You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial information and related notes included in the Accountants' Report set out in Appendix I to this document. The combined financial information have been prepared in accordance with IFRS. The following discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see the section headed "Forward-looking Statements" in this document.

RESULTS OF OPERATIONS

The following tables set forth a summary of our combined statements of comprehensive income, combined balance sheets and combined cash flow statements for the periods presented, which are derived from the Accountants' Report in Appendix I to this document.

Summary Data of Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 unaudited**	**RMB'000**
Turnover	485,054	783,717	1,411,713	619,960	917,163
Cost of sales	(256,566)	(464,166)	(828,156)	(351,722)	(586,072)
Gross profit	**228,488**	**319,551**	**583,557**	**268,238**	**331,091**
Other revenue	1,037	987	1,352	499	208
Selling expenses	(8,909)	(9,933)	(15,088)	(7,727)	(7,834)
Administrative expenses	(40,718)	(58,603)	(79,946)	(25,739)	(45,448)
Profit from operations	**179,898**	**252,002**	**489,875**	**235,271**	**278,017**
Finance income	**5,307**	**27,899**	**36,469**	**12,979**	**2,771**
Interest income	268	2,350	5,291	2,701	1,798
Finance income on receivables under finance lease	—	—	1,555	742	796
Termination gain on conversion of Convertible Loans[1]	—	12,478	—	—	—
Fair value adjustment on Convertible Redeemable Preferred Shares[1]	—	—	21,301	1,724	—
Foreign currency exchange gain	5,039	13,071	8,322	7,812	177
Finance costs	**(161,201)**	**(95,963)**	**(58,492)**	**(26,563)**	**(44,030)**
Interest on bank and other loans	(12,509)	(42,575)	(66,184)	(30,454)	(34,510)
Finance charges on obligations under finance lease	(2,318)	(2,675)	(2,633)	(1,317)	(1,244)
Interest on the liability component of Convertible Loans and Convertible Redeemable Preferred Shares	(11,190)	(10,555)	(9,148)	(4,555)	(4,373)
Fair value adjustments on Convertible Loans and Convertible Redeemable Preferred Shares[1]	(78,899)	(50,810)	—	—	(10,953)
Loss on modification of terms of Convertible Redeemable Preferred Shares[1]	(55,041)	—	—	—	—
Termination loss on conversion of Convertible Loans[1]	(1,117)	—	—	—	—
Foreign currency exchange loss	(163)	(2,191)	(2,727)	(869)	(163)
Capitalized borrowing costs	36	12,843	22,200	10,632	7,213
Profit before taxation	**24,004**	**183,938**	**467,852**	**221,687**	**236,758**
Income tax	—	(8,055)	(39,192)	(21,489)	(4,234)
Profit and total comprehensive income for the year/period	**24,004**	**175,883**	**428,660**	**200,198**	**232,524**
Attributable to:					
Equity holders of our Company	(6,729)	177,049	430,133	200,721	232,487
Minority interests	30,733	(1,166)	(1,473)	(523)	37

Notes:

(1) For more details on the financial impact of the Convertible Loans and the Preferred Shares, please refer to Notes 22 and 23 of Section C of the Accountants' Report set out in Appendix I to this document.

Summary Data of Combined Balance Sheets

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment, net	611,025	1,123,091	1,751,968	2,176,570
Construction in progress	14,948	291,874	488,655	391,293
Other non-current assets	103,787	123,410	174,986	119,012
Total non-current assets	**729,760**	**1,538,375**	**2,415,609**	**2,686,875**
Current assets				
Trade and other receivables	82,089	167,786	126,676	284,463
Pledged bank deposits	37,652	154,530	227,422	231,546
Cash and cash equivalents	119,347	169,562	28,463	232,824
Other current assets	5,564	14,914	11,648	18,925
Total current assets	**244,652**	**506,792**	**394,209**	**767,758**
Current Liabilities				
Bank and other loans	157,334	316,754	500,262	560,115
Trade and other payables	117,031	317,092	572,710	515,064
Convertible Loans and Convertible Redeemable Preferred Shares	223,981	161,668	141,224	156,500
Dividends payable	26,930	—	—	—
Other current liabilities	4,740	5,822	10,020	15,307
Total current liabilities	**530,016**	**801,336**	**1,224,216**	**1,246,986**
Net current liabilities	**(285,364)**	**(294,544)**	**(830,007)**	**(479,228)**
Total assets less current liabilities	**444,396**	**1,243,831**	**1,585,602**	**2,207,647**
Non-current liabilities				
Bank and other loans	130,000	417,760	400,350	746,780
Obligations under finance lease	30,477	29,952	29,385	30,515
Deferred tax liabilities	—	—	10,991	16,952
Total non-current liabilities	**160,477**	**447,712**	**440,726**	**794,247**
Net assets	**283,919**	**796,119**	**1,144,876**	**1,413,400**
Total equity attributable to equity holders of the Company	**269,533**	**782,899**	**1,133,129**	**1,365,616**
Minority interests	**14,386**	**13,220**	**11,747**	**47,784**
Total equity	**283,919**	**796,119**	**1,144,876**	**1,413,400**

Summary Data of Combined Cash Flow Statements

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Net cash generated from operating activities	182,182	214,503	513,801	264,546	185,813
Net cash used in investing activities	(416,868)	(815,043)	(741,011)	(370,475)	(384,968)
Net cash generated from financing activities	334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents	99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period	20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes	(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at end of year/period	119,347	169,562	28,463	79,118	232,824

OVERVIEW OF OUR OPERATIONS

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 across different regions in the PRC, with oxygen, nitrogen and argon being our main gas products. 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. We believe the close proximity of our gas production facilities to our on-site customers' production sites enables us to ensure 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 our gas products to customers in 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, which allows us to generate stable and long-term earnings.

In addition, we maintain a merchant gas operation for which we have three dedicated production facilities (one in operation and two under development) in the PRC, located in Nanjing, Yangzhou and Zhangjiagang. Gases that are sold through our merchant operation can be applied in the solar, electronics, glass, food, automotive and construction industries. Any remaining available capacity from our on-site gas production facilities is also utilized to produce gases for selling to the merchant market, which allows us to take advantage of our production capacity to help maximize sales revenue.

For further information on our operations, please refer to the section headed "Business" in this document.

BASIS OF PRESENTATION

For the purpose of the combined financial information for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, as set out in Appendix I to this document, since the companies taking part in the Reorganization were controlled by the Controlling Shareholders before and after the Reorganization, there was a continuation of the risks and benefits to the Controlling Shareholders. As a result, the combined financial information have been prepared using the merger basis of accounting as if our Group has always been in existence. The net assets of the combining companies are combined using their existing book values from the Controlling Shareholders' perspective. The interests of equity holders other than the Controlling Shareholders in the combining companies have been presented as minority interests in our Group's combined financial information.

The combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of our Group for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, as set out in Section B of the Accountants' Report in Appendix I to this document, include the results of operations of the companies now comprising our Group as if the current group structure had been in existence and remained unchanged throughout the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009, or since the dates of their incorporation or establishment where this is a shorter period. The combined balance sheets of our Group as at December 31, 2006, 2007 and 2008, and June 30, 2009, as set out in Section B of the Accountants' Report in Appendix I to this document, have been prepared to present the combined assets and liabilities of the companies now comprising the Group as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

Before February 2006, our Group had 48% effective equity interest in Hunan Yingde. Notwithstanding this, Hunan Yingde has been accounted for as a subsidiary because the Controlling Shareholders had the power to govern the financial and operating policies of Hunan Yingde through the control of majority voting rights in the board of directors of Hunan Yingde. In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other then - shareholders of Hunan Yingde, and accordingly, our Group's effective equity interest in Hunan Yingde was increased from 48% to 52%. In June 2006, our Group further acquired 48% equity interest in Hunan Yingde from the minority shareholder of Hunan Yingde. Thereafter, Hunan Yingde has become a wholly-owned subsidiary of our Group. The interests of equity holders other than the Controlling Shareholders in Hunan Yingde from January to June 2006 have been presented as minority interests in our Group's combined financial information.

Before February 2006, our Group had 60%, 60%, 73%, 59% and 60% effective equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde respectively, in which 36%, 36%, 19%, 36% and 36% effective equity interests were held through Hunan Yingde and the remaining interests were held through certain members of the Controlling Shareholders. Our Group also had the power to govern the financial and operating policies of these subsidiaries through the control of majority voting rights in the board of directors of Hunan Yingde as mentioned above. After the acquisitions of the minority interests in Hunan Yingde by our Group in February and June 2006 respectively, these entities have become wholly-owned subsidiaries of our Group. The interests of equity holders other than the Controlling Shareholders in these subsidiaries from January to June 2006 have been presented as minority interests in our Group's combined financial information.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below:

Production Capacity, Supply Lead-time and Ramp-up Period

We generate our turnover by producing and supplying industrial gas products to our customers from our production facilities located in various regions across the PRC. Therefore, our production capacity has had and will continue to have an impact on our ability to generate turnover and on our results of operations. As of the Latest Practicable Date, we had 20 industrial gas production facilities in operation and 12 industrial gas production facilities under development. Please refer to the section headed "Business – Our Production Facilities" for more details on our production facilities currently in operation and under development. Upon completion of these production facilities, we expect to increase our total installed capacity to approximately 848,800 Nm^3/hr, in terms of installed oxygen production capacity, representing an expected 135.1% increase from our total installed capacity of 361,000 Nm^3/hr at the end of 2008.

We have experienced and will continue to experience various lengths of supply lead-time - the time from our signing of the gas supply contract with our on-site customers to commencement of supplying our industrial gas products - in relation to the establishment and construction of our new production facilities. Upon completion of the construction of our production facilities, we have also experienced and will continue to experience a ramp-up production period between completion of construction of production facilities and operation of production facilities at full capacity which leads to under-utilization of production facilities in the intervening period. Therefore, the length of supply lead-time and customer demand ramp-up period has had and will continue to have an impact on our revenues.

In addition, we have been building new production facilities with greater capacity than existing demand because to do so does not require significant additional investment. As such, we may experience a longer ramp-up period to cater for a potential increase in demand. Nonetheless, once the customer demand ramp-up periods come to an end or demand increases from merchant customers in the relevant local markets, we expect to be able to fully utilize our total installed capacity.

Competition and Pricing

The on-site and merchant industrial gas industries in the PRC are highly competitive. We compete against several major international industrial gas suppliers and numerous local industrial gas suppliers across different regions in the PRC. The degree of competition in our on-site and merchant businesses has affected and is expected to continue to affect our results of operations and financial condition. Please refer to the section headed “Business – Competition” for more details.

In addition, we have in the past obtained most of our on-site business through competitive tender processes, and we expect that a significant portion of our future on-site business will be obtained in the same way. We compete based on pricing and the length of supply lead-time. Moreover, we generally make most of our merchant sales by selling our industrial gas products in regional markets at market spot prices. As a result, the results of operations from our merchant sales have been and will continue to be affected by fluctuations in the market spot prices of industrial gas products in regional markets where we make our merchant sales.

Cost of Electricity

The cost of electricity constitutes a significant part of our total cost of sales and has had and will continue to have a significant impact on our results of operations. Electricity accounted for 83.3%, 80.1%, 86.7% and 87.5%, respectively, of our total cost of sales in 2006, 2007, 2008 and the six months ended June 30, 2009. While electricity prices rose during 2006 and 2007, negatively impacting our cost of sales and, accordingly, our gross profit margin, electricity prices remained generally stable during 2008 and the six months ended June 30, 2009. Nonetheless, for our on-site business, we were generally able to pass on the cost of utilities to our on-site customers, and for our merchant business, the increase in the cost of utilities was largely off-set by the increased spot price for our products sold to merchant customers. Driven by rising fuel cost and increasing demand, the cost of utilities, especially electricity, has risen in the past few years and is expected to continue to rise globally. In China, as a result of strong GDP growth in the past two decades, the consumption of electricity has increased from 623 billion KWh in 1990 to 3,450 billion KWh in 2008, representing a CAGR of 10.0%. More importantly, as fuel cost, especially the price of coal, has increased significantly in recent years and is expected to continue to remain at a high level, the price of electricity is expected to continue to rise or remain at a high level.

We have entered into contractual arrangements with all of our on-site customers pursuant to which substantially all of them will secure utilities for us and the prices we charge all of them for industrial gas products are adjusted in accordance with fluctuations in the local utility costs. This arrangement with our on-site customers would to an extent allow any increase in electricity cost to be matched by a corresponding increase in turnover. In addition, as our on-site customers charge us based on the actual amount of utilities we consume, we can improve our gross profit margin if we can reduce the unit consumption of electricity in our production facilities. However, we do not have similar contractual arrangements with respect to our production facilities which are dedicated to our merchant businesses.

Expenditures Relating to Our Expansion Strategies

Our capital expenditures primarily relate to the acquisition and construction of new production plants and equipment to develop our additional industrial gas production facilities. These capital expenditures have resulted in significant depreciation expenses during the Track Record Period. Our depreciation expenses were RMB32.1 million in 2006, RMB48.6 million in 2007, RMB75.9 million in 2008 and RMB53.0 million for the six months ended June 30, 2009.

We also incur business development expenses in connection with the expansion of our businesses, which are accounted as selling, general and administrative expenses. These expenditures and expenses relating to our expansion strategies have affected and will continue to affect our results of operations and financial condition.

Finance Costs

We finance a portion of our business operations and expansion projects with short-term and long-term bank loans and other loans. As at June 30, 2009, our outstanding short-term and long-term bank loans and other loans amounted to RMB1,306.9 million. The range of interest rates per annum on our bank loans and other loans during the Track Record Period were as set forth below:

	December 31,			June 30,
	2006	2007	2008	2009
Short-term loans	5.9-7.0%	3.6-7.5%	2.5-9.7%	1.7-7.9%
Long-term loans	6.1-10.4%	6.3-10.4%	5.7-10.4%	5.4-10.4%

See the section headed "Financial Information – Indebtedness" for more details.

In addition, we may also utilize other financing methods from time to time, such as issuing capital market instruments, in order to finance our future expansion needs which may increase our interest expenses. Therefore, the total balance of our total borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations, have had and will continue to have an impact on our finance costs, which in turn could affect our results of operations and financial condition.

Taxation

Prior to January 1, 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Zhuhai Yingde, being an entity located in a designated Special Economic Zone, was entitled to a preferential income tax rate of 15%. Nanjing Xingang and Tianjin Yingde, being entities located in the old urban districts in which Economic and Technological Development Zones are located, were entitled to a preferential income tax rate of 24%. In addition, certain of our Group's PRC subsidiaries, being production-oriented foreign investment enterprises under the Foreign Enterprise Income Tax law and its implementation rules, were each entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from their respective first profit-making year after off-setting accumulated tax losses, if any ("2+3 Tax Holiday").

The new Corporate Income Tax Law of the PRC became effective on January 1, 2008. As a result of the new tax law, the statutory income tax rate in the PRC was reduced from 33% to 25%. Detailed rules for implementation of the new tax law and the grandfathering relief under the new tax law were announced in December 2007 and February 2008. The grandfathering relief allows entities which were established before March 16, 2007 and which were entitled to the 2+3 Tax Holiday under the then–effective tax laws and regulations to continue to enjoy the 2+3 Tax Holiday until they expire. It also requires any 2+3 Tax Holiday which has not already commenced to commence from January 1, 2008. Accordingly, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingda and Laiwu Yingde started their 2+3 Tax Holiday on January 1, 2008.

The table below sets out the applicable enterprise income tax rate of our operating subsidiaries in the PRC for the years indicated:

	Applicable tax rate (%)							
Subsidiary[3]	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 - thereafter**
Hunan Yingde	15	15	25	25	25	25	25	25
Zhuhai Yingde	[2]	7.5	12.5	12.5	25	25	25	25
Jiangsu Yingde	15	15	12.5	25	25	25	25	25
Nanjing Xingang	[1]	[2]	[2]	12.5	12.5	12.5	25	25
Shaanxi Yingde	15	15	12.5	15	25	25	25	25
Tianjin Yingde	[2]	[2]	12.5	12.5	12.5	25	25	25
Rizhao Yingde	[1]	[1]	[2]	[2]	12.5	12.5	12.5	25
Zibo Yingde	[1]	[1]	[2]	[2]	12.5	12.5	12.5	25
Hebei Yingde	[1]	[1]	[2]	[2]	12.5	12.5	12.5	25
Huai’an Yingda	[1]	[1]	[2]	[2]	12.5	12.5	12.5	25
Laiwu Yingde	[1]	[1]	[2]	[2]	12.5	12.5	12.5	25
Zhuzhou Yingde	[1]	[1]	[1]	25	25	25	25	25
Yingde Logistics	[1]	[1]	25	25	25	25	25	25
Hengyang Yingde	[1]	[1]	[1]	25	25	25	25	25

Notes:

(1) These subsidiaries had not been established, commenced operations or had accumulated losses for taxation purpose during the relevant years.

(2) Exempted from paying tax during the year.

(3) The table does not include Zhangjiagang Yingde, Yangzhou Yingde and Guizhou Yingde, which are scheduled to commence operation after June 30, 2009. We expect our income tax expenses on a consolidated basis will gradually increase in the future after the 2+3 Tax Holiday we currently enjoy phases out and an increasing number of our PRC subsidiaries become subject to the PRC income tax.

(4) The enterprise income tax rates from 2010 to 2013 and thereafter are rates expected by our Directors as of the Latest Practicable Date.

In addition, Hunan Yingde, Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde, Tianjin Yingde, Hebei Yingde, and Zibo Yingde are entitled to income tax credits from the purchase of domestically produced equipment in the PRC. According to the PRC tax circular Caishui [2000] No. 49《關於外商投資企業和外國企業購買國產設備投資抵免所得稅有關問題的通知》, a foreign investment enterprise (“FIE”) is entitled to off-set 40% of the purchase cost of domestic equipment against the amount of income tax payable in the year of purchase in excess of that [paid] in the previous tax year. We confirm that the relevant subsidiaries of our Company had obtained the relevant approvals for all the tax credits we received from the purchase of domestically produced equipment in the PRC. In the opinion of our PRC legal advisors the tax authorities that issued the approvals of such income tax credits were the proper authorities to grant such income tax credits to our Group. Pursuant to a notice issued by the State Taxation Administration on May 16, 2008, such tax credit policy ceased to be effective since January 1, 2008. During the six months ended 30 June 2009, certain subsidiaries were allowed by the relevant local tax authorities to utilize unused tax credit of RMB18.5 million granted prior to December 31, 2007.

Under the new PRC Enterprise Income Tax Law and its relevant regulations in the PRC, from January 1, 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or a place of business in the PRC are subject to withholding tax at the rate of 10%, unless reduced by a treaty or agreement on certain incomes derived from sources in the PRC, such as dividends. However, distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. Deferred tax liabilities relating to the post-2008 distributable profits of our subsidiaries in the PRC that are expected to be distributed in the foreseeable future amounted to RMB17.0 million as at June 30, 2009.

For the year ended December 31, 2006, as all of our PRC subsidiaries were either entitled to full income tax exemption or obtained income tax credits to off-set the income tax payable, we did not incur any income tax expense. For the year ended December 31, 2007, our total income tax expense was

RMB8.1 million. For the year ended December 31, 2008, our total income tax expense was RMB39.2 million. For the six months ended June 30, 2009, our total income tax expense was RMB4.2 million.

The application of PRC tax laws (including any termination or revision of the preferential tax treatment that we currently enjoy) has had and will continue to have an impact on our tax expenses and thus, our results of operations and financial condition. Please also see the section headed "Risk Factors – There is no guarantee that we will continue to receive the preferential tax treatment or other tax incentives currently enjoyed by us" in this document for further details.

General Economic Conditions of the PRC

The success of our expansion plan and our current and future results of operations and financial condition have been and will continue to be significantly affected by the performance of our customers and the general economy in the PRC. Most of our current and target customers are industrial companies in industries such as iron and steel, chemical and non-ferrous metals, whose businesses are cyclical in nature, and the success of which are dependent on China's economic conditions and the economic measures implemented by the PRC government. China has experienced rapid economic growth over the past two decades, which has resulted in an increase in industrial sector activities and a larger industrial sector economy, however, growth in the PRC has slowed since the second half of 2008 and global capital and credit markets have been experiencing extreme volatility and disruption. Concerns over the world economy and particularly the United States market have contributed to unprecedented levels of market volatility and diminished expectations for the global economy. These events have led a number of economists to predict the PRC economy will experience a slowdown thereby potentially affecting our customers and consequently, our results of operations and financial condition. Please refer to the section headed "Risk Factors – We are exposed to the cyclical nature of our major customers' industries and the general economic conditions of the PRC economy" in this document.

FACTORS AFFECTING COMPARABILITY

Fair Value Adjustments and Termination Gains or Losses Arising From Derivative Financial Instruments

Our profit or loss for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009, were affected by the fair value adjustments and termination gains/losses arising from certain financial instruments described below.

(a) US$6 million Convertible Loan

On June 23, 2006, Yingde BVI received a US$20.2 million loan facility from Proper Sonic Finance Limited which included a US$6.0 million convertible loan facility. We incurred a financial cost on the fair value adjustment on the derivative component of this US$20.2 million loan in the amount of approximately RMB2.5 million for the year ended December 31, 2006. The US$20.2 million loan facility was subsequently transferred to Baring who is an affiliate of Proper Sonic Finance Limited. On December 29, 2006, the convertible loan and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI. As a result, a termination loss of RMB1.1 million was recognized for the year ended December 31, 2006.

(b) US$2 million Subscription Agreement

On December 29, 2006, Yingde BVI and Baring entered into a US$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. The subscription amount of US$2.0 million was accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component is carried at fair value while the liability component is carried at amortized cost. Any fair value adjustments on the derivative component have been recognized as part of our finance costs for the two years ended December 31, 2006 and 2007. On June 29, 2007, Yingde BVI issued 102 ordinary shares to Baring upon completion of the US$2.0 million subscription agreement. A termination gain of RMB12.5 million was recognized for the year ended December 31, 2007.

(c) Preferred Shares

On June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement. The Preferred Shares have been accounted for in the combined financial information as hybrid financial instruments containing both a derivative component and a liability component. The derivative component was recognized as a financial liability and carried at fair value while the liability component is carried at amortized cost.

On December 31, 2006, the parties to the convertible redeemable preferred shares subscription agreement entered into a supplemental agreement to amend certain terms contained in the original agreement due to, among other reasons, the transfer by Baring of its interest in Yingde BVI from its original investment vehicle to another company within its group. Pursuant to the supplemental agreement, the exchange rate regarding the conversion, redemption and other matters relating to the Preferred Shares was fixed at US$1:RMB7.999. Since there was a material modification of terms of the original subscription agreement, we derecognized the balances relating to the original subscription agreement and accounted for the modified subscription agreement as a new financial instrument. We recognized this new financial instrument as a hybrid instrument containing a derivative component, a liability component and an equity component. As a result of the modification of the subscription agreement, a net loss of RMB55.0 million was recognized for the year ended December 31, 2006, the details of which are as follows:

	Liability Component	Derivative component/ currency swap	Equity component	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amounts of the original subscription agreement as at December 31, 2006	85,600	108,578	—	194,178
Hybrid financial instruments recognized in respect of the modified subscription agreement as at December 31, 2006	122,627	20,048	106,544	249,219
Net gain/(loss) recognized on December 31, 2006	(37,027)	88,530	(106,544)	(55,041)

The fair value adjustments on the derivative component have been recognized as part of our finance costs for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009.

For the purpose of this document, the US$6.0 million convertible loan facility and the US$2.0 million subscription agreement are collectively referred to as the Convertible Loans.

For further information on the impact of the fair value adjustments and termination gains/losses of the derivative financial instruments described above on our results of operations, please refer to Notes 4(a), 22 and 23 of the Accountants' Report set out in Appendix I to this document, and the breakdown of the finance costs for the periods presented set out in the section headed "Financial Information – Results of Operations – Summary Data of Combined Statements of Comprehensive Income" for more details.

Minority Interests

Prior to the Reorganization in 2006, Torch held a minority interest in Hunan Yingde, which is our subsidiary. This minority interest of Torch was purchased by Yingde BVI as part of the Reorganization and to the best of our directors' knowledge, Hunan Yingde has never been treated as a subsidiary of Torch in its consolidated financial statements. In addition, we acquired minority equity interests in certain of our Group companies from the other shareholders of those companies as part of the Reorganization in 2006. Please refer to the section headed “History and Reorganization” in this document for further details. These transactions had the effect of decreasing the profits attributable to our minority interests and correspondingly increasing profits attributable to the equity holders of our Company over the Track Record Period. As a result of the Reorganization, we own 100% equity interest in all of our subsidiaries, except for Zhangjiagang Yingde and Hengyang Yingde, where we own 75% and 70% equity interest, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our combined financial information. Our significant accounting policies, which are important for an understanding of our results of operations and financial condition, are set forth in detail in Note 1 Section C of the Accountants' Report in Appendix I to this document. Critical accounting policies are those that are (i) important to the portrayal of our results of operations and financial condition and (ii) requires, subjective, or complex judgement, which often result from the need to make estimates that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current estimates and judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our combined financial information.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered “impaired”, and an impairment loss may be recognized in our combined income information. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales revenue and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

Derivative financial instruments

Fair value adjustments and termination losses arising from derivative financial instruments involve considerable judgement. As there are no quoted prices in an active market, the fair value of the derivative financial instruments are established by using valuation techniques. These techniques include using recent arm's length transactions, with reference to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. Considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Please refer to Notes 22 and 23 of Section C of the Accountants' Report in Appendix I to this document for further details regarding the components to the financial instruments, how each component is recognized, and the fair value adjustments made, including the methodologies and inputs used to determine their fair value.

Determining whether an arrangement contains a lease

During the Relevant Period, our Group have entered into long-term gas supply contracts with on-site customers for periods generally of 15 to 25 years. The on-site facilities are built on or in close proximity to the on-site customers for the supply of industrial gases to such customers. Our Group receives fixed annual amounts over the term of the long-term gas supply contracts plus variable charges based on the quantity of industrial gases supplied. Our Group also sells gas products produced from the on-site facilities to merchant customers.

In determining whether the arrangement contains a lease, our Group has considered the terms of the long-term gas supply contracts. Pursuant to the terms of the long-term gas supply contracts, the on-site customers do not have the right to operate or control physical access to the on-site facilities. In addition, gas products produced from the on-site facilities are also sold to merchant customers. The amounts sold to the merchant customers are more than an insignificant amount of the total gas products produced from the on-site facilities. Accordingly, our Group concluded that the arrangement of long-term gas supply contracts does not contain any lease.

PRINCIPAL COMPONENTS OF PROFIT FOR THE YEAR/PERIOD

Turnover

Our turnover consists of proceeds from the sale of industrial gas products. Our turnover is recognized when our gas products are delivered to the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. The turnover figures represent the aggregate of the invoiced value of goods sold, net of value-added tax and is after deduction of any trade discounts.

The table below sets forth our turnover generated from our on-site and merchant customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000 unaudited	(%)	RMB'000	(%)
Turnover										
On-site	399,470	82.4	625,929	79.9	1,137,167	80.6	494,594	79.8	818,969	89.3
Merchant	85,584	17.6	157,788	20.1	274,546	19.4	125,366	20.2	98,194	10.7
Total	**485,054**	**100.0**	**783,717**	**100.0**	**1,411,713**	**100.0**	**619,960**	**100.0**	**917,163**	**100.0**

Volume and average price of gases sold through our merchant operations

The table below sets out the volume of gases sold to our merchant customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	Volume (millions Nm³)	% total		% total		% total		% total		% total
Oxygen	57.0	67.8%	68.2	58.6%	105.4	55.2%	50.3	58.0%	66.7	60.3%
Nitrogen	6.5	7.7%	15.9	13.7%	33.8	17.7%	10.7	12.3%	19.7	17.8%
Argon	20.6	24.5%	32.3	27.7%	51.7	27.1%	25.7	29.7%	24.2	21.9%
Total volume	84.1	100.0%	116.4	100.0%	190.9	100.0%	86.7	100.0%	110.6	100.0%

The table below sets out the volume weighted average price of gases sold to our merchant customers for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	Unit price (RMB/Nm³)				
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 main factors affecting the prices of the gases sold to our merchant customers include the local market spot prices, local supply and demand and local economic conditions.

The pricing of our products sold to our on-site customers is determined on a case-by-case basis in accordance with the pricing arrangements in the gas supply contracts. The main factors affecting the price of gases sold to our on-site customers include the competitiveness of our pricing, the installed capacity of our facilities and the expected utility charges by the on-site customer.

Cost of sales

Our cost of sales comprises utility expenses, depreciation expenses for property, plant and equipment related to production, staff costs for our production team and other expenses. Utility expenses, mainly consisting of electricity expenses, generally comprised over 80% of our total cost of sales for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009. Depreciation and amortization expenses relate primarily to property, plant and equipment we own and are calculated on a straight-line basis over the estimated useful lives of these assets. Staff costs mainly relate to salaries, bonuses, benefits and contributions we pay to our employees or make for the benefit of our employees of our production team. Other expenses primarily consist of other consumables and repair and maintenance.

The table below sets forth a breakdown of our total cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000 unaudited	(%)	RMB'000	(%)
Cost of sales										
Utility expenses	215,912	84.2	376,373	81.1	723,149	87.3	307,247	87.4	516,746	88.2
Depreciation expenses	30,414	11.9	44,976	9.7	71,564	8.6	31,270	8.9	49,658	8.5
Staff costs	5,152	2.0	7,528	1.6	15,796	1.9	4,983	1.4	7,678	1.3
Other expenses	5,088	1.9	35,289	7.6	17,647	2.2	8,222	2.3	11,990	2.0
Total	**256,566**	**100.0**	**464,166**	**100.0**	**828,156**	**100.0**	**351,722**	**100.0**	**586,072**	**100.0**

Other revenue

Other revenue mainly includes refunds of value-added tax arising from the tax incentives provided by certain local bureaus of finance in the PRC where we have business operations, the refund and timing of which are subject to various factors beyond our control such as local government tax planning policies and the discretionary power of the local authorities.

Selling expenses

Our selling expenses primarily consist of freight charges for distribution and logistics, travelling expenses and staff costs in connection with hiring and maintaining our sales team across different regions in the PRC.

The table below sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Staff cost	862	1,030	1,937	588	1,626
Depreciation	392	429	734	258	933
Travelling	997	949	841	321	425
Freight charges	6,299	7,103	10,852	6,525	4,133
Others	359	422	724	35	717
Total	**8,909**	**9,933**	**15,088**	**7,727**	**7,834**

Administrative expenses

Our administrative expenses primarily consist of staff costs in connection with hiring and maintaining our management and administrative staff at the headquarters and production plant level, travel and entertainment, external consulting fees and impairment loss on trade receivables and other non-current assets.

The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Depreciation	1,282	3,196	3,605	1,589	2,392
Amortization	924	1,065	994	480	512
Auditors' remuneration	1,606	93	108	66	79
Consulting fee	4,614	5,666	1,540	232	119
Operating lease charges	2,911	2,233	4,437	2,172	2,235
Net loss/(gain) on disposal of property, plant and equipment	—	21	104	—	(10)
Entertainment	1,304	1,368	3,384	767	2,285
Penalty	1,405	1,252	111	81	—
Provision/(write-back) of claims[(1)]	1,800	700	(2,020)	(2,020)	—
Equity settled share-based transactions	6,187	7,589	—	—	—
Staff costs	7,692	22,703	33,223	16,344	26,480
Travelling	4,798	4,956	11,097	1,482	5,087
Impairment loss					
Trade and other receivables	—	—	10,721	—	—
Prepayment for equipment	—	—	2,395	—	—
Office expenses and others	6,195	7,761	10,247	4,546	6,269
Total	**40,718**	**58,603**	**79,946**	**25,739**	**45,448**

Note:

(1) Claim related to the inability of Nanjing Xingang to deliver sufficient argon gas to one of our customers due to a shortage of argon fraction. The customer filed a claim against us for breach of contract thereby causing us to make provisions of RMB1.8 million in 2006 and RMB0.7 million in 2007 for possible compensation based on the advice of our PRC counsel. However, after further negotiation the customer agreed to terminate the contract in June 2008 for a one time termination fee of RMB0.5 million. Accordingly, we wrote back part of the provisions of RMB2.0 million in 2008, which was credited to our profit or loss for the year.

Finance income

Our finance income mainly consists of interest income from bank deposits, termination gain on conversion of convertible loan, fair value adjustment on the Preferred Shares and foreign currency exchange gain.

Finance costs

Our finance costs primarily consist of interest payments for our loans with banks and other financial institutions; finance charges on obligations under finance lease; interest on the liability component of derivative financial instruments; fair value adjustments on derivative financial instruments and termination loss on conversion of derivative financial instruments and foreign currency exchange loss.

Tax

We are not taxed on a consolidated basis. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands. The new PRC Enterprise Income Tax Law and its Implementation Rules came into effect on January 1, 2008, repealing prior laws. Under the PRC Enterprise Income Tax Law, in general, FIEs and domestic companies are subject to a uniform tax rate of 25%. The PRC Enterprise Income Tax Law and its related regulations provide certain grandfathering relief for those enterprises which were enjoying preferential tax treatment under the previous tax laws, and such treatment will continue until its expiration. However, where the preferential tax treatment has not commenced because of losses or accumulated losses, such preferential tax treatment shall be deemed to commence from January 1, 2008. Before December 31, 2007, certain subsidiaries in the PRC obtained the approval of income tax credit for purchasing qualified domestic equipment from the local tax authorities in accordance with the relevant tax regulations issued by the State Administration of Taxation. Pursuant to Guoshuifa [2008] No. 52 issued by the State Administration of Taxation in May 2008, such tax credit policy ceased to be effective from January 1, 2008. During the six months ended June 30, 2009, certain subsidiaries utilised the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to December 31, 2007. Please refer to the paragraph headed "Taxation" above and Note 5 of the Accountants' Report in Appendix I to this document for further information on our income tax expenses and the effect of the new PRC Enterprise Income Tax Law on our Group.

ITEMS OF PROFIT FOR THE YEAR/PERIOD AS A PERCENTAGE OF TURNOVER

The following table sets forth our principal components of profit for the year/period as a percentage of turnover for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009:

	Year ended December 31,			Six months ended June 30	
	2006	2007	2008	2008	2009
	(% of turnover)				
				unaudited	
Turnover	100.0	100.0	100.0	100.0	100.0
Cost of sales	(52.9)	(59.2)	(58.7)	(56.7)	(63.9)
Gross profit	47.1	40.8	41.3	43.3	36.1
Other revenue	0.2	0.1	0.1	—	—
Selling expenses	(1.8)	(1.3)	(1.1)	(1.2)	(0.9)
Administrative expenses	(8.4)	(7.5)	(5.6)	(4.2)	(4.9)
Profit from operations	37.1	32.1	34.7	37.9	30.3

As our Group operates dedicated merchant production facilities and utilizes remaining available capacities of our on-site production facilities across different regions in the PRC to conduct sales to regional merchant customers, it is very difficult for us to identify and separate the costs associated with sales from on-site operations and merchant operations. As such, a discussion on gross profit for our Group's on-site and merchant operations is not possible nor reliable. Please refer to the section headed "Financial Information — Principal Components of Profit for the Year/Period — Turnover" in this document for the turnover generated from our Group's on-site and merchant operations for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009.

REVIEW OF HISTORICAL OPERATING RESULTS

Our results of operations for the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009 have been affected by certain finance costs, including fair value adjustments on the Convertible Loans and Preferred Shares. Accordingly, such line items are not necessarily comparable from period to period. Please refer to the section headed "Financial Information — Factors Affecting Comparability" in this document for additional information. The following discussion is based on our historical results of operations. Due to the factors affecting our results of operations and factors affecting comparability described above, our historical results of operations may not be indicative of our future operating performance.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

Turnover

Our turnover increased by 47.9% from RMB620.0 million for the six months ended June 30, 2008 to RMB917.2 million over the same period in 2009. The increase was primarily due to:

- Four new production facilities coming into operation during the first half of 2009. The production facilities that came into operation during the first half of 2009 include: Hancheng Shaanxi Phase III operated by Shaanxi Yingde (March 2009), two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde (April 2009), and Zhuzhou Hunan operated by Zhuzhou Yingde (June 2009).
- Three new production facilities coming into operating during the second half of 2008. The production facilities that came into operation over the second half of 2008 include: Laiwu Shandong, operated by Laiwu Yingde (July 2008), Rizhao Shandong Phase III, operated by Rizhao Yingde (October 2008), and Shijiazhuang Hebei Phase II, operated by Hebei Yingde (November 2008).
- Huai'an Jiangsu, operated by Huai'an Yingda, was only partially in operation for the first half of 2008 as compared to being fully operational for the first half of 2009.

This increase was partially off-set by a decrease in our merchant sales. Our merchant sales decreased to RMB98.2 million in the first half of 2009 from RMB125.4 million over the same period in 2008 primarily due to the global economic downturn driving down demand for, and the production of, industrial products that use our gases in the PRC. Despite greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three gases sold to our merchant customers decreased significantly from RMB1.45/Nm^3 in the first half of 2008 to RMB0.89/Nm^3 in the first half of 2009. In particular, the volume weighted average price of argon gas decreased from RMB2.64/Nm^3 in the first half of 2008 to RMB1.60/Nm^3 in the first half of 2009. As a result, contribution of argon gas to total merchant sales value decreased from approximately 54% in the first half of 2008 to approximately 40% in the first half of 2009.

Cost of sales

Cost of sales increased by 66.6% from RMB351.7 million in the first half of 2008 to RMB586.1 million in the first half of 2009 mainly driven by greater turnover. However, cost of sales as a percentage of turnover increased from 56.7% in the first half of 2008 to 63.9% in the first half of 2009 mainly due to a significant decrease in contribution to total turnover by merchant sales, whose production cost is insignificant given that such sales are driven by remaining available capacity at our on-site facilities. Historically, merchant sales represented approximately 20% of total turnover, but such sales decreased to approximately 10.7% over the first half of 2009 as a result of the economic downturn as discussed above. Electricity prices remained stable in the first half of 2009 as compared to the same period in 2008.

Gross profit and gross profit margin

Gross profit increased by 23.4% from RMB268.2 million in the first half of 2008 to RMB331.1 million in the first half of 2009. Our gross profit margin, however, decreased from 43.3% in the first half of 2008 to 36.1% in the first half of 2009 primarily reflecting decreased contribution of merchant sales to total turnover as described above.

Other revenue

Other revenue decreased from RMB0.5 million in the first half of 2008 to RMB0.2 million in the first half of 2009 mainly because there was no value-added tax refunds in the first half of 2009.

Selling expenses

Selling expenses increased slightly by 1.3% from RMB7.7 million in the first half of 2008 to RMB7.8 million in the first half of 2009 mainly reflecting increased staff costs and the initial setup costs of our subsidiary, Yingde Logistics, partially off-set by a decrease in freight costs as we no longer needed to transport gas products from our Tianjin facility to support our Zibo Shandong Phase I facility during its production suspension from February 2008 to November 2008.

Administrative expenses

Administrative expenses increased 76.6% from RMB25.7 million in the first half of 2008 to RMB45.4 million in the first half of 2009 primarily as a result of increased staff and travel costs for our head office and new production facilities as we expanded our business operations. In addition, we incurred a non-recurring write-back of claims of RMB2.0 million for the first half of 2008 that was not applicable for the first half of 2009. For further details on this write-back of claims, please see "Financial Information — Principal Components of Profit for the Year/Period — Administrative Expenses".

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 18.2% from RMB235.3 million in the first half of 2008 to RMB278.0 million in the first half of 2009. Operating profit margin decreased from 37.9% in the first half of 2008 to 30.3% in the first half of 2009 primarily due to decreased merchant sales as a result of the economic downturn.

Finance income

Finance income decreased 78.5% from RMB13.0 million in the first half of 2008 to RMB2.8 million in the first half of 2009 mainly due to a significant decrease in foreign exchange gains and fair value adjustment on Preferred Shares. For the first half of 2008, we incurred a foreign exchange gain of RMB7.8 million as compared to RMB0.2 million for the same period in 2009. The foreign exchange gain over the first half of 2008 related to the retranslation of our liabilities denominated in US dollars as the Renminbi depreciated against the US dollar during this period. In addition, fair value adjustments for our Preferred Shares were RMB1.7 million in the first half of 2008 as compared to a loss on fair value adjustment (see Finance costs below) for the same period in 2009.

Finance costs

Finance costs increased 65.4% from RMB26.6 million in the first half of 2008 to RMB44.0 million in the first half of 2009 primarily as a result of increased interest expenses and fair value adjustment. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB7.5 million from period to period, primarily driven by a higher average loan balance to support our expansion and increased capital expenditures. In addition, we incurred RMB11.0 million in costs in the first half of 2009 relating to fair value adjustment on Preferred Shares, whereas a gain on fair value adjustment (see Finance income above) were recognized in the first half of 2008. For further details, please see "Financial Information – Factors Affecting Comparability" and Note 4(a) of Section C of the Accountants' Report in Appendix I to this document.

Income tax expenses

Income tax expenses decreased 80.5% from RMB21.5 million in the first half of 2008 to RMB4.2 million in the first half of 2009 primarily due to the utilization of tax credits of RMB18.5 million for domestic equipment purchases. During the six months ended June 30, 2009, certain subsidiaries were allowed by the relevant local tax authorities for the utilization of unused tax credit of RMB18,494,000 that were granted prior to December 31, 2007. No such credits were recognised in the first half of 2008.

Profit attributable to the equity shareholder of our Company

As a result of the foregoing, our profit attributable to our equity holders increased 15.8% from RMB200.7 million in the first half of 2008 to RMB232.5 million in the first half of 2009.

Profit attributable to the minority interests

The minority interests at June 30, 2009 represented the 25% effective equity interest in Zhangjiagang Yingde and 30% effective equity interest in Hengyang Yingde held by the minority shareholder. Loss attributable to minority interests decreased from RMB0.5 million in the first half of 2008 to RMB37,000 in the first half of 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Turnover

Our turnover increased by 80.1% from RMB783.7 million in 2007 to RMB1,411.7 million in 2008. This increase was primarily due to:

- Four new production facilities coming into operation during 2008. The production facilities that came into operation in 2008 include: Huai'an Jiangsu operated by Huai'an Yingda (March 2008), Laiwu Shandong operated by Laiwu Yingde (July 2008), Shijiazhuang Hebei Phase II operated by Hebei Yingde (November 2008) and Rizhao Shandong Phase III operated by Rizhao Yingde (October 2008).
- Five production facilities that were operational in part of 2007 became fully operational or otherwise achieved greater utilization in 2008. These include: Rizhao Shandong Phase I operated by Rizhao Yingde (May 2007), Zibo Shandong Phase I operated by Zibo Yingde (September 2007), Shijiazhuang Hebei Phase I operated by Hebei Yingde (September 2007), Hancheng Shaanxi Phase II operated by Shaanxi Yingde (September 2007) and Rizhao Shandong Phase II operated by Rizhao Yingde (November 2007). Zibo Shandong Phase I temporarily suspended production in February 2008 and resumed operations in November 2008 after obtaining relevant permits.
- Merchant sales increased from RMB157.8 million in 2007 to RMB274.5 million in 2008. In addition to greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three types of gas sold to our merchant customers increased from RMB1.36/Nm^3 in 2007 to RMB1.44/Nm^3 in 2008 mainly due to an increase in price of argon gas. In particular, the volume weighted average price of argon gas increased from RMB2.55/Nm^3 in 2007 to RMB3.21/Nm^3 in 2008 primarily reflecting our ability to exert greater pricing power for argon gas. Such ability was mainly attributable to our improved distribution network and limited competition in those regions. However, this was partially off-set by lower average selling prices for our oxygen and nitrogen gas products in 2008 compared to 2007.

Cost of sales

Cost of sales increased by 78.4% from RMB464.2 million in 2007 to RMB828.2 million in 2008 primarily due to increased sales. Electricity prices remained stable in 2008, however, electricity costs as a percentage of turnover increased from 47.5% in 2007 to 50.9% in 2008 mainly due to (i) our significantly smaller purchases of liquified gas from third-parties for on-sale to our customers thereby increasing the need for us to consume electricity to produce such products for sale and (ii) our strategic decision to build facilities with greater capacity at more competitive pricing for some of our on-site customers.

Gross profit and gross profit margin

Gross profit increased by 82.6% from RMB319.6 million in 2007 to RMB583.6 million in 2008 and our gross profit margin increased slightly from 40.8% in 2007 to 41.3% in 2008 primarily due to our decrease in purchase of liquified gas as discussed above.

Other revenue

Other revenue increased from RMB1.0 million in 2007 to RMB1.4 million in 2008 which was mainly due to an increase in the refund of value-added taxes.

Selling expenses

Selling expenses increased 52.5% from RMB9.9 million in 2007 to RMB15.1 million in 2008 primarily as a result of increased freight costs relating to distribution and logistics expenses as we (i) increased our merchant sales; and (ii) transported our industrial gas products from our Tianjin production facility to support our Zibo Shandong Phase I production facility during its production suspension from February 2008 to November 2008. Production was suspended at the Zibo Shandong Phase I production facility as our trial production permit expired. Although we received the necessary permits to restart production in August 2008, our facilities were being revamped and we did not restart production until November 2008.

Administrative expenses

Administrative expenses increased 36.3% from RMB58.6 million in 2007 to RMB79.9 million in 2008 primarily as a result of increased staff and travel costs for our headquarter offices. In order to support our growth, and to attract and retain qualified personnel, our headcount almost doubled in 2008 while average salary also increased slightly. In addition, we recognized an impairment loss of RMB13.1 million in 2008 whilst no such expenses were incurred in 2007. The impairment loss related to a customer receivable and the balance was not expected to be recoverable due to the customer's financial difficulties. Administrative expenses as a percentage of turnover decreased from 7.5% in 2007 to 5.6% in 2008 mainly as a result of economies of scale.

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 94.4% from RMB252.0 million in 2007 to RMB489.9 million in 2008 and operating profit margin increased slightly from 32.1% in 2007 to 34.7% in 2008.

Finance income

Finance income increased 30.8% from RMB27.9 million in 2007 to RMB36.5 million in 2008 mainly due to fair value adjustment on Preferred Shares. In 2007, a termination gain on conversion of convertible loan resulted in RMB12.5 million in finance income, whereas, in 2008, a gain on fair value adjustment on Preferred Shares of RMB21.3 million was recognized.

Finance costs

Finance costs decreased 39.1% from RMB96.0 million in 2007 to RMB58.5 million in 2008. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB14.3 million was driven by a higher average loan balance to support our expansion and increased capital expenditures, however, this increase in interest expense was more than off-set by the significant changes to fair value adjustments.

In 2007, fair value adjustments on our financial instruments resulted in RMB50.8 million in finance costs, whereas no such costs were recognized in 2008. For further details, please refer to "Financial Information – Factors Affecting Comparability" and Note 4(a) of Section C of the Accountants' Report in Appendix I to this document.

Income tax expenses

Income tax expenses increased from RMB8.1 million in 2007 to RMB39.2 million in 2008 and our effective tax rate also increased from 4.4% in 2007 to 8.4% in 2008, as no tax credits on domestic equipment purchases were utilised in 2008 and an accrual of withholding tax for expected profit distributions in respect of 2008.

Profit attributable to the equity shareholders of our Company

As a result of the foregoing, our profit attributable to our equity holders increased 143.0% from RMB177.0 million in 2007 to RMB430.1 million in 2008.

Profit attributable to minority interests

The minority interests at December 31, 2008 represented the 25% effective equity interest in Zhangjiagang Yingde held by the minority shareholder. Loss attributable to minority interests increased from RMB1.2 million in 2007 to RMB1.5 million in 2008 as Zhangjiagang Yingde incurred higher operating expenses during the development stage.

Year ended December 31, 2007 compared to year ended December 31, 2006

Turnover

Our turnover increased by 61.6% from RMB485.1 million in 2006 to RMB783.7 million in 2007. This increase was primarily due to:

- Five new production facilities coming into operation during 2007. The production facilities that came into operation in 2007 include: Rizhao Shandong Phase I operated by Rizhao Yingde (May 2007), Zibo Shandong Phase I operated by Zibo Yingde (September 2007), Shijiazhuang Hebei Phase I operated by Hebei Yingde (September 2007), Hancheng Shaanxi Phase II operated by Shaanxi Yingde (September 2007) and Rizhao Shandong Phase II operated by Rizhao Yingde (November 2007).
- Increase in merchant sales from RMB85.6 million in 2006 to RMB157.8 million in 2007. In addition to greater overall volume sales of our three key gases, oxygen, nitrogen and argon, the volume weighted average price of these three gases sold to our merchant customers increased from RMB1.03/Nm^3 in 2006 to RMB1.36/Nm^3 in 2007 mainly due to a increase in price of argon and oxygen gases. In particular, the volume weighted average price of argon gas increased from RMB1.77/Nm^3 in 2006 to RMB2.55/Nm^3 in 2007 primarily due to favorable market demand for argon gas. However, this was partially off-set by lower average selling prices for our nitrogen products as compared with 2006.
- Lower than normal turnover at our production facility in Hunan province (Loudi Hunan operated by Hunan Yingde) mainly due to the temporary suspension of operations at such facility for approximately five months in 2006.

Cost of sales

Cost of sales increased by 80.9% from RMB256.6 million in 2006 to RMB464.2 million in 2007 primarily due to increased sales. As a percentage of turnover, cost of sales increased from 52.9% in 2006 to 59.2% in 2007 mainly due to increased electricity costs as a result of an increase in the average price of electricity in 2007 and our need to directly purchase liquefied gases from third-parties in 2007 in order to meet additional customer requirements at certain facilities. However, electricity costs as percentage of total cost of sales decreased from 83.3% in 2006 to 80.1% in 2007 mainly resulting from our aforementioned direct purchase of liquefied gases from third-parties amounting to RMB26.6 million, thereby lowering our need to consume electricity to produce the same.

Gross profit and gross profit margin

Gross profit increased by 39.9% from RMB228.5 million in 2006 to RMB319.6 million in 2007 mainly due to increased sales, however, our gross profit margin decreased from 47.1% in 2006 to 40.8% in 2007 primarily due the increase in the average price of electricity in 2007 and our need to directly purchase liquefied gases from third-parties. Gross profit margin was also affected by the ramp-up period of customer demand for new production facilities where such customer's facilities' capacity had yet to be fully utilized. Furthermore, the simultaneous increases in turnover and cost of sales associated with the pass-on of electricity price increases for Jiangsu Yingde, while not affecting our gross profit, had a further adverse impact on our gross profit margin in 2007.

Other revenue

Other revenue of RMB1.0 million in 2007 was related to the refund of value-added taxes.

Selling expenses

Selling expenses increased by 11.2% from RMB8.9 million in 2006 to RMB9.9 million in 2007 primarily as a result of increased freight costs relating to distribution and logistics expenses from an increase in merchant sales. Selling expenses as a percentage of turnover decreased slightly from 1.8% in 2006 to 1.3% in 2007 mainly as a result of economies of scale as revenue increased at a faster rate than certain fixed costs.

Administrative expenses

Administrative expenses increased by 44.0% from RMB40.7 million in 2006 to RMB58.6 million in 2007 primarily as a result of increased staff costs for our headquarter as we hired additional management and administrative personnel in order to support our growth. Administrative expenses as a percentage of turnover decreased from 8.4% in 2006 to 7.5% in 2007 mainly as a result of economies of scale as revenue increased at a faster rate than certain fixed costs such as office rent.

Operating profit and operating profit margin

As a result of the foregoing, our operating profit increased by 40.1% from RMB179.9 million in 2006 to RMB252.0 million in 2007. Operating profit margin decreased from 37.1% in 2006 to 32.1% in 2007 mainly due to an increase in electricity prices partially off-set by lower selling and administrative expenses as a percentage of revenue due to economies of scale.

Finance income

Our finance income increased by 426.4% from RMB5.3 million in 2006 to RMB27.9 million in 2007 primarily due to a termination gain of RMB12.5 million on conversion of a USD2,000,000 subscription agreement in 2007 and foreign currency exchange gain from the retranslation of our liabilities denominated in US dollars as the Renminbi appreciated against the US dollar during 2007.

Finance costs

Finance costs decreased 40.4% from RMB161.2 million in 2006 to RMB96.0 million in 2007. Interest expenses on bank and other loans (net of borrowing costs capitalized) increased by RMB17.3 million driven mainly by a higher average loan balance to support our expansion and capital expenditures, however, this increase in interest expenses was more than off-set by the significant decrease in expenses relating to fair value adjustments.

Fair value adjustments and termination loss on our financial instruments resulted in RMB135.1 million in finance costs in 2006, whereas such costs were RMB50.8 million in 2007. The RMB135.1 million in finance costs in 2006 reflects the fair value loss on Convertible Loans and the Preferred

Shares of RMB78.9 million and a loss of RMB56.2 million on termination of the US$20,200,000 loan facility and modification of the Preferred Shares. The RMB50.8 million in finance costs in 2007 reflects fair value loss on Convertible Loans and the Preferred Shares. For further details, please see "Financial Information – Factors Affecting Comparability" and Note 4(a) of Section C of the Accountants' Report in Appendix I to this document.

Income tax expenses

Income tax expenses increased from nil in 2006 to RMB8.1 million in 2007 as the tax credits we received for purchasing domestic equipment were not sufficient to off-set our income tax expenses in 2007.

Profit attributable to the equity holders of our Company

As a result of the above, the profit attributable to our equity holders increased from a loss of RMB6.7 million in the year ended December 31, 2006, to RMB177.0 million in 2007.

Profit attributable to minority interests

The minority interests at December 31, 2007 represented the 25% effective equity interest in Zhangjiagang Yingde held by the minority shareholder.

Profit attributable to minority interests was RMB30.7 million in the year ended December 31, 2006, compared to a loss of RMB1.2 million in 2007, primarily as a result of our subsidiary in Zhangjiagang, which was the only non-wholly-owned subsidiary of our Group during the year ended December 31, 2007, incurring a loss resulting from operating expenses incurred during the development stage.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from equity provided by our shareholders, cash provided by operations, cash at hand and borrowings from related parties, while raising the remainder of our requirements primarily through short-term and long-term debt and borrowings from banks, some of which were secured by guarantees provided by our related parties. However, as at the date of this document, we no longer had any loans outstanding which were secured by guarantees provided by our related parties.

Cash flow data

The following table presents selected cash flow data from our combined cash flow statements for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 unaudited	RMB'000
Net cash generated from operating activities	182,182	214,503	513,801	264,546	185,813
Net cash used in investing activities	(416,868)	(815,043)	(741,011)	(370,475)	(384,968)
Net cash generated from financing activities	334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents	99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period	20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes	(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at year/period end	119,347	169,562	28,463	79,118	232,824

Cash flow from operating activities:

Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation, amortization and finance income and finance costs, including fair value adjustments for the financial instruments, and the effects of changes in trade and other receivables, trade and other payables, and interest payment, and income tax payment.

Six months ended June 30, 2009

Net cash generated from operating activities for the six months ended June 30, 2009 was RMB185.8 million, while our profit before taxation was RMB236.7 million. The difference of RMB50.9 million was primarily due to non-cash transaction of depreciation, amortization and fair value adjustment for financial instruments amounting to RMB68.8 million, off-set by an increase in trade and other receivables of RMB111.0 million, a decrease in trade and other payables of RMB4.3 million, and net income tax payment of RMB3.2 million. The increase in trade and other receivables was mainly due to (i) increased sales as more plants were in operation in the first half of 2009 as compared to the same period in 2008 and (ii) our strategic decision to extend credit to certain on-site customers in order to promote increased business with them.

Year ended December 31, 2008

Net cash generated from operating activities for the year ended December 31, 2008 was RMB513.8 million, while our profit before taxation was RMB467.9 million. The difference of RMB45.9 million was primarily due to the non-cash transaction of depreciation and amortisation and interest on and fair value adjustment for financial instruments amounting to RMB56.5 million, decrease in trade and other receivables of RMB22.6 million, increase in trade and other payables of RMB7.6 million, and net income tax payment of RMB17.8 million. The decrease in trade and other receivables was mainly a result of our improved collections of trade receivables, resulting from the frequent follow-ups with customers who had significant outstanding balance. The increase in trade and other payable was mainly due to the accrual of performance bonuses for employees in 2008.

Year ended December 31, 2007

Net cash generated from operating activities for the year ended December 31, 2007, was RMB214.5 million, while our profit before taxation was RMB183.9 million. The difference of RMB30.6 million was primarily due to non-cash transaction of depreciation, amortisation and interest on and fair value adjustment for financial instruments of RMB88.9 million, increase in trade and other receivables of RMB64.9 million, increase in trade and other payables of RMB26.7 million and net income tax payment of RMB10.1 million. The increase in trade and other receivables was mainly the result of: (i) business expansion, which increased our sales volume; (ii) prepayment to an agent who had been engaged to search for potential investment; and (iii) prepayment of certain other expenses. The increase in trade and other payables was mainly due to the purchase of liquefied gas products for the ramp up period of our new facilities and freight charges to third parties for selling products, and the accrual for performance bonuses for employees in 2007.

Year ended December 31, 2006

Net cash generated from operating activities for the year ended December 31, 2006, was RMB182.2 million, while our profit before taxation was RMB24.0 million. The difference of RMB158.2 million was primarily due to non-cash transaction of depreciation, amortization and interest on and fair value adjustment for financial instruments of RMB170.8 million, increase in trade and other receivables of RMB32.2 million, increase in trade and other payables of RMB11.3 million, and net income tax payment of RMB4.1 million. The increase in trade and other receivables was mainly caused by the additional credit limit extended to the on-site customer of RMB30.0 million and the prepayment of RMB10.0 million to our agent who had been engaged to search for potential investment.

Six months ended June 30, 2009 vs. June 30, 2008

Net cash generated by operating activities decreased by RMB78.7 million in the first half of 2009 as compared to the same period in 2008 mainly as a result of our strategic decision to extend credit to certain on-site customers, which has resulted in longer collection periods in 2009 and an increase in our trade and other receivables. This was partially off-set by the increase in cash inflows from profits that were generated from operations mainly due to increased sales as a result of more facilities becoming operational in the first half of 2009 as compared to the same period in 2008.

Year ended December 31, 2008 vs. December 31, 2007

Net cash generated from operating activities increased by RMB299.3 million between 2007 and 2008 mainly due to an increase in profits before taxation and improved trade receivable collections. The increase in profit before taxation was mainly due to the operation of new facilities in 2008 and the full year operation of certain facilities which commenced operation in 2007.

Year ended December 31, 2007 vs. December 31, 2006

Net cash generated from operating activities increased by RMB32.3 million between 2006 and 2007 mainly due to an increase in profits before taxation, interest payments and net income tax payments. The increase in profit before taxation was mainly due to the operation of new facilities. Payment for interest expenses increased mainly due to additional borrowings for funding the new facilities.

Cash flow from investing activities:

Our net cash used in investing activities for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009 was, RMB416.9 million, RMB815.0 million, RMB741.0 million and RMB385.0 million, respectively. Our expenditures for investing activities from January 1, 2006 to June 30, 2009 were primarily due to: (i) our expansion of production facilities and the related purchase of property, plant and equipment; (ii) the increase in construction and progress; (iii) acquisition of the 48.5% equity interest in Hunan Yingde by Yingde BVI from Torch in 2006; and (iv) the increase in pledged bank deposit for issuing bills for equipment purchase from suppliers. See "Business – Our Production Facilities" for more details on our production facilities, "Capital Expenditures" "Property, Plant and Equipment" and "Construction in Progress" below for more details on our uses of capital.

Cash flow from financing activities:

Our net cash generated from financing activities for the six months ended June 30, 2009 was RMB403.6 million. The cash inflow was due to new bank loans and other loans of RMB773.2 million, partially off-set by the repayment of bank and other loans of RMB369.6 million.

Our net cash generated from financing activities for the year ended December 31, 2008 was RMB86.1 million. The cash inflow was primarily due to new bank loans and other loans of RMB580.7 million, partially off-set by the repayment of bank loans of RMB414.7 million and the payment of dividends to equity holders of our Company of RMB79.9 million.

Our net cash generated from financing activities for the year ended December 31, 2007 was RMB651.5 million. The cash inflow was primarily due to: (i) new bank loans and other loans of RMB644.0 million; (ii) loans from shareholders and exercise of share options of RMB83.6 million; and (iii) capital injections from shareholder of our Company of RMB290.4 million. The cash outflow was primarily attributable to: (i) the repayment of bank loans of RMB194.1 million; (ii) dividend payment of RMB20.2 million; (iii) repayment of shareholders' loan and advance from shareholders of RMB88.8 million; and (iv) repayment of convertible loans of RMB65.6 million.

Our net cash generated from financing activities for the year ended December 31, 2006 was RMB334.1 million. The cash inflow was primarily due to new bank and other loans of RMB226.0 million and proceeds from issuing convertible loans and the Preferred Shares of RMB289.3 million. The cash outflow was primarily attributable to the repayment of bank loans and the convertible loan of RMB181.2 million in total.

NET CURRENT LIABILITIES

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	1,463	5,013	9,646	6,775
Trade and other receivables	82,089	167,786	126,676	284,463
Receivables under finance lease	—	928	1,872	1,872
Income tax recoverable	4,101	8,973	130	10,278
Pledged bank deposits	37,652	154,530	227,422	231,546
Cash and cash equivalents	119,347	169,562	28,463	232,824
Total current assets	244,652	506,792	394,209	767,758
Current liabilities				
Bank and other loans	157,334	316,754	500,262	560,115
Trade and other payables	117,031	317,092	572,710	515,064
Obligations under finance leases	2,963	2,963	2,963	3,077
Convertible loans	81,306	—	—	—
Convertible redeemable preferred shares	142,675	161,668	141,224	156,500
Dividends payable	26,930	—	—	—
Income tax payable	—	2,859	7,057	12,230
Amount due to a shareholder	1,777	—	—	—
Total current liabilities	530,016	801,336	1,224,216	1,246,986
Net current liabilities	(285,364)	(294,544)	(830,007)	(479,228)

We had net current liabilities of RMB285.4 million, RMB294.5 million, RMB830.0 million and RMB479.2 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively. We finance our working capital requirements principally from cash generated from operations and cash at hand, while raising the remainder of our requirements primarily through short-term and long-term debt and borrowings. Our net current liabilities position as at December 31, 2006, 2007, 2008, and June 30, 2009, was primarily due to the use of bills and other payable, and short-term borrowings to finance our long-term capital expenditures, as well as the effect of the Convertible Loans and the Preferred Shares. As at August 31, 2009, which is the latest practicable date such information is available to us, our net current liabilities amounted to RMB519.9 million. The key components of our current assets as of such date included trade and other receivables of RMB269.3 million, pledged bank deposits of RMB250.3 million and cash and cash equivalents of RMB193.6 million. The key components of our current liabilities included bank and other loans of RMB695.3 million, trade and other payables of RMB462.9 million and Convertible Redeemable Preferred Shares of RMB157.0 million.

Our trade and other payables were RMB117.0 million, RMB317.1 million, RMB572.7 million and RMB515.1 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively. Other payables include bills payable, payable for property, plant and equipment and accrued expenses. Our trade payables remained low at RMB0.6 million, RMB9.5 million, RMB5.7 million and RMB10.2 million as at December 31, 2006, 2007, 2008, and June 30, 2009, respectively due to our Group's business model of generally collecting our receivables from our on-site customers and making payment to them for our electricity usage at or around the same time. Bills payable and payable for property, plant and equipment amounted to RMB85.3 million, RMB271.9 million and RMB519.9 million and RMB466.6 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. The increase in bills payable and payable for property, plant and equipment was primarily due to the construction of additional production facilities for our business expansion and the related purchase of additional production equipment for those new production facilities.

We have relied, and currently rely, on short-term bank borrowings to fund our working capital and capital expenditures. Our current portion of bank and other loans, including the short-term portion of long-term debt, were RMB157.3 million, RMB316.8 million, RMB500.3 million and RMB560.1 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. Our non-current portion of bank and other loans were RMB130.0 million, RMB417.8 million, RMB400.4 million and RMB746.8 million as at December 31, 2006, 2007 and 2008, and June 30, 2009, respectively. Please refer to Note 19 of Section C of Accountants' Report in Appendix I to this document for details of our bank and other loans as at December 31, 2006, 2007 and 2008 and June 30, 2009.

We have not experienced any significant problems with our cash flow despite our increase in capital expenditures for expansion purposes and our significant increase of construction projects for the following reasons:

- We have, and continue to, obtain new our short-term bank loans in the PRC without difficulty and we believe this is due to our good credit history and our established strong relationships with commercial banks. During the first half of 2009, we repaid RMB369.6 million in bank and other loans, and successfully obtained RMB773.2 million in new loans.
- We have, and continue to have, strong cash flow from operating activities. Our cash flow from operating activities increased from RMB182.2 million in 2006 to RMB214.5 million in 2007 and further to RMB513.8 million in 2008. Cash flow from operating activities for the first half of 2009 was RMB185.8 million.
- Our net current liability position is improving. As at June 30, 2009, our net current liabilities have decreased to RMB479.2 million from RMB830.0 million at December 31, 2008 mainly due to an increase in trade and other receivables and improved cash position. Our cash and cash equivalents as at June 30, 2009 increased to RMB232.8 million from RMB28.5 million as at December 31, 2008.

In 2006, our Company issued certain financial instruments which impacted on our net current liabilities as at December 31, 2006, 2007 and 2008. On June 23, 2006, Yingde BVI received a US$20.2 million loan facility from Proper Sonic Finance Limited which included a US$6.0 million convertible loan facility. On December 29, 2006, Yingde BVI and Baring entered into a US$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. On

June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement. Current liabilities relating to the above financial instruments amounted to RMB224.0 million, RMB161.7 million and RMB141.2 million and RMB156.5 million as at December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. Please refer to the section headed "Financial Information — Factors Affecting Comparability" of this document for further details.

As at June 30, 2009, we had net current liabilities of RMB479.2 million, of which current assets amounted to RMB767.8 million. Current assets primarily consists of trade and other receivables, pledged deposits and cash and cash equivalents. Current liabilities amounted to RMB1,247.0 million, comprising primarily trade and other payables, bank and other loans and Preferred Shares.

The amount of the Preferred Shares recorded as current liabilities was RMB156.5 million as at June 30, 2009. If the Preferred Shares were converted as at June 30, 2009, the net current liabilities of our Group would be reduced by the same amount as the liability of the Preferred Shares would be transferred to the equity of our Company.

While we may continue to have net current liabilities in future, we will manage our working capital and financing requirements in a prudent manner to facilitate the expansion of our business. Despite our net current liabilities position, due to our ability to generate cash from operating activities through our long-term gas supply contracts with our on-site customers, our good credit standing and relationship with our principal lending banks and considering the amount of other sources of fund we expect to raise, our directors believe that we will continue to have sufficient cash resources for our operating and financing needs for at least the next 12 months from the date of this document.

CAPITAL EXPENDITURES

Capital expenditures principally comprise expenditures for the construction of new production facilities and purchase of property, plant and equipment. We historically financed our capital expenditure requirements primarily through cash provided by operations and bank borrowings. The equity provided by our shareholder and bank and other borrowings for the construction of new production facilities and purchase of property, plant and equipment form part of our capital commitment. While capital commitments consist of the whole investment for projects for which we have signed gas supply contracts, capital expenditures consist of the actual cash investment made by us to construct the production facilities for such projects.

During 2006, 2007, 2008 and the six months ended June 30, 2009, we have increased our annual total capital expenditures on the construction of new production facilities and purchase of property, plant and equipment to accommodate our expansion needs and in line with our growth strategies. Our annual total capital expenditures for 2006, 2007, 2008 and the six months ended June 30, 2009, were RMB91.3 million, RMB698.2 million, RMB670.0 million and RMB382.0 million, respectively.

We expect that our capital expenditures will amount to approximately RMB632 million for the year ending December 31, 2009 and RMB1,726 million for the year ending December 31, 2010, which includes approximately RMB100 million relating to the Shihlien Project for both years. Our capital expenditures are currently planned to be primarily used to increase our gas production capacity via the construction of 11 gas production facilities and maintenance/replacement expenditures for our existing production facilities. Approximately RMB1,200 million of the expected capital expenditures of RMB1,726 million for the year ending December 31, 2010 relates to our development of four facilities for our Shenhua Project. The Shenhua Project is a result of our entering into an on-site agreement with the coal chemical subsidiary of China Shenhua Energy Group. The targeted supply start time for these four facilities is July 2010. Please see the section headed "Business — Our Production Facilities" in this document for further details in relation to our Shenhua Project. Our overall capital expenditures will be reduced by approximately RMB100 million should the Shihlien Project be terminated.

Our expected capital expenditures for 2009 and 2010 are expected to be financed by a combination of our internal cash resources and operating cash flow, other sources of fund, and bank borrowings. After taking into account the other sources of fund we expect to raise, our existing cash resources, our good credit standing and relationship with our principal lending banks and the positive operating cash flow we expect to generate, our directors believe that we will have sufficient resources to finance our capital expenditures for the years ending December 31, 2009 and 2010.

Our anticipated capital expenditures are subject to change from time to time based upon evolution of our business plan, including but not limited to, the progress of our projects planned or under planning, market conditions, regulatory environment and the outlook of our future business conditions.

The table below sets forth the breakdown of our capital commitments and the projects for which such commitments mainly relate to as at the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Capital Commitments:				
Authorized and Contracted for . .	212,990	632,460	375,226	309,543
Authorized but not Contracted for . .	666,721	1,182,384	783,890	2,318,922
Total	**879,711**	**1,814,844**	**1,159,116**	**2,628,465**
Within One Year . .	663,257	636,522	638,609	1,700,640
After One Year but within Two years	65,555	598,242	260,401	603,390
After Two Years . . .	150,900	580,080	260,105	374,435
Total	**879,711**	**1,814,844**	**1,159,116**	**2,678,465**
Main Capital Commitment Projects:	Nanjing Rizhao Phase I Zibo Phase I Hebei Phase I Rizhao Phase II	Rizhao Phase I Zibo Phase I Hebei Phase I Rizhao Phase II Huai'an Laiwu Hebei Phase II Rizhao Phase III Zhuhai Phase II Yangzhou Zhangjiagang Guizhou	Rizhao Phase III Zhuhai Phase II Yangzhou Zhangjiagang Guizhou Shaanxi Phase III Zhuzhou Shanxi	Zhangjiagang Guizhou Shaanxi Phase III Shanxi Hengyang Phase II Zhuhai Phase III Shenhua Shihlien

Our capital commitments during the Track Record Period were primarily directed towards the purchase of equipment for the building of our Group's production facilities (including air separation units), the construction of buildings and units used as back offices, storage and other purposes, and the installation and testing of facilities.

WORKING CAPITAL

Our directors confirm that we have sufficient working capital for our present requirements and for the next 12 months from the date of this document. We expect to have the following sources of cash immediately following [●]:

- approximately RMB230 million, being the existing cash available on hand as at June 30, 2009;
- the additional positive operating cash flow we expect to generate during the period from July 1, 2009 to [●];
- HK$[●] million.

Based on the above, and also on the assumption that we do not have any other major capital expenditure save for those disclosed in this document, our directors believe that we will have sufficient financial resources to meet our repayment obligation and that we would continue to have sufficient working capital and liquidity for our ongoing working capital needs.

CONVERSION OF PREFERRED SHARES

The Preferred Shares have been classified as a current liability in our combined balance sheets and accounted for as a hybrid financial instrument containing both a derivative component and a liability component. However, all of the Preferred Shares held by Baring will be automatically converted into our Shares immediately prior to [●]. Upon such automatic conversion, no Preferred Shares will be outstanding and as a result, none of the terms of the Preferred Shares will be applicable.

PROPERTY, PLANT AND EQUIPMENT

The following table sets out the net value of our property, plant and equipment for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment (net)	611,025	1,123,091	1,751,968	2,176,570

The value of our plant and machinery for production use accounts for a substantial portion of our property, plant and equipment. The increase in the value of our property, plant and equipment from December 31, 2006, to June 30, 2009 was largely due to a number of new production facilities completed over this period. For the year ended December 31, 2006, one new production facility was completed in Nanjing Jiangsu operated by Nanjing Xingang and we also acquired Hancheng Shaanxi Phase II operated by Shaanxi Yingde. For the year ended December 31, 2007, five new production facilities were completed, namely, Rizhao Shandong Phases I and II operated by Rizhao Yingde, Zibo Shandong Phase I operated by Zibo Yingde, Shijiazhuang Hebei Phase I operated by Hebei Yingde and Hancheng Shaanxi Phase II operated by Shaanxi Yingde. For the year ended December 31, 2008, four production facilities were completed, namely Huai'an Jiangsu operated by Huai'an Yingda, Laiwu Shandong operated by Laiwu Yingde, Shijiazhuang Hebei Phase II operated by Hebei Yingde and Rizhao Shandong Phase III operated by Rizhao Yingde. For the six months ended June 30, 2009, four production facilities were completed, namely Hancheng Shaanxi Phase III operated by Shaanxi Yingde, two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde, and Zhuzhou Hunan operated by Zhuzhou Yingde.

CONSTRUCTION IN PROGRESS

The following table sets out our construction in progress for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Construction in progress	14,948	291,874	488,655	391,293

Our construction in progress consists of property, plant and equipment under construction and equipment pending installation. Our construction in progress increased from RMB14.9 million as at December 31, 2006 to RMB488.7 million as at December 31, 2008 as we increased our production facilities under development. By the end of 2008, we had six production facilities under development, namely, Hancheng Shaanxi Phase III, Fuquan Guizhou, Zhuhai Guangdong Phase II, Zhuzhou Hunan, Yangzhou Jiangsu, and Zhangjiagang Jiangsu. As of June 30, 2009, we had five production facilities under development, namely Hengyang Hunan Phase II, Fuquan Guizhou, Hancheng Shaanxi Phase III, Yangzhou Jiangsu and Zhangjiagang.

TRADE AND OTHER RECEIVABLES

The following table sets out the amount of our trade and other receivables for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	67,471	92,406	108,665	165,418
Bills receivable	798	22,069	9,216	49,883
Less: allowance for doubtful debts	—	—	(10,721)	(10,721)
	68,269	114,475	107,160	204,580
Deposits and other receivables	13,820	53,311	19,516	79,883
	82,089	167,786	126,676	284,463

The trade and other receivables consist of trade receivables, bills receivables and deposits and other receivables. Our trade receivables represent the receivables from our on-site customers netted off against the utilities costs payable by us to our customers. The payment terms for our trade receivables on-site customers are generally 30 to 45 days. Moreover, extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by management on an individual basis. We generally receive payment from our merchant customers on or prior to delivery. The bills receivables are normally due within 180 days and primarily relate to bank-accepted commercial bills used by our Group's on-site customers for settlement. The deposits and other receivables primarily relate to prepayment of expenses and deposits.

During 2006 and 2007, most of our customers have paid within the relevant credit periods and no material bad debt expense was incurred in these years. The allowance for doubtful debts as at December 31, 2008 and June 30, 2009 related to one merchant customer that was adversely affected by the financial crisis and has consequently not been able to settle amounts due to us on a timely basis. As a result, we made a full provision of this receivable.

The increase in the amount of trade and other receivables from December 31, 2006 to December 31, 2007 is primarily due to an increase in sales as the number of our facilities in operations increased from six as at December 31, 2006, to 11 as at December 31, 2007, resulting in an increased amount of trade receivables.

Our trade and other receivables decreased to RMB126.7 million as at December 31, 2008 primarily due to improved trade receivables collection in Rizhao Yingde and Tianjin Yingde, notwithstanding a general increase in our trade and other receivables due to our enlarging scale of operation. Collections on trade receivables improved at Rizhao Yingde and Tianjin Yingde as we urged them to pay earlier due to their relatively larger balances and their capacity to pay.

Our trade and other receivables increased to RMB284.5 million as at June 30, 2009 from RMB126.7 million as at December 31, 2008 primarily due to an increase in sales as the number of our facilities in operation increased from 15 as at December 31, 2008, to 19 as at June 30, 2009, resulting in an increased amount of trade receivables. In addition, we strategically extended credit to certain on-site customers in order to promote increased business with them. Bills receivable increased to RMB49.9 million as at June 30, 2009 mainly as a result of greater turnover.

Our deposits and other receivables increased from RMB13.8 million as at December 31, 2006, to RMB53.3 million as at December 31, 2007, primarily as a result of our prepayment of RMB57.6 million in 2007 to an independent agent engaged by us to search for potential acquisition opportunities in Shanghai, Jiangsu and Zhejiang for business expansion purpose, partially off-set by the repayment by such agent to us of RMB37.6 million in the same year. No acquisition opportunities were identified by our agent and the remaining RMB20 million deposit was returned to us in June and July 2008, and as such, no costs were incurred by us in this regards. On the basis of the termination agreement between our agent and Hunan Yingde, our PRC legal advisors are of the opinion that the payment made by Hunan Yingde to our agent thereunder does not amount to an advance or loan under PRC laws and the payment arrangement does not violate any PRC laws.

Our deposits and other receivables increased to RMB79.9 million as at June 30, 2009 from RMB19.5 million as at December 31, 2008 primarily due to input value-added tax incurred on the purchase of production equipment, which may be credited against the output value-added taxes with effect from January 1, 2009.

For the year ended December 31, 2006 the turnover days of our trade receivables was relatively higher than in 2007 due to our selective extension of credit terms to two of our on-site customers as one on-site customer underwent its ramp-up period while the other on-site customer provided a guarantee in respect of our bank loan. The decrease in 2007 is mainly due to the end of the extended credit term for our on-site customer at Shaanxi Yingde and the fact that we had new projects in operation in 2007 and our new customers were all granted normal credit terms. The further decrease during the year ended December 31, 2008 was due to improved trade receivables collection. Turnover of trade receivables increased slightly from 26 days in 2008 to 27 days for the six months ended June 30, 2009.

The following table sets forth the turnover of our trade receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Turnover of trade receivables (days)*	42	37	26	27

Note:

* Calculated on the average of the beginning and ending trade receivables balances for the period, divided by revenue for the period, multiplied by 360 days for a year or 181 days for the six months ended June 30, 2009 in respect of the periods indicated.

The following table sets forth our aging analysis for the periods indicated:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current	68,269	114,475	107,160	157,949
Less than 1 month past due	—	—	—	31,446
1 to 3 months past due	—	—	—	15,185
Amounts past due	—	—	—	46,631
	68,269	114,475	107,160	204,580

As at June 30, 2009, we had RMB46.6 million in trade and other receivables that were past due. We have evaluated the credit situation of the specific customers for which such receivables relate to and expect to fully recover such receivables. Therefore, we believe the allowance for doubtful debts is sufficient.

TRADE AND OTHER PAYABLES

The following table sets out the amount of our trade and other payables for the dates indicated:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable	562	9,498	5,719	10,204
Bills payable	42,952	120,000	150,123	105,259
Payables for equipment	42,392	151,878	369,792	361,318
Accrued expenses and other payables	31,125	35,716	47,076	38,283
Total	**117,031**	**317,092**	**572,710**	**515,064**

The trade and other payables consist of trade payable, bills payable, payables for equipment and accrued expenses and other payables. The trade payables primarily consist of payment for direct purchase of liquified gas from external suppliers. The bills payable and payables for equipment relate to our payables for construction costs and purchase of equipment. The normal settlement period for bills payable is approximately six months. The accrued expenses and other payables primarily relate to payable for value-added tax, prepayments by our Group's customers and the management fee payable to our cooperative partner in our production facility in Nanjing in Jiangsu province.

Bills payable primarily consists of payables for production facilities and for our purchases of additional equipment for the facilities set out below:

- Bills payable as at December 31, 2006 was primarily due to the bills issued relating to equipment purchase for Rizhao Yingde, Hebei Yingde and Zibo Yingde.
- Bills payable as at December 31, 2007 was primarily due to the bills relating to equipment purchase for Hebei Yingde, Rizhao Yingde, Zibo Yingde, Laiwu Yingde, Huai'an Yingda and Zhuzhou Yingde.
- Bills payable as at December 31, 2008 was primarily due to the bills relating to equipment purchase for Hebei Yingde, Rizhao Yingde, Laiwu Yingde, Huai'an Yingda, Yangzhou Yingde, Guizhou Yingde and Shaanxi Yingde.
- Bills payable as at June 30, 2009 was primarily due to the bills relating to equipment purchase for Hengyang Yingde, Shaanxi Yingde, Guizhou Yingde, Yangzhou Yingde, Zhangjiagang Yingde and Zibo Yingde.

The increase in the amount of payables for equipment from December 31, 2006 to June 30, 2009 is attributable to developing additional production facilities as well as our purchases of additional equipment for the facilities set out below:

- Production facilities at Hebei Yingde, Zhangjiagang Yingde, Rizhao Yingde, Huai'an Yingda, Zibo Yingde and Laiwu Yingde during the year ended December 31, 2007.
- Production facilities at Tianjin Yingde, Zhuhai Yingde, Zhangjiagang Yingde, Rizhao Yingde, Huai'an Yingda, Zibo Yingde and Laiwu Yingde during the year ended December 31, 2008.
- Production facilities at Guizhou Yingde, Hengyang Yingde, Zhuhai Yingde and Zhangjiagang Yingde for the six months ended June 30, 2009.

INVENTORIES

Pursuant to our business model, we supply gas products to our customers on a close to real time basis. Accordingly, the gas products that we produce and sell to our on-site and merchant customers are generally stored as inventory only for a very short period of time (in hours) before they are delivered to our on-site and merchant customers.

Due to the nature of its business, our Group has minimal inventories. Due to our Group's low level of inventories, the stock turnover days have been very short during the periods concerned, including the level for the year ended December 31, 2008 and the six months ended June 30, 2009. There has been a slight increase in the stock turnover days for 2007. This was because there was an increase in our Group's inventories level resulting from the increase in the purchase of liquefied gases from external third parties to supply to our on-site customers in Rizhao Yingde Phase I and Shijiazhuang Phase I.

INDEBTEDNESS

Bank loans and other loans

Our borrowings including bank loans and other loans are set forth below as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	96,000	165,000	329,200	412,200	454,542
Current portion of long-term loans	61,334	151,754	171,062	147,915	240,756
Long-term portion of long-term loans	130,000	417,760	400,350	746,780	645,742
Total	**287,334**	**734,514**	**900,612**	**1,306,895**	**1,341,040**

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans					
— unsecured	67,000	87,000	22,000	—	—
— secured(1)	147,000	597,286	828,442	1,254,125	1,271,442
Other loans					
— secured(1)	73,334	50,228	50,170	52,770	69,598
Total	**287,334**	**734,514**	**900,612**	**1,306,895**	**1,341,040**

Note:

(1) As at June 30, 2009, the carrying value of assets (namely, property, plant and equipment and lease prepayment) secured for bank and other loans was RMB621.3 million. In addition, as at June 30, 2009, certain bank loans were secured by our Group's 75% equity interest in Shaanxi Yingde, Tianjin Yingde, Rizhao Yingde and Zhuhai Yingde.

The amount of our bank and other loans increased from RMB287.3 million as at December 31, 2006 to RMB1,306.9 million as at June 30, 2009, primarily due to additional borrowings for capital expenditures and general working capital in order to finance the construction of the following additional production facilities for our business expansion purposes:

- construction project in Zhangjiagang Yingde during the year ended December 31, 2006;
- construction projects in Rizhao Yingde, Zhangjiagang Yingde and Huai'an Yingda during the year ended December 31, 2007;

- construction projects in Zhangjiagang Yingde, Laiwu Yingde, Rizhao Phase III operated by Rizhao Yingde, Zhuhai Phase II operated by Zhuhai Yingde, and Shijiazhuang Phase II operated by Hebei Yingde for the year ended December 31, 2008; and
- construction projects in Zhuzhou Yingde, Zhuhai Yingde, Zhangjiagang Yingde, and Yangzhou Yingde for the six months ended June 30, 2009.

As at June 30, 2009, our short-term and long-term bank loans and other loans were bearing interest at interest rates ranging from 1.7% to 10.4% per annum and we had a committed borrowing facility of RMB590.0 million, among which RMB385.0 were utilized by us as at June 30, 2009.

As at August 31, 2009, which is the latest practicable date for determining our indebtedness, our total borrowings amounted to RMB1,341.0 million. We had banking facilities in the aggregate amount of RMB678.1 million, among which RMB397.3 million was utilized as at August 31, 2009.

The following table sets forth the maturities of our total borrowings as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings					
Within one year or on demand	157,334	316,754	500,262	560,115	695,298
After one year but within two years	75,000	120,410	226,590	333,140	241,121
After two years but within five years	5,000	247,350	173,760	408,640	399,621
After five years	50,000	50,000	—	5,000	5,000
Total	**287,334**	**734,514**	**900,612**	**1,306,895**	**1,341,040**

Our bank loans and other loans exclude the Convertible Loans and the Preferred Shares issued by Yingde BVI to Baring on June 23, 2006.

Convertible Loans and Preferred Shares

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible Loans	81,306	—	—	—	—
Convertible redeemable preferred shares	142,675	161,668	141,224	156,500	157,027

Convertible Loans consist of US$20.2 million loan facility and US$2.0 million subscription agreement. On June 23, 2006, Yingde BVI received a US$20.2 million loan facility from Proper Sonic Finance Limited which included a US$6.0 million convertible loan facility. On December 29, 2006, Yingde BVI and Baring entered into a US$2.0 million subscription agreement in respect of the subscription of ordinary shares in Yingde BVI by Baring. In addition, on June 23, 2006, Yingde BVI issued 2,000 Preferred Shares to Baring for a cash consideration of US$14.0 million pursuant to a convertible redeemable preferred shares subscription agreement.

Please refer to the section headed "Financial Information — Factors Affecting Comparability" and notes 22 and 23 of Section C of the Accountants' Report in Appendix I in this document for further details.

Pledged bank deposits

The following table sets out our pledged bank deposits as at the dates indicated:

	December 31,			June 30,	August 31,
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	37,652	154,530	227,422	231,546	250,343

We pledge bank deposits to banks for issuing bank accepted bills and letters of credit for purchase of our equipment and components from overseas equipment and component suppliers. We generally place our order for equipment and components approximately ten months prior to the completion of our production facilities. The increase in pledged bank deposits from 2006 to 2008 and for the first half of 2009 mainly related to an increase in value of the equipment we ordered from overseas equipment suppliers. In 2007, we completed five production facilities namely, Rizhao Shandong Phase I and II operated by Rizhao Yingde, Zibo Shandong Phase I operated by Zibo Yingde, Shijiazhuang Hebei Phase I operated by Hebei Yingde and Hancheng Shaanxi Phase II operated by Shaanxi Yingde. In 2008, we completed the construction of four production facilities namely, Huai'an Jiangsu operated by Huai'an Yingda, Laiwu Shandong operated by Laiwu Yingde, Shijiazhuang Hebei Phase II operated by Hebei Yingde, and Rizhao Shandong Phase III operated by Rizhao Yingde. For the first half of 2009, we completed the construction of four production facilities, namely, Hancheng Shaanxi Phase III operated by Shaanxi Yingde, two production facilities under Hengyang Hunan Phase I operated by Hengyang Yingde, and Zhuzhou Hunan operated by Zhuzhou Yingde.

Contingent liabilities and guarantees

As at the Latest Practicable Date, we had not provided any guarantee to secure loans of third parties.

We have not obtained the construction planning permit and/or the construction permit in respect of certain production facilities during the three years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009. As at the Latest Practicable Date, we had not been subject to any penalty or fine from the government authorities in respect of the absence of the construction planning permits and/or construction permits. Based on the PRC legal advisor's opinion, the maximum penalty and fine to us would be approximately RMB3.3 million. We consider that any payment to be made by our Group in this regard would not be material. Accordingly, no provision has been made in our Group's combined financial information.

Off-balance sheet transactions

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

No other outstanding indebtedness

Except as disclosed in this document, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as at the Latest Practicable Date. We confirm that there has not been any material change in our indebtedness and contingent liabilities from the Latest Practicable Date to the date of this document.

Finance Leases

One of our subsidiaries, Tianjin Yingde, entered into a finance lease arrangement with Tianjin Steel Pipe Corporation pursuant to which Tianjin Yingde acquired the air separation units and certain other assets under a finance lease arrangement in 2005. According to the finance lease arrangement, the lease payment is RMB3.2 million per year for a period of 25 years. Our Group is responsible for the repair and maintenance of the equipment and related assets. As at August 31, 2009, the present value of our finance lease obligation was approximately RMB33.9 million.

MARKET RISKS

We are exposed to various types of market risks, including credit risk, foreign currency exchange risk and interest rate risk. Please refer to Note 29 of Section C of the Accountants' Reports set out in Appendix I to this document for more details.

Credit risk

A substantial proportion of our cash and cash equivalents are deposited with major financial institutions in the PRC, which we believe are of high credit quality. Our major on-site customers are generally iron and steel companies, which accounted for a significant portion of our total operating revenue. As at December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our Group had a concentration of credit risk as to 97%, 87%, 74% and 79% of the total trade and bills receivables, respectively, which were due from our Group's long-term contracted customers. However, we believe that we have no significant credit risk with any of these on-site customers, as we maintain stable relationships. We perform ongoing credit evaluations of our on-site customers' financial condition and generally do not require collateral on trade receivables.

Foreign currency exchange risk

All of our revenue-generating operations are located in the PRC and most of the transactions that we enter into are denominated in Renminbi. We have not used any forward contracts or currency borrowings to hedge our foreign exchange risk. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations on foreign exchange control promulgated by the PRC government.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. Our debt consists of variable rate debt obligations with original maturities generally ranging from 1 to 5 years. We undertake debt obligations to support general corporate purposes including capital expenditure and working capital needs. We have not used any forward contracts or derivatives to hedge our exposure to interest rate risk.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as at July 31, 2009, and is of the opinion that the value of our property interests as to such date was an aggregate amount of RMB178.9 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this document.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on our combined financial information as at June 30, 2009 and the valuation of these properties and lease prepayments as at July 31, 2009 as set out in Appendix IV to this document.

	RMB (million)
Valuation of properties (including the lease prepayments) owned by our Group as at [July 31], 2009 as set out in the property Valuation report in Appendix IV to this document	178.9
Net book value of the following properties as at June 30, 2009, as set out in Appendix I to this document:	
—Buildings	118.1
—Lease prepayments	17.1
—Construction in progress[1]	5.3
Net book value as at June 30, 2009	140.5
Add: Additions of properties during the period from June 30, 2009 to July 31, 2009	—
Less: Depreciation of buildings from June 30, 2009 to July 31, 2009	0.5
Less: Amortization of lease prepayments from June 30, 2009 to July 31, 2009	—
Net book value as at July 31, 2009	140.0
Net valuation surplus	38.9

Note:

(1) Among the construction in progress amounting to RMB8.0 million as at July 31, 2009 is excluded from the valuation in Appendix IV to this document and is therefore also excluded from this reconciliation.

DISTRIBUTABLE RESERVES

Our Company was incorporated on September 25, 2007, but has not carried on any business up to June 30, 2009. However, the aggregate amount of distributable reserves of the companies comprising our Group as at June 30, 2009 was RMB756.7 million.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

Forecast combined profit attributable to the equity holders of our Company[1]	not less than RMB450 million	(Approximately HK$511 million)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2009 has been prepared are set out in Appendix III.

DIVIDEND POLICY

You should not view the extent of the abovementioned as an indication of the amount of the dividends that we may declare. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our shareholders. Our future declaration and payment of dividends may or may not reflect our historical declaration and payment of dividends and will be at the absolute discretion of the board of our Company.

During the year ended December 31, 2008, dividends were declared and paid by our subsidiaries to the then shareholders in the amount of RMB79.9 million which were fully settled in April 2008. You should note that our historical dividend distributions are not indicative of our future dividend distribution policy.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

NO SIGNIFICANT INTERRUPTIONS

Our directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the 12 months prior to the Latest Practicable Date.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2009.