potentially be used by other companies as well as by our Group's own facilities.

A company belonging to the same group of companies as our cooperative partner has obtained relevant title to the land on which our cooperative partner is located. For this reason, we believe that there is no real risk that the land title holder would raise objection to the use of the land by the cooperative partner. Our PRC legal advisors advised that there would be no real risk that the Nanjing Xingang facility would be subject to relocation or demolishment provided that the land owner did not raise objection on the use of land. Jun He Law Offices have further advised that, under PRC law, Nanjing Xingang may claim losses and damages from the cooperative partner if, because of the cooperative partner's actions or omissions, Nanjing Xingang could not continue to operate as provided under the cooperation agreement.

Zhangjiagang Yingde

One of our subsidiaries, Zhangjiagang Yingde, owns a parcel of land which was acquired by Zhangjiagang Yingde before we acquired a 75% interest in Zhangjiagang Yingde resulting in it becoming a member of our Group. When we acquired Zhangjiagang Yingde, we were aware that Zhangjiagang Yingde had contracted to purchase a parcel of land from the government. Shortly after we acquired Zhangjiagang Yingde, Zhangjiagang Yingde was granted the land title certificate evidencing its title to the land. However, we subsequently discovered that Zhangjiagang Yingde had in fact entered into another contract with a different government department for the acquisition of the same parcel of land for a consideration which is approximately RMB4 million more than the consideration under the previous contract. We are not aware of the reasons for or circumstances relating to having two contracts for the purchase of the same parcel of land. Our PRC legal advisors advised that, although Zhangjiagang Yingde has been granted the land title certificate, given the existence of this other contract, there remains a legal risk that the government may claim the outstanding land grant fee of RMB4 million. We have accordingly made a provision for the additional land grant fee of RMB4 million in our financial statements. The directors of our Company consider that such treatment is appropriate and sufficient to address the legal risk presented to our Group and there is no further material impact on the profitability or financial results of our Group.

Hebei Yingde, Zibo Yingde and Laiwu Yingde

In respect of the parcels of land occupied by the facilities operated by Hebei Yingde, Zibo Yingde and Laiwu Yingde, the relevant on-site customers have failed to provide or procure land with proper titles for use by us. We understand from our on-site customer in Laiwu that the on-site customer has obtained approval from the Laiwu government authority for the conversion of the land into construction/industrial land, pending final approval from the Shandong provincial government authority. According to the gas supply agreements and relevant supplemental agreements entered into between each of Hebei Yingde and Laiwu Yingde and the respective on-site customers, the relevant subsidiary is eligible to claim against the on-site customer for any losses or costs arising from the deficiencies of the land provided or procured by the on-site customer, including but not limited to: (i) fines imposed by any relevant authorities; (ii) loss of profit as a result of being ordered to suspend production (if applicable); (iii) the construction cost of the project if it is ordered to be demolished; (iv) all the costs, fees or losses resulting from the relocation. Our PRC legal advisors advised that under PRC law, pursuant to the gas supply contract between the parties, Zibo Yingde may claim against the on-site customer for losses and damages arising from deficiencies in the title of the land, which the on-site customer has provided or procured.

As the facilities operated by Hebei Yingde, Zibo Yingde and Laiwu Yingde are situated on land with defective titles provided or procured by our on-site customers, they are subject to the potential risk of demolishment or relocation. Whilst the eventuality of such risk may require us to utilize the buffer capacity of other plants to support these plants, we believe that if we were forced to demolish or relocate by the local authority due to defective land title, the on-site customer's facilities would also be subject to the same request. Therefore, we may not be able to continue to supply gas to the on-site customer. However, in such case, as advised by our PRC legal advisors, we would have the right to claim compensation from the on-site customers for losses and costs arising from the demolition or relocation associated with the defective land title under the gas supply contracts and/or supplemental agreements between the parties.

The parcel of land occupied by the production facilities operated by Laiwu Yingde and provided by our on-site customer is for agricultural use. Our PRC legal advisors advised that pursuant to the relevant PRC laws, the improper land usage can be rectified by obtaining approval for the conversion of "agricultural land" into "construction land" (建設用地) (which includes usage for industrial purposes). Our PRC legal advisors advise that the process can be commenced by an application for conversion by the on-site customer to acquire the land for construction/industrial purposes. We understand from the on-site customer that it has applied for the conversion of the agricultural land into construction/industrial land, and that the formalities for this conversion are under way and will be completed following the approval of the Shandong government authority.

Buildings and units

The buildings and units for certain of the facilities operated by Hunan Yingde, Tianjin Yingde, Yangzhou Yingde, Shaanxi Yingde, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Laiwu Yingde, Jiangsu Yingde, Huai'an Yingda, Guizhou Yingde, Hengyang Yingde and Zhuzhou Yingde are built on parcels of land provided or secured by our on-site customers. Since these parcels of land are not registered under our name, our PRC legal advisors, we are not permitted to obtain the relevant building title certificates under applicable PRC laws and regulations

Our PRC legal advisors advised that our use of these buildings and units is subject to potential claims by the local government authorities or the relevant land right holders. Therefore, we may be required to relocate those buildings and units that we have constructed or they could be demolished pursuant to local government order or claim from land rights holders. However, we do not consider that the risk presented to our Group is material, for the following reasons:

(1) as at the Latest Practicable Date, we have not received any such claims from local authorities or property owners and we are not aware of any intention of local authorities or property owners to make such claims;

(2) according to the relevant gas supply contracts, our on-site customers are required to supply or secure the supply of such parcels of lands for building our offices and units. Our PRC legal advisors advised that we have a right to claim compensation from the on-site customers under the gas supply agreement if the on-site customers fail to provide such land with proper title and, as a result, our Group suffers loss and damage; and

(3) the buildings and units are only used for auxiliary purposes (for example, back office and staff quarters) and can be relocated. We consider any suspension of our Group's use of such buildings and units and, any relocation required will not affect the operations and business of our Group in any material respects.

Leased properties

Yingde Logistics leased a parking lot and several offices from the relevant land owner. Hengyang Yingde leased several houses from the relevant land owner. We understand that these parcels of land do not have all the relevant land title certificates. Accordingly, our use of these buildings is subject to claims from local government authorities or the property owners (if any). Our Company's PRC legal advisors advised that, in the event our Company suffers losses or damage from demolition or relocation of the related properties, we have a right to claim compensation from the landlords under the tenancy agreements. In addition, as the properties are only used for auxiliary purposes, we consider any suspension of our Group's use of such properties and any relocation required will not affect the operations and business of our Group in any material respects.

INSURANCE

Our gas supply contracts with our on-site customers generally provide that we and our on-site customers shall be liable for the losses and damage to the properties or persons on the respective sites occupied by us or our on-site customers. Our PRC legal advisors advised that under PRC law, we may be liable for losses, damage or injury caused to third parties (including our on-site customers) or their properties by an accident caused by us, unless such accident is shown to be intentionally caused by such third parties. We manage our risk by constructing our production facilities according to the safety standards required by the PRC government in order to pass safe production inspections and obtain safe production permits from the PRC government. We believe our adherence to PRC government safety standards reduces the risk of accidents occurring at our production facilities. We generally maintain property insurance coverage to cover our main fixed assets and plant and equipment, which is tailored for individual production facilities and covers the damages and losses arising from incidents including accidents (whether self-inflicted or caused by a third party), natural disasters and other force majeure events. However, we do not maintain third party insurance in respect of our operations. Our PRC legal advisors advise that it is not a mandatory requirement under PRC laws to obtain such insurance and we understand that it is not industry practice to do so.

We also contribute to social insurance for our employees as required by the PRC social security regulations, such as pension contribution plan, medical insurance plan, unemployment insurance plan and work related injury insurance plan for our employees as required by local government. We believe that our insurance coverage is sufficient for our present purposes and is consistent with coverage for other companies in our industry in China.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We may be involved in certain legal proceedings arising from the ordinary course of our business, including as the plaintiff or defendant in litigation or arbitration proceedings in relation to disputes in connection with our gas supply contracts, such as late or non-payment by our customers. As at the Latest Practicable Date, there are no current litigation or arbitration proceedings and, to the knowledge of our directors, there are no pending or threatened litigation or arbitration proceedings against us or any of our directors that could have a material adverse effect on our financial condition or results of operations.

We set out below the historical legal or regulatory non-compliance matters which may be considered material to our operations:

(a) In March 2006, as we did not accurately estimate the length of time required for the relevant local PRC regulatory authorities to review our application for the renewal of our business license and to obtain a production permit for industrial products in connection with our production facility in Hunan province (being our first production facility in operation since our establishment), the operation of that facility was temporarily suspended for a period of approximately five months and we incurred losses in terms of labor costs, overhead costs and penalty imposed by the government authority in the amount of RMB1.4 million. In addition, we suffered a loss of revenue which could have been generated but for this temporary suspension. After this period, the relevant business license and production permit for industrial products were successfully renewed and issued by the relevant local PRC regulatory authorities, and production was resumed. There were no substantive regulatory compliance issues raised by the relevant local PRC regulatory authorities. Since the occurrence of this incident, we have been very cautious and adopted proactive communications with other production facilities to ensure that the relevant employees promptly submit all applications for renewal of any regulatory licenses and permits for our production facilities across the PRC to avoid similar incidents from recurring. As at the Latest Practicable Date, we have not experienced any discontinuation of operations due to non-renewal of any regulatory permit or license other than the incident described above. Our PRC legal advisors are of the opinion that we will not be subject to any further legal action from the government.

(b) In October 2007, we paid a penalty of RMB1.1 million for failing to obtain prior customs approval for the pledge of duty free imported machines by Jiangsu Yingde to secure a loan provided by the Industrial and Commercial Bank of China Limited, in breach of applicable PRC customs laws and regulations. Our PRC legal advisors are of the opinion that we will not be subject to any further action from the relevant local authority.

(c) Our subsidiary, Zhuhai Yingde, commenced production before filing an application for environmental acceptance inspection and pollutant discharge. The late application was due to the failure to file the application for environmental acceptance inspection with the relevant local PRC authority within the required period. Our PRC legal advisors advise that Zhuhai Yingde may be subject to a fine of RMB20,000 to RMB100,000 for the delay in completing the environmental acceptance inspection and pollutant discharge application. However, given that Zhuhai Yingde has passed the environmental acceptance inspection and obtained the requisite pollutant discharge permit on January 21, 2008 and October 6, 2008, respectively advise that in practice, the possibility for the exposure to the abovementioned legal consequences is low.

(d) Our subsidiary, Hunan Yingde, received tax refund from the Loudi city government pursuant to an official approval issued by the Loudi city government dated April 26, 2004. According to the opinion of our PRC legal advisors the national government has revoked the right of local governments to grant tax refund without the approval of the central government. Accordingly, this was a local government practice which was not due to any action or omission of our Group. We received tax refund in the amount of RMB1,037,000, RMB987,000 and RMB1,346,000 from the Loudi city government for the three years ended December 31, 2006, 2007 and 2008, respectively. Our PRC legal advisors confirm that, in practice, the possibility of our being required to return such tax refund is low.

(e) Our subsidiary, Shaanxi Yingde, acquired a production facility with a installed capacity of 6,500 Nm^3/hr from an independent third party. We understand from the seller that it did not obtain certain relevant government approvals/permits (environment approval, construction planning permit and construction permit) in respect of the production facility. Our PRC legal advisors have advised that this facility is therefore subject to the potential risk of suspension orders from relevant governmental authorities. However, as advised by our PRC legal advisors in the event we suffer losses and damages from the suspension of the facility, we would have a right to claim compensation from the seller under the sale and purchase agreement between the parties.

(f) Pursuant to the terms of the joint venture agreement, our Company and Hengyang Valin have jointly established Hengyang Yingde in which our Company and Hengyang Valin hold a 70% and 30% interest, respectively. Hengyang Valin has transferred the ownership of two production facilities with a combined installed capacity of 9,800 Nm^3/hr to Hengyang Yingde as its capital contribution. We understand from Hengyang Valin that it did not obtain certain government approvals/permits (environment approval, construction planning permit and construction permit) in respect of the two production facilities. Our PRC legal advisors have advised that these facilities are therefore subject to the potential risk of suspension orders from relevant governmental authorities. However, as advised by our PRC legal advisors, in the event we suffer losses and damages from the suspension of the two facilities, we would have a right to claim compensation from Hengyang Valin under the joint venture agreement between the parties.

Under PRC law, we are required to obtain two permits to produce and sell industrial gases, namely: (i) safe production permit issued by the State Administration of Work Safety or its local counterpart; and (ii) production permit for industrial products issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC or its local counterpart. Our PRC legal advisors advised that under PRC law, we are not required to obtain separate hazardous chemical production licenses in respect of the production activities at our production facilities.

We set out below certain matters concerning the safe production permits and production permits for industrial products in connection with the facilities operated by Zibo Yingde, Hebei Yingde, Huai'an Yingda, Laiwu Yingde, Zhuzhou Yingde, Rizhao Yingde and Hengyang Yingde, respectively, during the Track Record Period:

- Phase I of the production facilities operated by Zibo Yingde commenced production in September 2007. However, Zibo Yingde only filed the application for safe production permit and production permit for industrial products after having commenced production in September 2007. Zibo Yingde obtained permission from the relevant government authority for trial production covering the period from January 8, 2008 to February 20, 2008. The legal implications are a possible fine in the range of RMB100,000 to RMB500,000 and a possible fine ranging from one to three times of the price of products produced and confiscation of products and earnings in respect of operation prior to the commencement of the trial production period.

  Zibo Yingde successfully obtained the safe production permit on April 10, 2008 and the production permit for industrial products on August 1, 2008.

- Phase I of the production facilities operated by Hebei Yingde commenced production in September 2007. Hebei Yingde obtained permission from the relevant government authority for trial production which covered the period from September 2, 2007 to March 2, 2008, however Hebei Yingde continued to operate after the expiration of this period. The legal implications are a possible fine in the range of RMB100,000 to RMB500,000, and confiscation of earnings and incomes in respect of operations after the expiry of the trial production period for the absence of safe production permit; and a possible fine ranging from one to three times of the price of products produced, confiscation of products and earnings (both in respect of operations after the expiry of the trial production period) and risk of forced suspension or termination of production for the absence of production permit for industrial products.

  Hebei Yingde obtained confirmations from the relevant local government authorities which, according to the opinion of our PRC legal advisors, the principal administrative and enforcement authorities concerning these two permits. These confirmations stated that, notwithstanding the absence of the relevant permits, the current operations of the facilities operated by Hebei Yingde are in accordance with the relevant requirements and therefore, it would not be subject to any administrative penalty such as suspension of operation or fines. On the basis of these confirmations, our PRC legal advisors advised that Hebei Yingde is not exposed to any fine or other penalties by such authorities for the absence of safe production permit and production permit for industrial products.

  Hebei Yingde successfully obtained the safe production permit on June 30, 2008 and the production permit for industrial products on September 12, 2008, for its Phase I facility.

  Prior to the commencement of trial production at Hebei Yingde's Phase II facility, our Group had already reported the intended trial production to the relevant authority and was engaged in discussions with the relevant authority regarding the materials required to apply for the trial production permit. After the trial production commenced in September 2008, due to an operational problem which occurred at the facility, operation of the facility was suspended in October 2008. After the problem was fixed, the facility resumed operation in November 2008 and accordingly the trial production permit was issued stating that the trial production commenced in November 2008.

- The facility operated by Huai'an Yingda commenced production in March 2008. Huai'an Yingda obtained permission from the relevant government authority for trial production on February 25, 2008 covering a period of six months from March 1, 2008.

  Huai'an Yingda successfully obtained the safe production permit on June 26, 2008 and the production permit for industrial products on July 25, 2008.

- The facility operated by Laiwu Yingde commenced production in July 2008. Laiwu Yingde obtained permission by the relevant government authority for trial production on June 4, 2008 covering a period of six months from the date of commencement of gas supply.

  Laiwu Yingde successfully obtained the safe production permit on November 18, 2008 and the production permit for industrial products on March 13, 2009.

- The facility operated by Zhuzhou Yingde commenced trial production in December 2008. Zhuzhou Yingde obtained permission from the relevant government authority for trial production on December 23, 2008 covering a period of six months from the date commencement of trial gas supply. On June 19, 2009, Zhuzhou Yingde obtained permission from relevant government authority to extend the trial production period to the end of July 2009. On July 20, 2009, Zhuzhou Yingde passed the safety inspection and obtained the opinion upon completion of the safety inspection which permitted Zhuzhou Yingde to commence production.

- Prior to the commencement of trial production at Rizhao Shandong Phase III in October 2008, we reported our trial production proposal to the relevant authority and were engaged in discussions with the relevant authority regarding the documentation required to apply for the trial production permit. Whilst the trial production permit granted on January 12, 2009 did not specify a commencement date for trial production, our PRC legal advisors advised that, given that the relevant government authority had been notified of the starting date of the trial production of Rizhao Shandong Phase III, the trial production of Rizhao Shandong Phase III starting from October 2008 has been permitted by the relevant government authority. On August 21, 2009, Rizhao Safe Production Supervision and Administration Bureau issued a written confirmation stating that the permitted trial production period for Rizhao Shandong Phase III commenced in October 2008.

- The Phase I facilities of Hengyang Yingde were transferred from Hengyang Valin to the joint venture company Hengyang Yingde as part of Hengyang Valin's contribution to the joint venture. As a result of this transfer, Hengyang Yingde was required to obtain the relevant permits in its own name. The relevant government authorities have issued written confirmations stating that Hengyang Yingde has applied for the new safe production permit and production permit for industrial products, and that while such application is under consideration, the relevant permits held by Hengyang Valin remain effective for the operation of the relevant production facilities by Hengyang Yingde. We expect that the new production permits to be granted in October 2009, however the actual time will depend on the response time from the relevant authorities. In view of the confirmations by the relevant authority, we do not consider there to be any material risk to the continued operations of the facilities. We believe that the Phase I facilities of Hengyang Yingde satisfy the relevant safety requirements. Our PRC legal advisors are of the view that there is no legal impediment to Hengyang Yingde obtaining the relevant safe production permit and the production permit for industrial products.

Our directors confirm that the operations of the facilities operated by Zibo Yingde, Hebei Yingde, Huai'an Yingda, Laiwu Yingde and Zhuzhou Yingde during the trial production period as mentioned above have been within the scale reported by us in the application for trial production and confirmed by the relevant government authorities.

Our PRC legal advisors confirm that defects in the title of those parcels of land occupied by the production facilities operated by Zibo Yingde and Hebei Yingde shall not invalidate or cause revocation of the safe production permit and the production permit for industrial products that we have obtained. In addition, our PRC legal advisors confirm that our use of land occupied by the production facility operated by Laiwu Yingde shall not invalidate or cause revocation of those permits after they have been obtained. Our PRC legal advisors have advised that their views are based on the following reasons: (i) pursuant to the relevant PRC laws, a valid land use rights certificate is not a compulsory pre-requisite for the application and the grant of a safe production permit or production permit for industrial products; and (ii) the safe production permit or production permit for industrial products application and approval process is overseen by government departments different from the government authority in charge of land administration.

We will not be able to obtain the following permits prior to [●], namely:

- construction planning permits for the facilities operated by Hunan Yingde and Tianjin Yingde; and

- construction permits for the facilities operated by Hunan Yingde and Tianjin Yingde, in each case due to the length of time that has elapsed since construction.

We will use our best endeavors to obtain the relevant permits and to comply with regulations relating to the construction of our production facilities. We have been in active communication with the relevant government authorities in this regard and are committed to taking effective measures to comply with regulatory requirements.

Our Internal Control Measures

In order to address and prevent the occurrence of future legal and regulatory non-compliance matters, our Group has adopted the following measures:

(a) With a view to formulate detailed internal control policies, procedures and guidelines, our Group has engaged a professional consultancy firm, Protiviti Shanghai Co., Ltd., or Protiviti, a leading international provider of independent internal audit and business and technology risk consulting services, to appraise the internal control systems and identify risk areas presented to the operations and control environment of our Group.

The table below sets out the key findings and recommendations of Protiviti, the actions we have taken to implement such recommendations:

	Key Findings	Recommendations	Actions we have taken
1.	Lack of a unitary accounting manual to standardize accounting treatment across our Group	i) Develop a comprehensive accounting manual to cover all of the possible business activities that our Group would engage. ii) Provide training to each accounting and finance personnel on the accounting manual. iii) Post-training follow-up alongside with implementation of the accounting manual.	i) Engaged Protiviti to develop a customized accounting manual for our Group. ii) We have finalized the accounting manual. iii) Engaged Protiviti to provide training to each accounting and finance personnel on November 10, 2008.
2.	Lack of written policy of approval procedure and authorization matrix	Develop approval procedure and authorization matrix to define the approval authority at different levels, including shareholders' meeting, board meeting, senior management and plant management.	i) Developed a full scale authorization matrix and approval procedure. ii) Our relevant department will also be responsible for the implementation of the authorization matrix.
3.	Lack of written policy to direct new plant investment activities and to ensure compliance with procedures in the application and the obtainment of various permits	Develop comprehensive capital expenditure and procedural policies including due diligence on potential customers, investment budgeting, investment return analysis, construction bidding procedure, post capital expenditure audit and relevant permits application.	i) With Protiviti's guidance, we have developed a full scale capital expenditure policy to define each of these procedures. ii) Set up the compliance department and the compliance committee on May 8, 2008, with specified roles and responsibilities to handle and monitor the compliance matters of our Group. iii) Our relevant department is also responsible to provide assistance in the implementation of the above measures.

	Key Findings	Recommendations	Actions we have taken
4.	Lack of written policy for material contract management	i) Formulate policy to standardize contract drafting, reviewing and filing procedure. ii) Standardize contract template. iii) In-house counsel and external legal counsel (on a case by case basis and if necessary) to review material contracts.	i) Formulated a policy on contract management. ii) Our compliance department is also responsible for contract management.
5.	Lack of anticorruption mechanism	i) Introduce an employee code of conduct. ii) Establish an anticorruption reporting channel for employees and third parties to report corruption.	i) Developed an employee code of conduct. ii) Code of conduct has been incorporated into our standard employment contract as an integral appendix. iii) Established an anticorruption reporting hotline/email on our corporate website which will be monitored by our audit committee.

The following paragraphs set out the details of some of our internal control measures identified in the above table as well as other internal control measures which we have implemented.

(b) We have formulated a comprehensive internal control policy which covers various major areas of our operations including approval process and authority, compliance risk management, capital investment management and contract management. A brief explanation of the policy is as follows:

(i) ***approval process and authority*** — our senior management is granted approval rights to manage our day-to-day inventory management, material and fixed assets procurement, sales, human resources, general expenses and reimbursements. Different level of approval authority has been set up and the level of approval required is commensurate with the value involved. The approval matrix has taken into account the needs for segregation of duties and the joint approval of more than one member of the senior management which may be required for substantial transactions;

(ii) ***compliance risk management*** — we have established a compliance structure with a compliance department primarily responsible for handling the compliance matters of our Group at the operational and daily management level. The compliance department will report to the compliance committee. The compliance committee and ultimately the board of directors of our Company are responsible for monitoring the compliance status of our Group and ensure compliance with applicable legal and regulatory requirements. Please see below for further details of the roles and responsibilities of the compliance department and the compliance committee, respectively;

(iii) ***capital investment management*** — we have formulated a detailed capital investment management policy aimed at capital investment for new projects. The policy contains guidelines and procedures for acquisition of land and construction thereon, acquisition and construction of facilities and plants, purchase of equipment and material office supplies, purchase of quality control facilities and safety and environmental protection equipments. Details of responsibilities and delineation of duties of the control department, the business development department and the technical and engineering department are stipulated in the policy. Early involvement of the compliance department and the finance department in project development to ensure proper budgeting and planning for capital investment and application for the necessary permits and certificates for the construction and operation of the new plants and facilities; and

(iv) ***contract management*** — we have established a system whereby the responsible person for a particular new project and the heads of the relevant business department, finance department and compliance department shall review a proposed contract. Our general manager will then review a proposed contract. Material contracts will be subject to the approval of the board of directors of our Company and, where necessary, external legal advisors will be involved in the drafting or review of material contracts;

(c) We have established a compliance department which is responsible for monitoring legal and regulatory compliance and the control environment at the group level as well as the subsidiary level. The compliance department comprises our legal and company secretarial teams and is headed by Mr. Zhongguo Sun, our chairman and executive director. The compliance department directly reports to the compliance committee on a monthly basis and is also required to provide periodic reports on our Group's compliance status to our board of directors.

The primary responsibilities of our compliance department are as follows:

(i) to ensure the relevant legal and regulatory approvals, permits and licenses, concerning a new project are obtained in a timely manner in accordance with applicable requirements and ensure that these approvals, permits and licenses remain valid and subsisting and ensure our permit application process and timing comply with our production and construction policies;

(ii) in respect of new plant construction projects, to examine and assess the requisite local requirements and ascertain the approvals, permits and licenses required and to undertake the necessary processes and procedures to apply for such approvals, permits and licenses in a timely manner. The compliance department will be involved in the early stage of a new project and work closely with the business development team. If necessary, the compliance department will also seek appropriate expert advice;

(iii) in respect of plants that are in operation, to carry out regular compliance examination regarding compliance with contract terms, legal requirements for various areas such as labor, social welfare, licensing and environmental protection, as well as compliance with PRC safety standards concerning our operations on a monthly basis in order to reduce the risk of accidents occurring at our production facilities;

(iv) to identify, correct and eliminate in a timely manner any inadequacies in compliance with laws and regulations regarding the operations and/or construction of plants;

(v) to provide (or, if appropriate, engage an external party to provide) training to our directors and relevant staff regarding updates on legal and regulatory requirements as well as the improvements and updates on our internal control measures;

(vi) to work closely with other departments, in particular the finance department, to ensure compliance with applicable rules and requirements when our Group enters into a material contract or makes a material investment; and

(vii) to work closely with external legal advisors, compliance advisors and financial advisors engaged from time to time to improve internal control system;

(d) We have established a compliance committee, a committee of the board of directors, which consists of Mr. Zhongguo Sun (chairman), Mr. Zhao Xiangti and Mr. Zheng Fuya. The compliance committee's terms of reference set out its duties and obligations for ensuring compliance with regulatory matters and corporate governance and the committee will provide quarterly reports to the board of directors. The primary responsibilities of the compliance committee are as follows:

(i) to devise mechanisms and procedures and make recommendations on improving the control environment and to revise the effectiveness of our internal control policies and make recommendations on its improvements;

(ii) to oversee and monitor the compliance status of our Group's business and operations based on the applicable legal and regulatory requirements as well as our own internal control policies and procedures (including our production and construction policies);

(iii) to devise appropriate measures and actions if any aspect of our operations is presented with a risk of non-compliance or delay in compliance to minimize liability exposure of our Group;

(iv) to review and assess the qualification and competence of any professional parties to be engaged or re-engaged by our Group (other than external auditors) and to recommend to the board of directors the approval of such engagement or re-engagement;

(v) to review regular and special reports submitted by the compliance department and require the compliance department to prepare specific reports dealing with particular internal control or compliance issues for review; and

(vi) to hold regular meetings to discuss, investigate and make plans for our Group's legal and compliance matters.

(e) In order to address the potential legal implications in respect of the lack of proper title for parcels of land to be provided or procured by each potential on-site customer for use by our Group, a condition precedent will be included in our future gas supply contracts requiring our on-site customer to provide proof of proper land title. Our future gas supply contracts will also require our on-site customer to provide all reasonable assistance to our Group to obtain the construction planning permit and construction permit in respect of the facility to be constructed and we would only be obliged to construct such facility once we have seen proof of proper land title and have obtained the requisite construction planning permit and construction permit. If our on-site customer fails to provide the required assistance, we may terminate the gas supply contract without prejudice to our right to claim for expenses and costs suffered as a result of the on-site customer's breach of contract.

(f) The implementation of a construction policy on June 15, 2008 requiring that no construction will commence for our future production facilities unless we have obtained the necessary construction planning permit and construction permit. Our directors are of the view that we have complied with the construction policy since its implementation.

(g) The implementation of a production policy on June 15, 2008 requiring our future production facilities to commence production only after we have (i) obtained the necessary permission from the relevant government authority for trial production; or (ii) obtained safe production permit and production permit for industrial products after the expiration of the trial production period or any extension thereof. In respect of the permits that are subject to a validity period, we will apply for renewal at a sufficient time prior to the expiry of such permits as permitted under applicable laws to ensure that our permits could be renewed on or prior to the expiry of such permits. In the event that the renewal cannot be obtained prior to the expiry date of the existing permit, our facilities will suspend operations until the requisite permits have been renewed. Our directors are of the view that we have complied with the production policy since its implementation.

(h) We have established an audit committee comprising two independent non-executive directors and one non-executive director to be responsible for overseeing the internal control procedures of our Group, discussing with the management of our Group regarding the system of internal control and ensuring that management has discharged its duty to maintain an effective internal control system. We will be able to draw upon the experience and knowledge of the independent non-executive directors who are acting or have acted as directors of other listed companies or listed groups to assist our Group in formulating the principles and direction of effective internal control systems. Please refer to the section headed “Directors, Senior Management and Employees” in this document for details of the experience and qualifications of the members of our audit committee.

(i) We may engage a PRC law firm to act as external legal advisor from time to time. The legal advisor will assist our Group in handling legal and regulatory compliance matters and advise our Group on legal and regulatory issues on a case-by-case basis as and when they arise. The external legal advisor will be involved in the drafting and amendment of material contracts for our Group. Upon our request, the legal advisor will also provide training to our directors, senior management and staff addressing topics of concern.

(j) Reference is made to the paragraph headed “Further Information on Torch” in the section headed “Our History and Reorganization” of this document. We have designed certain of our internal control measures to, among other things, prevent the non-compliance matters that affected Torch from occurring within our Group:

- Development of a comprehensive accounting manual as described above. Our accounting manual will also require our financial reports to be reviewed and approved by the audit committee, the majority of which consists of independent non-executive directors;
- Establishment of a compliance department and the compliance committee as described above which would be responsible for handling and monitoring the compliance matters of our Group, respectively. Please refer to the section headed “Directors, Senior Management and Employees” in this document for details of the experience and qualifications of Ms. Wong.

With Protiviti’s assistance, we have implemented the major internal control measures identified in this section. We expect that the implementation of the steps and measures described above will assist our Company effectively and efficiently to rectify the current non-compliance issues and prevent the recurrence of similar non-compliance in the future by ensuring closer compliance monitoring and requiring that construction and production activities will only commence after the relevant permits and certificates have been obtained.

In order to assist the shareholders and investors in understanding and scrutinizing the effectiveness of our Group’s internal control, we engaged Protiviti to conduct an assessment over the implementation of the internal control measures of our Group and Protiviti subsequently issued its report dated March 12, 2009 to us. In its report, Protiviti advised that if our Group consistently implements the internal control measures recommended by Protiviti, the past non-compliance matters of our Group can be effectively prevented. Protiviti confirmed that it is satisfied that we have effectively implemented the internal control measures concerning the previous non-compliance matters of our Group.

The directors of our Company are of the view that the internal control measures adopted by us as disclosed in this document are effective in improving the regulatory compliance of our Group.

Indemnity from Baslow, Bubbly Brooke, Rongton and Peace & Smooth

Our PRC legal advisors advise that based on the current applicable PRC laws and regulations, the total maximum penalties that our Group is subject to in connection with: (a) the absence of construction permit and construction planning permit for the production facilities operated by Hunan Yingde and

Tianjin Yingde; and (b) the absence of construction permit for Laiwu Yingde which was subsequently obtained on November 24, 2008, collectively amount to RMB45.3 million as at the Latest Practicable Date. Baslow, Bubbly Brooke, Rongton and Peace & Smooth (collectively, the "Indemnifying Parties") have agreed to jointly and severally indemnify and keep our Group indemnified against the penalties that may be imposed by the PRC government authorities in connection with (a) and (b) above as at the Latest Practicable Date, to a maximum amount of RMB45.3 million. The indemnity provided by the Indemnifying Parties will remain valid: (1) during a period of five years from [●], and subject to the Indemnifying Parties receiving a written notice from our Company prior to the expiry of such five-year period giving details of the claim, and any such claim should (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the fifth anniversary of [●] unless proceedings for such claim have been commenced by our Company against the Indemnifying Parties; and (2) [●].

Based on the opinion of our PRC legal advisors, we have obtained all material licenses and permits for the operation of our production facilities that are currently in operation and have passed inspections to obtain or renew our licenses and permits during Track Record Period in all material respects save as disclosed in the sections headed "Our Properties", "Legal Proceedings and Regulatory Compliance" and "Quality, Safety and Environmental Protection" of this document.

CONTINUING CONNECTED TRANSACTIONS

Background

On November 28, 2008, our Company entered into a joint venture agreement with Hengyang Valin to establish a joint venture industrial gas supply company, Hengyang Yingde, in Hengyang city, Hunan province. As we own 70% interest in Hengyang Yingde and have the right to appoint two out of three members of its board of directors, we have control of Hengyang Yingde. Therefore, our Company accounts for Hengyang Yingde as our subsidiary. Hengyang Valin owns the remaining 30% interest in Hengyang Yingde.

As Hengyang Valin is a substantial shareholder of our Company's subsidiary, Hengyang Valin is a connected person of our Company pursuant to the relevant rules and regulations. Therefore, any transaction between our Company and Hengyang Valin (including its associates) are connected transactions of our Company pursuant to the relevant rules and regulations which will be subject to the requirements under the relevant rules and regulations.

Description of the transactions

Hengyang Gas Supply Contract

On November 28, 2008, Yingde BVI (on behalf of Hengyang Yingde) entered into a gas supply contract with Hengyang Valin, or the Hengyang Gas Supply Contract, pursuant to which Yingde BVI agreed to transfer the benefits and obligations under the Hengyang Gas Supply Contract to Hengyang Yingde upon its establishment, and Hengyang Yingde would supply and Hengyang Valin would purchase a specified minimum volume of industrial gases. The industrial gases supplied to Hengyang Valin by Hengyang Yingde include oxygen, nitrogen and argon which are the major industrial gas products offered by our Company. The duration of the Hengyang Gas Supply Contract is 20 years. The end date of the gas supply contract is October 30, 2029. Under the Hengyang Gas Supply Contract, Hengyang Valin is required to provide utilities (such as electricity) to Hengyang Yingde for its gas production facilities located on the site of Hengyang Valin. Hengyang Yingde would in turn be required to pay Hengyang Valin for those costs of gas production, such as the utility costs and rents for occupation of the site.

Gas Supply Transactions and Supply-related Transactions

The gas supply transactions from Hengyang Yingde to Hengyang Valin are referred to as the Gas Supply Transactions. The basis of pricing of the Gas Supply Transactions was reached between our

Company and Hengyang Valin through arm's length negotiations taking into account factors including the price offered by competitors, our Company's investment in capital expenditure, the costs of gas production (including the costs charged by Hengyang Valin for the Supply-related Transactions described below), reputation and quality of Hengyang Valin, and the likely return to the shareholders of our Company.

In connection with the Gas Supply Transactions, our Group will enter into certain related transactions with Hengyang Valin. These transactions involve payment of expenses (including but not limited to electricity expense, steam expense and rental expense) from Hengyang Yingde to Hengyang Valin under the Hengyang Gas Supply Contract, or the Supply-related Transactions. The basis of pricing of the Supply-related Transactions was reached between our Company and Hengyang Valin through arm's length negotiations taking into account factors including the price charged by the local utility companies and the rentals charged by landlords of adjacent properties.

Historical transaction amounts and the proposed annual caps

Prior to the commencement of gas supplies by Hengyang Yingde to Hengyang Valin in April 2009, there have been no transactions between our Group and Hengyang Valin and therefore, there were no historical transaction amounts for the three years ended December 31, 2006, 2007 and 2008.

The amount for the Gas Supply Transactions for each of the months since the commencement of gas supply by Hengyang Yingde to Hengyang Valin in April 2009 to July 31, 2009 was approximately RMB3.5 million, RMB4.7 million, RMB5.2 million and RMB5.2 million, respectively. The historical amount for the Supply-related Transactions for each of the months since the commencement of gas supply by Hengyang Yingde to Hengyang Valin in April 2009 to July 31, 2009 was approximately RMB1.8 million, RMB2.5 million, RMB2.7 million and RMB2.6 million, respectively. These amounts are generated by the Phase I facilities of Hengyang Yingde which were transferred from Hengyang Valin to Hengyang Yingde (as the joint venture company).

The directors of our Company currently estimate that the proposed annual caps of the Gas Supply Transactions will not exceed RMB82.5 million for the year ending December 31, 2009 and thereafter RMB110 million per annum and the Supply-related Transactions will not exceed RMB34 million for the year ending December 31, 2009 and thereafter RMB45 million per annum during the 20-year duration of the Hengyang Gas Supply Contract until October 30, 2029.

Basis for the annual caps

In arriving at the annual caps set out above, the directors of our Company have taken into account:

(a) the agreed unit price for each of oxygen, nitrogen and argon specified in the Hengyang Gas Supply Contract;

(b) the minimum gas supply volume for each of oxygen, nitrogen and argon specified in the Hengyang Gas Supply Contract;

(c) potential additional gas supplies above the minimum gas supply volume that Hengyang Valin may purchase from Hengyang Yingde due to future expansion of production of Hengyang Valin, on the basis of the capacity of the existing Phase I facilities of Hengyang Yingde and the Phase II facilities of Hengyang Yingde which are expected to commence gas supply in November 2009; and

(d) possible increase in the costs of gas production to be charged by Hengyang Valin (such as electricity) which will also be reflected in the increased sales prices of gas products.

Directors' confirmation

The board of directors of our Company considers that:

(a) the Gas Supply Transactions and Supply-related Transactions disclosed above; and

(b) the term of the Hengyang Gas Supply Contract exceeding three years,

are entered into on normal commercial terms, are entered into in the ordinary and usual course of the business of our Company, are fair and reasonable and in the interests of our Company's shareholders as a whole.

Save as disclosed above, we do not have any continuing connected transactions as at the Latest Practicable Date.